TANZANIA.

KIMATA. SAMUEL NJUGUNA

A MANAGEMENT RESEARCH PROJECT PRESENTED IN PART

FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF

MASTER OF BUSINESS ADMINISTRATION (MBA), FACULTY

COMMERCE, UNIVERSITY OF NAIROBI.

FEBRUARY, 2003

DECLARATION

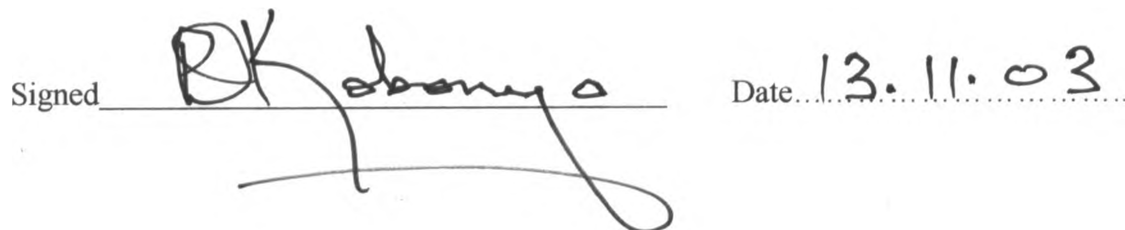
This management project is my own original work and has not been presented for award of a degree in any other University.

Signed________________________ Date......14.2.2003

KIMATA, SAMUEL NJUGUNA

(STUDENT)

This management project has been submitted for examination with my approval as the University supervisor.



Signed________________________ Date...13.11.03

PROFESSOR PETER K'OBONYO

DEDICATION

I dedicate this research project to the following people:

- **My wife :**
  - **Albina Njuguna**
- **My children:**
  - **Kimata, Kabura, Jemima and Dave**

ACKNOWLEDGEMENT

I do recognize God's favor upon my life and more so during the entire postgraduate course, since I never missed a single semester due to poor health or financial difficulties.

I must also appreciate the invaluable assistance that was provided by my supervisor Professor K'Obonyo. Being my first research project, my supervisor accorded me a lot of support, encouragement and academic counselling, without which it would have been extremely difficult to accomplish this task. In addition to my supervisor, I wish to thank my lecturers who provided the theory upon which I built the research problem.

While I was attending lectures and did assignments, my wife and children were denied my time with them. Again I wish to thank them for their patience, especially my wife who inspired and supported me to the end.

Other people who have been instrumental in my education include my late mother, Zippora Kabura, who enrolled me for school at quite an early age as well as my brothers and sisters especially Joyce M Mwituria who continued to encourage me.

I am also greatly indebted to the following respondents who helped me complete the questionnaire: Rachel, Mwita, A Njagi, Judy, Chengo, E Too, Njenga, Macharia, Jack Otieno and Kinyua

Although this list of acknowledgment seems exhaustive, it nevertheless falls short of recognizing the different people and/ or institutions who have contributed to my education since the day I joined standard one. To them and those mentioned here, I say thank you and God bless you all.

TABLE OF CONTENTS

Declaration	i
Dedication	ii
Acknowledgement	iii
Table of contents	iv
Abstract	vii
CHAPTER ONE: INTRODUCTION	1
1.0 Background	1
1.1 Definitions	2
1.2 Background of Internationalization	3
1.3 The concept of Internationalization	4
1.3.1Forces of Internationalization	5
1.4 Problem Statement	6
1.5 Research Objectives	7
1.6 Importance of the study	7
1.7 Justification of the study	7
CHAPTER TWO: LITERATURE REVIEW	9
2.0 The internationalization strategy	9
2.1 Theories of international trade and production	9
2.1.1 Theories of international trade	9
2.1.2 Strategic trade theories	10
2.2 The objectives of internationalization	12
2.3 Strategies of Internationalization	12
2.3.1 Exporting strategy	13
2.3.2 Foreign manufacturing (Production)	13
2.3.2.1Intermediate market entry strategies	14
2.3.2.2 Foreign investments	14
2.3.2.3 Direct foreign investments	15
2.3.2.4 Theories of foreign direct investments	15
2.4 Advantages of foreign production	17
2.5 Factors that influence firms to go abroad	17
2.6 Challenges of internationalization	21
2.6.1 Financial risks	21
2.6.2 Political risks	21

2.7 Investment incentives offered by the government of Kenya 22
2.8 Involvement of Kenyan firms in international business 25
2.8 Involvement of Kenyan firms in international business 25
2.8.1 Performance of the exports sector 25
2.8.2 Composition of international trade 25
2.8.3 Direction of trade 26
2.8.3.1 Trade within the COMESA and other African countries 26
CHAPTER THREE: RESEARCH DESIGN 27
3.0 Population and sampling frame 27
3.1 Data collection 27
3.2 Data analyses 28
CHAPTER FOUR: FINDINGS AND DISCUSSION 29
4.0 Distribution of the respondent firms by sector and country 29
4.1 Distribution of the companies by sector 29
4.2 Distribution of Companies in Uganda and Tanzania 29
4.3 Distribution of the subsidiaries/branches by sector in the two neighboring countries 29
4.4 Distribution of firms by the type of foreign market entry strategy 30
4.5 Scores of the factors that influence firms decision to externalize 30
4.6 Ranking of factors which influence firms' decision to go abroad 31
4.7.0 Relative attractiveness of the investment policies and incentives offered by the governments of Kenya , Uganda and Tanzania 33
4.7.1 Scores of the relative attractiveness of investment policies and incentives for Kenya and Uganda 33
4.7.2 Total factor scores for Kenya and Uganda 34
4.7.3 Ranking of the factor scores for Kenya and Uganda 35
4.7.4 Scores of the relative attractiveness of the investment policies and incentives for Kenya and Tanzania 36
4.7.5 Total factor scores for Kenya and Tanzania 37
4.7.6 Ranking of scores for Kenya and Tanzania 39
CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS 40
5.0 The rating of factors which influence Kenyan firms to internationalize when establishing subsidiaries in Uganda and Tanzania 40
5.1 Investment policies and incentives 40
5.2 Recommendations 41
REFERENCES 42

LIST OF TABLES

Distribution of companies by sector	4.1
The distribution of the companies in Uganda and Tanzania	4.2
Distribution of the subsidiaries by sector in the two neighboring countries	4.3
Distribution of firms by the type of foreign market entry strategy	4.4
Scores of the factors which influence firms' decisions to externalize	4.5
Ranking of the factors which influence firms' decisions to go abroad	4.6
Scores of the relative attractiveness of the investment policies and incentives for Kenya and Uganda	4.7.1
Total factor scores for Kenya and Uganda	4.7.2
Ranking of the factor scores for Kenya and Uganda	4.7.3
Scores of the relative attractiveness of the investment policies and incentives for Kenya and Tanzania	4.7.4
Total factor scores for Kenya and Tanzania	4.7.5
Ranking of the scores for Kenya and Tanzania	4.7.6
Letter of introduction	
Appendix A: Questionnaire	i
Appendix B: Tables	iv
Appendix -2: Net Direct Foreign investments(million dollars) in Kenya,Tanzania and Uganda	iv
Appendix -3: List of the 20 member countries of COMESA	v
Appendix -4: Companies listed at the Nairobi Stock Exchange parented in Kenya and have branches/subsidiaries in Tanzania and Uganda	v

ABSTRACT

This study was about finding out factors considered by Kenyan firms when deciding to establish subsidiaries/branches in Uganda and Tanzania. The other objective of the study was to find how the said firms rate the attractiveness of the investment policies and incentives in Kenya, Uganda and Tanzania.

The study utilized data collected from nine firms Kenyan parented with subsidiaries in Uganda and Tanzania and are quoted in the Nairobi Stock Exchange. A census approach was applied in this study since the firms in question are few.

The data was analyzed using frequencies, percentages and rankings. The findings revealed that Kenya's investment policies and incentives are generally superior to either Uganda or Tanzania

However, poor infrastructure, insecurity and poor economic performance have not complimented the superior investment policies and incentives. These issues need to be addressed in order to attract investors and/or retain them

It is recommended that trade barriers which were rated as fifth in importance of the factors be lowered between the three East African countries.

CHAPTER ONE: INTRODUCTION

1.0 Background

The last decade of the 90s saw the introduction of both political and economic reforms here in Kenya. Towards the end of 1991, multipartism was re-introduced in Kenya which brought with it greater political freedom. These political reforms were aimed at instilling greater accountability on the part of the government. Moreover, economic reforms implemented by the Government of Kenya since 1993 aimed at spurring economic growth, and those were as follows [Kenya Investors Guide 2001]:

- Abolishing export and import licensing except for a few items listed in the imports, exports and essential supplies Act (Cap 502)
- Rationalizing and reducing import tariffs
- Freeing the shilling to allow its exchange rate to be determined by the market
- Removing all current account restrictions
- Allowing residents and no-residents to open foreign currency accounts with domestic banks
- Allowing residents to borrow without limitations from abroad
- Liberalizing unconditionally the Capital Market –foreign companies can buy stocks up to a maximum of 40 % of company's total quoted stocks and individuals up to 5 %
- Removing price controls
- Repealing the Exchange Control Act

These economic reforms brought with them increased international competition in the domestic market through increased imports. Therefore the degree of competition has intensified in the domestic market, consequently eroding the profitability levels for some companies. Some Kenyan firms faced with this competitive threat have responded by pursuing foreign market opportunities through the internationalization strategy. In the pursuit of this strategy some Kenyan firms have now located subsidiaries in the neighboring countries such as Tanzania, Uganda and Seychelles [Daily Nation: 20th March 2001 and 4th May 2001].

1.1 Definitions

From the extant literature there is no generally accepted definition of internationalization. Many researchers and authors describe the process of firm internationalization, but no one seems to have attempted to define the concept specifically [Bakunda, 2000]. This then implies that there are many definitions by different authors, some of which are as follows:

Internationalization is the process by which firms increase their awareness of the influence of international activities on their future and establish and conduct transactions with firms from other countries [Beamish, et al 1991].
Bennett (1999) referring to the famous Upsala model presented by Johanson and Valne (1990) described **internationalization** as a process whereby firms gradually increase their international involvement as they develop knowledge of the foreign markets and operations, and on the other hand commit more and more resources to foreign sales.
[Rugman et al 1985], defined **internationalization** as a process of foreign market entry strategies which begins with exporting, licensing, joint venture activities and finally foreign production.

A **multinational corporation** is a company engaged in producing and selling goods and services in more than one country. It consists of a parent company located in the home country and at least five or six subsidiaries, typically with a high degree of strategic interaction among the units [Shapiro, 1991].

International trade refers to exchanges of goods and services that take place across international borders; **International production** through foreign direct investment refers to locating production facilities in foreign countries by domestic firms [Lipsey and Chrystal, 1995].

International business is a business whose activities involve the crossing of national borders. This definition includes not only international trade and foreign manufacturing (production) but also the growing services industry in such areas as transportation, tourism, banking, advertising construction, retailing, wholesaling, and mass communication [Ball and McCulloch, 1993].
International business is a business whose operations take place within or between two or more sovereign countries [Farmer and Richman, 1980].

1.2 The background of internationalization

The period since the end of the Second World War has been a period of rapid expansion of world trade. This rapid expansion has been due to willingness by countries to lower barriers of trade between them and carry out trade according to an agreed set of rules. This liberalization of trade has increased the degree of economic integration between countries [Grimwade 1992]. Behind this remarkable growth of the international economy in the post-World War II decade are six basic factors that were not present before the war [Lipsey and Chrystal, 1995; Barney, 1999; Keegan, 2000]:

(I) The orientation of management, which is an assumption or belief, often unconscious, about other nations of the world. There are three basic orientations that guide international business executives: ethnocentric, polycentric, and geocentric

(II) The development of the international monetary framework through the use of special drawing rights [SDR], as a means of payment for goods and services by the members of the International Monetary Fund (IMF). This development of an international monetary framework has made it possible for companies to finance trade and investment between nations.

(III) The world trading system, which has transformed from restrictive trade practices to liberalization of trade where there is free flow of goods and services between nations. The commitment towards trade liberalization led to the creation of the General Agreement on Tariffs and Trade treaty [GATT] based in Geneva in 1947, to provide the institutional framework. The spirit of GAAT, which is currently known as the World Trade Organization since 1995 has seen the establishment of regional free trade agreements where member nations eliminate trade barriers such as tariffs between themselves, although non-tariff barriers [NTBs] are becoming common phenomena.

(IV) The global peace, which has been prevailing since 1945, has provided a relatively stable foundation for the healthy and rapid growth of the international economy. Nowadays conflicts are localized to a nation or region and are outside the developed countries.

(V) The growth of the domestic economy has created market opportunities and a reduction of resistance that might otherwise have developed in response if this were not the case.

VI The communication and transportation technology has increased in speed and capacity and hence lowering the cost of communication. For example, the revolution in information

technology has resulted in production of more powerful and smaller computers [laptops] whose costs have been declining steadily over the last few years. This has had the effect of facilitating international business since it makes it efficient to coordinate global activities.

1.3 The concept of internationalization

According to Shapiro [1991], for most companies the internationalization process does not occur by design at least in the early stages. He cites that studies on corporate expansion indicate that firms begin with exporting (relatively low risk -low return) and setting up a foreign sales subsidiary, securing licensing agreements and finally establishing foreign production (higher risk-higher return). By internationalizing in phases, a firm can gradually move from export oriented strategy through contractual agreements (licensing) to international or foreign production oriented strategy. This in effect means that the firm is investing in information, learning enough at each stage to significantly improve its chances of success at the succeeding stage i.e. risk minimization response to operating in a highly uncertain foreign environment.

Thus the internationalization of a firm implies getting involved in international activities or operations that may take the form of importing and exporting (International trade) and foreign production through foreign direct investments.

International trade is the first phase of international operations of a firm, which leads to other modes of international operation: Licensing, joint ventures and finally direct foreign investments [Rugman et al 1985].

International production through foreign direct investment refers to locating production facilities in foreign countries by domestic firms [Lipsey and Chrystal, 1995].

The rise of the multinational corporation/enterprise (MNC/MNE), which has subsidiaries in more than two countries that compete independently, has greatly changed the nature of international competition, through its exports and even production through foreign subsidiaries [Porter, 1990]. Shapiro [1991], observes that the MNC has made it possible to overcome barriers to international trade as well as the movement of factors of production which the absolute advantage and comparative advantage theories of international trade did not take into account.

Therefore, the Internationalization of a business implies getting involved in international business, i.e. the spreading of business activities across the national frontiers/boundaries by selling or operating in foreign countries. Ball and McCulloh (1993) observed that

international competition results from the domestic firm competing in foreign environments or the products of a domestic firm competing with others in foreign markets

1.3.1 Forces of internationalization

Shapiro [1991] argues that the process of internationalization is the unplanned result of a series of corporate responses to a variety of threats [domestic] and opportunities appearing at random abroad. These responses are due to threats from competitors and also to exploit opportunities in the foreign markets using its monopolistic (company-specific) competitive advantages.

The forces that are motivating firms to internationalize may be grouped into two general categories namely factor the **internal** to the firm and the **external** forces [Robock et al 1977; Beamish et al 1991]:

The internal factors are as follows:

- Influence of a high executive
- Development of new product or technology
- Dependence on foreign sources of raw materials
- Desire to find a use for old machinery
- Accumulation of excess internal generated investment funds e.g. in direct foreign investments
- Observed need for a larger market.
- A desire for continued growth

The external factors are as follows:

- The influence of customers due to their mobility
- Initiative of foreign governments through policies
- The pressure and example of competitors
- The economic development of home country
- The social pressure for business to internationalize
- The home country's political aspirations
- The formation of free trade area
- Diversification aimed at sales stabilization

Companies may be attracted to cross border markets because of strong pull or push factors or a combination of both. The **pull factors** are defined as factors, which entice companies

away from their existing local/national/regional markets because of perceived attractiveness of a cross border market. Conversely **push factors** arise out of perceived difficulties in a company's existing markets and opportunities to overcome these by moving into cross-border markets [Ellis and Williams, 1995]. The pull and push factors may be compared to the internal and external factors respectively as mentioned above.

1.4 Problem statement

The Kenya government offers 'attractive' investment policies and incentives through the Investment Promotion Council [IPC], established through an Act of Parliament to promote both local and foreign investments in Kenya [Kenya, Investors' Guide, 2001]. Priority is given to projects that will create jobs, utilize domestic resources, transfer technology and skills to Kenyans and are export oriented.

Despite these attractive investment policies and incentives, some Kenyan firms are locating subsidiaries outside the country. Citing the Central Bank of Kenya Monthly Economic Review, the Business Week of the Daily Nation reported on 20th March 2001, that among the Kenyan firms to branch out to Uganda and Tanzania were:
Kenol, Jubilee Insurance company, East African Breweries Ltd., Industrial and Commercial Development Corporation (ICDC) and Uchumi Supermarkets.
In October 1997, the Kenya Commercial Bank opened a branch in Dar-Es-Salaam, Tanzania under a new subsidiary company, the Kenya Commercial Bank (Tanzania) limited, [Kenya Commercial Bank prospectus, 1998]. East African Breweries Ltd. (EABL) has even gone beyond East Africa by establishing a subsidiary in Seychelles [Daily Nation, 4th May 2001]. Recently, the EABL entered into a strategic alliance with South African Breweries International (SABI). The terms of the agreement required that it closes its Tanzanian subsidiary (Kibo breweries) while SABI closes its Kenyan Castle brewery subsidiary in Thika.This agreement involves a 20 % shares swap and licensing each company to manufacture and sell the other's products in the country they have divested [Daily Nation, 15th May 2002].

Several studies/surveys by Kenya Association of Manufactures [2000], Eastern Africa Association [2002] and the Federation of Kenya Employers (FKE) [2002] revealed a sad state of the investment climate in Kenya.The main factors or investor concerns cited by the studies as contributing to the poor investment climate were as follows:

- Rationing of electricity supplies

- Poor road conditions
- Insecurity leading to increased cost in hiring security or loss of property
- Poor telecommunications
- Official corruption which increases costs, operational delays and unfair competition)

In addition, the economic mismanagement dating back to the 1992 elections resulted in more than 60% inflation level in 1994 leading to poor economic performance over the last few years.

These studies indicate that Kenya needs to address these problems or concerns by investors in order to create an environment that is conducive for investments.

Given that infrastructure in Uganda and Tanzania may not be significantly better than the Kenyan one, it is not clear what exactly has attracted the Kenyan firms to the two neighboring countries. This is compounded further by the argument in extant literature that improvements in systems of communication worldwide have made it unnecessary to locate production facilities close to target market. It is these concerns that have necessitated the proposed study.

1.5 Research Objectives

- To find out the factors that Kenyan firms consider important when deciding to internationalize to Uganda and Tanzania.
- To find how the said firms rate the attractiveness of investment incentives and policies in Kenya, Uganda and Tanzania.

1.6 Importance of the study

- To the academia, the study will provide literature on internationalization of Kenyan firms for further research
- To the policy-makers such as Investment Promotion Center (IPC) to formulate and implement policies that are consistent with what investors are looking for in a country.
- To provide a source of knowledge to business managers of domestic Kenyan firms in regard to the important factors to consider before venturing into internationalization.

1.7 Justification of the study

This study will contribute to the development of literature on Firm internationalization and enriching the debate by providing data from firms operating from a less developed country, in this case Kenya.

Bakunda [2000] reviewing literature on firm internationalization by Brendan 1997, confirmed that much of the studies on internationalization have been conducted in developed countries and very few, if any in poor country domestic markets.
Madhu [1989] studied factors considered important by multinationals when deciding on the host country to invest in- A case study of Kenya. However, the current study recognizes the following gaps:

- That the study was carried out when the Kenyan market was highly protected, and the economy was commanded from the Central government. The economic reforms of the 1990s have greatly changed the environment so that some of the factors that were considered important then are irrelevant today.
- The focus of the study was on multinational corporations, whose management has competencies in dealing with international business, i.e. operating in foreign environments. This study focuses on Kenyan firms that are beginning to operate in foreign markets and may not be experienced in the multidomestic [multinational] competitive strategy.

CHAPTER TWO: LITERATURE REVIEW

2.0 The internationalization strategy

A diligent search by the researcher revealed that little research has been done in this field. However a study by Madhu Sharma [1989] on factors considered important by multinationals when choosing the host country to invest in are shown in the appendix-I. The researcher has compiled whatever available material with addition from newspapers and magazines.

Literature on internationalization indicates that firms regard foreign markets as risky [not familiar] and the need for strategic information on foreign markets cannot be over-emphasized. Ansoff and McDonnell [1990], argued that the cost of information on foreign markets is very much higher than the cost of domestic information and some vital knowledge about foreign environments can only be acquired through hands-on experience. To avoid high information costs and the risks thereof, the strategy is to go abroad at a slow and cautious pace on an evolutionary basis [Rugman et al 1985; Shapiro 1991]. Internationalization is the process by which firms get involved in international operations through the various foreign market entry strategies.

2.1 The theories of international trade and production

International trade forms one of the modes of engaging in international business or operations. It is therefore important to mention some of international trade theories used to explain the patterns of trade between nations.

2.1.1Theories of international trade

Among the main theories are the absolute advantage by Adam Smith [1776], the comparative advantage by Ricardo [1817], the factor proportions theory /Heckscher-Ohlin theory of trade, theory of overlapping demand by Linder [1961], the technological gap theory by Posner [1961] and the product life cycle theory by Vernon and Wells [1966]) [Grimwade1992; Lipsey and Chrystal 1995].

Porter [1990] argues that these theories either explain international trade or foreign investment and therefore cannot explain global strategies used by international competitors where trade and foreign investment are integrated.

Limitations of international trade theories

[Rugman et al 1985; Shapiro, 1991] attributed the limitations of international trade theories in explaining international trade behavior of firms to the following:

- Assumed the existence of perfect markets without trade barriers, which does not exist in real world
- That a country exports only those products they have comparative advantage and import those they have comparative disadvantage.
- The assumption that the certain factors of production are immobile (Capital, labor and land)

In real world there exists market imperfections arising from trade barriers in the form of tariffs or non-tariffs barriers. Also product differentiation leads to countries to trade in similar products [Rugman et al 1985].

2.1.2 strategic trade theories

Since empirical tests on earlier trade theories proved weak, Scholars began to ask by the early 1980s whether trade theorists were even asking the right questions [Yoffie and Gomes-Casseres, 1994]:

- If comparative advantage was a meaningful concept, then why should majority of trade take place between **similar** nations and more so between industrialized nations and not dissimilar nations since World War II?
- Is the assumption by the classical international trade theory that markets were perfect still tenable in a world of multinational corporations?

In a world of multinational corporations, competitive strategies such as differentiation and cost-leadership, and government policies could influence global market and patterns of trade and thus perfect markets did not exist in practice.

Yoffie and Gomes-Casseres (1994) reviewing business school academics such as Michael Porter and Bruce Scott who had began to propose the new theories also known as **theories of strategic trade policy** that emphasized the role of industry structure and government policy respectively thus rendering international trade theories untenable. One such strategic trade theory by Porter [1990], in explaining why firms from some nations gain and sustain competitive advantage in international competition in a certain industry, identified four broad attributes (determinants) that shape the national competitive

environment which he called the 'national diamond'. The major determinants were firm strategy, structure and rivalry; factor conditions; demand conditions; related and supporting industries; although other minor determinants like government policy and chance may shape the competitive environment in a nation. Porter (1990) further argued that competitive advantage is derived from the interplay of the advantage in many determinants which yields reinforcing benefits that are extremely hard for foreign rival to nullify.

However, these theories of strategic trade policy can only be implemented in accordance with the principles of GATT member countries which has seen the average tariff level greatly lowered such that tariffs are no longer impediments to trade [Grimward 1992]. The three most recently completed rounds of GATT namely: Kennedy (completed in 1967), Tokyo round [completed in 1979], and the Uruguay (completed in 1993). These rounds have focused on reducing world tariffs with the last round agreeing to reduce them by about 40 % by the year 2000 [Rugman et al 1985;Lipsey and Chrystal, 1995; Bennett, 1999].
The Uruguay round saw the replacement of GATT by the World Trade Organization in 1995
The basic principles of GATT [Bennett, 1999; Keegan2000] are:

- Non discrimination of member countries when imposing tariffs
- Opening up of markets by prohibiting any form of protection except custom tariffs
- Fair trade through prohibition of export subsidies on manufactured products and limiting export subsidies on primary products.

The implementation of GATT [WTO] principles has resulted in increased international competition due to lowering of tariff barriers leading to liberalized trade.

In response governments have resorted to subtle means of restricting imports and protecting domestic producers. Such means may involve the invocation of non-tariff barriers [NTBs] to trade defined by business managers as 'any measure other than tariffs that provide a barrier or obstacle to the sale of products in a foreign market' [Keegan, 2000].
Governments invoke non-tariff barriers as national policies [Rugman et al 1985; Lipsey and Chrystal, 1995; Keegan, 2000]:

- The voluntary export restriction systems [VERs] where the exporting nation agrees to restrict the product in question to a certain quantity or share of market to specified period of time. This agreement is bilaterally negotiated between the exporting nation and the importing nation.

UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY

- Export credit subsidies to domestic exporting firms at below market rates; Governments may also offer tax incentives and even providing market information and promotions abroad at no cost
- Imposing technical barriers where governments insist on specific standards for products, which effectively make goods non-tradable. Such standards include lengthy testing procedures and environmental regulations that are difficult to meet.

Thus nations take deliberate steps to encourage exports through subsidies and other indirect measures. Tariffs and a host of non-tariff measures are imposed to limit imports [Keegan2000].

2.2 The Objectives of internationalization

While the rationale of any business strategy must be that it benefits the owners (the shareholders) by maximizing their wealth, the main objectives of a firm expanding its business activities to international scope [Globerman, 1986]:

- Long-run profitability
- Stability of profit growth over time (risk reduction)
- Improve the rate of return and market share

2.3 Strategies of Internationalization (Foreign market entry)

Porter [1990] argued that in configuring its worldwide activities of the value chain, a firm faced two broad choices, namely concentrating the activities in one or more nations or to disperse them to many nations. Where competitive advantage was derived from concentrating activities in one nation, this was referred to as the **export** based global strategy while competitive advantage arising from dispersing activities to several or many nations this was referred to as **foreign direct investment** [FDI].

Ball and McCulloh [1993] echoed Porter's argument of firms' international involvement that all the means of becoming involved in overseas business can subsumed in just two activities i.e. **exporting** to a foreign market and **manufacturing** in it.

There are three main strategic options for entering foreign markets [Kibera and Waruinge 1988; Barney 1997]:

(a) Exporting
(b) Strategic Alliance-Licensing , Contracts and Joint ventures
(c) Direct foreign investments

2.3.1 Exporting strategy

Exporting is the process of selling abroad products manufactured in the seller's home country. A Company is said to export **indirectly** if its products are sold abroad without playing a role to encourage exporting.

In **direct** exporting the firm deliberately engages in export activity by setting up a domestic export department, overseas sales branches or subsidiaries, using travelling sales persons; use of foreign based distributors or agents to market its products [Kibera and Waruinge, 1988].

Exporting as a mode of foreign market entry is applicable to firms facing a highly uncertain demand abroad to begin with [Shapiro, 1991].

Most firms begin internationalization by exporting [Ball and McCulloh 1993]. This method requires little investment overseas and hence least risky. This mode of entry provides an excellent means for a beginner to have a feel or (test the waters) for international business [Ball and McCulloh 1993; Barney 1997].

Advantages of the export strategy

- Economies of scale by producing in one location.
- Steep learning curve , hence lower costs arising from large volume of production
- Better coordination due to linked activities in one location
- Lowest involvement and risk exposure allowing for quick withdrawal from a foreign market in case of low demand

This therefore implies that international trade is the most efficient entry mode as long as the world markets are perfect [Rugman et al 1985].

2.3.2 Foreign manufacturing (Production)

While most authors have treated intermediate market entry strategies as separate from foreign manufacturing, [Porter 1990; Ball and McCulloh 1993] argue that intermediate market entry is part of foreign manufacturing since the firm manufactures in a foreign country.

This is because the firm has gone beyond exporting and is manufacturing in a foreign country through another firm although it may not be controlling the operations of those foreign companies producing and/or assembling its products. This study holds the view that intermediate market entry strategy is part of foreign production.

2.3.2.1 Intermediate market entry strategies

A **strategic alliance** exists whenever two or more independent organizations cooperate in the development, manufacture, or sale of products or services [Barney, 1997].
This occurs when a firm decides to move beyond exporting. Barney [1997] refers to these strategies as strategic alliances. These alliances range from licensing, franchising, contract manufacturing, management contract and a joint venture.

- **Licensing contract** are agreements where a firm allows a foreign firm to utilize its technology, patents, brand names and other firm-specific advantages [FSA] in exchange for a fee [Ball and McCulloh 1993; Barney 1997].
- **Franchising** permits the franchisee to sell products or services under a highly publicized brand name and well proven set of procedures with carefully developed and controlled marketing strategy.

In **Contract manufacturing**, a firm subcontracts assembly work or the production of parts to independent companies overseas. If the firm is the largest or the only customer to these subcontractors it has in effect created a new company in another country. Although the firm does not have equity in these contractor firms, it is able to produce in a foreign country without investing there so called "foreign direct investment without investment" [Rugman et al 1985].

A joint venture is a cooperative effort among two or more organizations that share a common interest in a business enterprise or undertaking. It involves the creation of an independent organizational legal entity, in which alliance partners i.e. a domestic firm and a non-domestic firm invest and from whose profits they earn returns on investments. This means that a foreign company forms a partnership with some selected nationals.
It may take the following forms:

- A corporate entity between an international company and local owners
- Corporate entity between two or more international companies
- Cooperative undertaking between two or more forms of a limited-duration project.

2.3.2.2 Foreign investments

There are two forms of foreign investments namely **portfolio** and **direct investment** investments. Daniels [1988] defined **portfolio** investment as the purchase of financial asset such as an interest-bearing assets e.g. a corporate/government bond or common stock of a

foreign company and there is no control of the asset [investment] involved. Portfolio investors are attracted by different yields that may exist between countries on short-term securities argues [Daniels 1988].

[Farmer and Richman, 1980; Rugman et al 1985; Daniels 1988], observed that **direct investments** take place when control follows investment. The investment may be as small as 10% of equity of the acquired firm [Daniels 1988]. Controlling interest in foreign operations is the highest type of commitment to foreign operations in a given country.

2.3.2.3 Direct foreign investment (Production)

Direct foreign investment [DFI] is the ultimate involvement of a company abroad. It involves an international business investing abroad by setting up assembly or manufacturing facilities. A firm may decide to produce in a foreign market through a wholly owned subsidiary or have a controlling interest. It may achieve this through starting a new investment from the scratch known as '**Greenfield**' or by through acquisition of a going concern known as the **brownfields** [Lipsey and Chrystal, 1995].

Although geographical patterns of international business are complex, two clear foreign direct investments [**FDI**] patterns have evolved observes [Robock et al 1977]:

- The geographical proximity of the two nations
- A close international business relationship continuing between former colonial power and their colonies

2.3.2.4 Theories of foreign direct investments

The following are the contemporary theories, which attempt to explain why foreign direct international investments take place [Rugman et al 1985; Globerman, 1986; Ball and McCulloh, 1993; Bennett 1999]:

(a) The international product life-cycle theory by Vernon and Wells 1966

The initial model in 1966 was developed to explain the growth and spread of US based multinational enterprises as it was considered the home of innovation. This is no longer true since Europe and Japan have now joined the bandwagon [Rugman et al 1985; Globerman, 1986].

The theory borrows from product life cycle model and argues that a product passes through four stages:

(I) The innovator country introduces the new product in an attempt to satisfy identified customers' need; foreign markets are served through exporting.

(II) Demand for the product in the foreign markets grows and becomes enough to support local production, thus foreign production begins.

(III) As foreign producers gain experience in marketing and production their cost fall. Local markets become saturated and search for export markets begins. Competition in export markets results in decline of exports of the innovator country.

(IV) If domestic and export sales by foreign producers enables them to attain the economies of scale enjoyed by the innovator, they may reach a point where they may compete with it in quality in its domestic market. Thus the innovator country becomes an importer of its own innovation.

(b) The monopolistic advantage theory

This theory stems from Stephen Hymer's dissertation in the 1960s, which demonstrated that foreign direct investments occurred largely in oligopolistic industries rather than near-perfect competition. This means that firms in these industries must possess advantages not available to local firms such as economies of scale, superior technology, marketing knowledge, management or finance [Globerman, 1986; Ball and McCulloh, 1993].

(c) Internalization theory (Eclectic theory)

Professor John Dunning of the University of Reading "Eclectic theory" of international production [Foreign direct investment] is an extension of the market imperfection theory. The theory posits that the configuration of international business activity will be determined by three groups of factors [Globerman, 1986; Rugman et al 1985]:

- Firm specific factors/Company specific (CSA) i.e. [ownership advantages e.g. a Patent or other assets], which confers a competitive advantage to a firm over competing firms
- Location specific advantage /Country specific advantage, which make it more advantageous to carry out a given activity in the value chain in one country rather than another.
- "Internalization" advantages which make international transfer of labor, capital, technology and others factors through internal markets of the multinational enterprise more efficient (yields a better return) than "arms-length" transfers in the open market.

2.4 Advantages of foreign production

[Porter 1990; Barney 1997] highlight the following advantages of foreign manufacturing:

- Reduces transportation and communication costs
- Enables firms to respond to local needs and also signal commitment to local buyers
- Enables firms realize economies of scope e.g. gaining access to new customers access to low cost factors of production etc.
- Enables firms to circumvent the barriers of market entry such as tariffs, non-tariffs barriers.

The choice of each entry strategy is appropriate under the following conditions [Ansoff and McDonnell 1990]:

- The exporting strategy is successful to the extent that there are no barriers to entry, local products are undifferentiated and those foreign market conditions are similar to the domestic market.
- A joint venture strategy is appropriate when markets become differentiated, entry barriers are high, and intense competition.
- Direct foreign investments [foreign subsidiaries] is pursued when there is need for local responsiveness to customer needs and access to low cost factors of production

[Rugman et al 1985; Ansoff and McDonnell 1990; Shapiro 1991] describe these entry strategies as stages of the typical pattern of internationalization by a firm. As the firm progresses through from export to direct foreign investments through joint venture to direct foreign investment the level of involvement in the foreign country and the exposure to risk increases. These stages present a learning opportunity and the experience of international operations acquired at one stage motivates a firm to move to the next stage of involvement. Some firms may progress from one stage to another while other might skip the intermediate stages.

2.5 The factors that influence firms to go abroad or to internationalize

Barney [1997] argues that to be economically viable global strategies must meet the two value criteria:

- The strategies must exploit real economies of scope (synergy) i.e. the cost savings or revenue enhancement that a firm experiences because of the mix of businesses that a firm is operating in.
- It must be more costly for the equity investors to realize the economies of scope on their own, especially in geographically diversified foreign markets.

Like any other strategy, global strategies must enable a firm exploit environmental opportunities or neutralize environmental threats. Porter [1990] argues that firms create a sustainable competitive advantage through the international strategy by being cost leaders or the differentiation of its products or services.

[Ansoff and McDonnell, 1990; Globerman, 1986; Ball and McCulloh 1993; Barney, 1997] cited the following motives or reasons that influence firms to go abroad:

(I) Gain access to new customers for current products or services

- When firms face mature, saturated markets the only way to increase sales and profits is seeking new markets outside their home country hence minimizing domestic rivalry between firms e.g. price wars.
- If firms can obtain higher average sales prices in foreign markets, which are not offset by corresponding higher average costs, especially if the degree of competition is lower than the home market.
- If production processes are subject to economies of scale such that additional sales have the effect of reducing sales.

(II). Follow customers overseas

This occurs when suppliers to original equipment manufacturers for example battery manufacturers to automobile producers follow their large customers abroad. Therefore the battery suppliers move into new markets with a guaranteed customer base [Ball and McCulloh 1993].

Occasionally a firm may set up a subsidiary in the home country of a major competitor as a strategy of keeping it occupied in defending that market such that it has less energy to compete in the home country of the defending (first) company

(III). To lower production costs

Firms may establish subsidiaries abroad aimed at lowering costs. These reduced costs arise from access to lower cost factors (inputs) of production, economies of scale through

increased sales and access to Government subsidies aimed at attracting new investments e.g. interest rates (cost of capital) subsidies, investment grants, and reduced taxes on profits. Ansoff and McDonnell (1990) caution that labor cost advantages are not static and those firms should anticipate that as low cost countries develop economically labor costs may rise to make local manufacturing less attractive.

(III). The bandwagon or "me too" effect

Overseas expansion by one firm may trigger off others in order to prevent early entrants from preempting the markets entered.

The bandwagon effect may also result from one firm expanding vertically abroad. Usually the host governments especially in developing countries will not only prohibit imports once there is a firm that produces locally but will also permit two or three other companies to enter so as to maintain a sufficient market for these firms. Therefore there is the need to follow other firms to avoid being locked out of that market.

(IV). Risk diversification

The argument here is that a firm can reduce the risk exposure if it operates in multiple geographical markets due to stability of earnings. This is because earnings from different countries will be imperfectly correlated since they experience the stages of the business cycles at different times.

To the extent that barriers of diversification by individual stockholders exist but not for firms pursuing global strategies, risk reduction can be a viable motivation for international expansion.

(V). Extend the product[demand] life cycle

From a global strategy perspective, a product is at a different life cycle in different countries. Therefore the firm can use the resources and capabilities it developed during a particular stage of the life cycle in its domestic market to exploit that same stage of the life cycle in a non-domestic market [Barney 1997]. Ansoff [1990] also argues that by the time the domestic demand reaches maturity or decline stage the pressure to move to countries in earlier stages of growth becomes strong. This strategy may greatly enhance a firm's economic performance [Barney, 1997].

(VI). To develop new core competencies

Firms may begin overseas operations to refine their core competencies and to develop new competencies. By exposing these competencies to new competitive contexts, traditional competencies can be modified and new competencies developed.

For international operations to affect a firm's core competencies, firms must learn from their experiences in non-domestic markets and exploit the new core competencies in a firm's other operations.

(VII). Satisfy management's desire for international expansion

In order to achieve faster growth, which the domestic market may not provide, managers may only fulfil this desire through international expansion in the following ways:

- Going international may create an impression of importance, which can influence customers.
- Managers derive satisfaction and pride in managing international companies not to mention the attractive salaries and perquisites that go with it.

(VIII). Developed infrastructure in foreign markets

The ability to communicate with subordinates and customers by data transmission, voice and video gives managers confidence in their ability to control foreign operations in addition to shorter travelling time motivates foreign market entry by firms.

(IX). To overcome trade barriers

Governments may erect import barriers to protect its local industry when it is threatened by imports. Even threats by such governments may induce an exporter to invest in domestic production in the importing country.

(XI). Firm possesses monopolistic advantages over others

Firms may internationalize if they possess advantages not available to local firms such as economies of scale, superior technology, and or marketing knowledge, management or finance [Globerman, 1986; Ball and McCulloh, 1993].

(XII) 'Internalization' advantages which make international transfer of labor, capital, technology and others factors through internal markets of the multinational enterprise more efficient (yields a better return) than "arms-length" transfers in the open market.

2.6 Challenges of internationalization

International business differs from domestic business in that a firm operating across borders must deal with three kinds of environments i.e. domestic, foreign and international [Ball and Mcculloch, 1993]. Other factors i.e. economic, political, social and cultural are external to the firm, they are beyond the control of the managers. Of concern to international business manager is the **stability** of any government, where stability means the ability to maintain itself in power and when its fiscal, monetary and political policies are predictable and not subject to sudden radical changes. Stability therefore enhances the prosperity of businesses consequently making such countries first choice destinations for international companies [Ball and McCulloch, 1993]. This exposure to uncontrollable forces in an unfamiliar foreign environment i.e. political, social-cultural, legal and economic factors, may pose financial (economic) and political risks.

2.6.1 Financial risks

Firms pursuing international strategies expose themselves to financial risks especially due to fluctuations in currency (exchange rate risk) and inflation [Barney, 1997]. These fluctuations may result in **profitability** (good news) or **loss** (bad news) in foreign investments.

The employment financial instruments such as options, futures (forwards) and swaps may help firms to hedge against such fluctuations [Lipsey and Chrystal 1995; Ross et al 1990]. However, hedging strategies only neutralize financial risks but not the business risks (firm specific), which calls for the development of capabilities and resources [Barney, 1997].

2.6.2 Political risks

There is no consensus on the definition of **political risk**, but one popular view considers the risk to exist when unanticipated discontinuities affecting corporate profitability and resulting from political changes can occur in the business environment [Golberman, 1986]. Political risk can emerge from social unrest consequent to low and/ or unevenly distributed income among country's population, from competing political ideologies or ethnic groups within a nation, the rise and fall of individual political leaders or from international relations (involvement in foreign wars for instance [Bennett 1999]. Barney (1997) citing Porter [1980] argued that changes in the political rules of the game can have the effect of increasing some environmental threats or reducing others and thus changing the value of a firm's resources and capabilities.

[Barney 1997;Bennett, 1999] describe the two types of political risks as occurring at **macro** and **micro** level. Macro level risks are those broad political changes that may occur and affect all industries operating in the country. At micro level, the politics in a country affect the fortunes of a firms in particular industries

For example macro level risk may arise if a Government demands nationalization or insist on joint ownership with host nationals making foreign manufacturing highly risky and ineffective [Ansoff and McDonnell 1990].

However government changes are not always bad for global firms. The fall of Soviet Union and the introduction of capitalism in Eastern Europe have created numerous business opportunities for global firms (Barney 1997)

2.7 Investment Policies and Incentives offered by the government of Kenya

In addition to the investment incentives offered by the Kenya Government, Kenya has carried out far reaching liberalization measures in its reform programs since 1993. According to Kenya investor guide [December 2001] published by Investment Promotion Council (IPC) the investment policies and incentives are as follows:

(1) Investment Policy

The key economic reforms carried out by the Government were listed in chapter one.

(2) Guarantee (Protection) to investors

Kenya provides the following guarantees to both local and foreign investors:

(a) Repatriation of capital and profits

Capital repatriation, remittance of dividends and interest are guaranteed to foreign investors under the Foreign Investment Protection Act (FIPA) [Cap 518] i.e. after tax profits, proceeds of investment after taxes and principal and interest on any loan

(b) Guarantee against expropriation

The Constitution of Kenya provides a guarantee against expropriation of private property, which may occur, only for reasons of security or public interest and in such a case a fair and prompt compensation is guaranteed

(c) Protection of patents and trade marks-Patents are recognized and regulated by the industrial Property Act and administered by Kenya industrial Property Office (KIPO), while trade marks are regulated by the Trade and Service Marks Act (Cap 506) and administered

by the Registrar of Trade Marks at KIPO. The duration for trademarks is seven years from the date of filing and renewable every 14 years.

(d) International Protection

Kenya's membership to the World Bank Multilateral Investment Guarantee Agency (MIGA), which issues guarantees against non-commercial risk to enterprises that, invest in member countries. Kenya is also a member of the International Center for Settlement of Disputes (ICSID). ICSID founded in 1967, and sponsored by the World Bank and arbitrates disagreements between national governments and foreign investors [Bennett, 1999].

(3) Major investment incentives include:

- **Investment allowance (**initial investment is tax allowable) for new investment in the manufacturing and hotel sectors at the rate of 100 % for the period July 2000 to December 2001, 85 % for 2002, 70 % for 2003 and 60 % 2004 countrywide.
- **Depreciation** based on book value of assets is allowed rates as follows:

Industrial buildings 2.5 %, Hotels 4.0 % on a straight-line basis; machinery such as tractors, combine harvesters, earth-moving equipment and similar vehicles37.5 %; other self-propelled vehicles including aircraft 25.0 %; all other machinery including ships 12.5 %; computers and other office equipment 33.3 % plant and machinery 12.5 % all on a declining basis.

- **Loss carried forward**

Business enterprises that suffer losses can carry forward such losses to be offset against future profits.

- **Remission from custom duties**

Duties on capital goods, plant and machinery are at the rate of 5 %. Large scale private investments whose expenditure on productive physical assets are in excess of $5 million within a two year period and will generate economic benefits for the country can recover the value of the import duties paid on imported capital goods for the project against income tax liability.

- **Export subsidy programs** i.e. duty remission on inputs, Duty and VAT remission on imported plant and 100 % investment allowance on capital equipment, tax holiday, exemption of withholding tax on dividends and other payments to non-residents for first ten years.

(4) Access to markets

Exports from Kenya enjoy preferential access to world markets under a number of special access and duty reduction programs, which include:

- **Access to Regional markets**

Kenya is a member of the East African Community)(EAC) i.e. (Kenya, Uganda and Tanzania) with a population of about 80 million and also a member of the Common Market for Eastern and Southern Africa (COMESA) with a population of approximately 380 million. Exports and imports within member countries enjoy preferential tariff rates

- **ACP/Cotonou agreement-**

Exports from Kenya entering the European Union for duty reduction or exemption and freedom from quota restrictions. Trade preference include duty-free for all industrial products and a wide range of agricultural products such as beef, fish, dairy products, cereals, fresh and processed fruits and vegetables.

- African Growth and Opportunity Act (AGOA)

Kenyan products qualify for duty-free access to the United States of America (USA) markets under AGOA enacted by the USA. These products include textiles, apparels, Handicrafts etc.

The Generalized System of Preference (GSP) entitles a wide range of Kenyan manufactured products preferential duty treatment in USA, Japan, Canada, Switzerland, Norway, Sweden, Finland, Austria, New Zealand and most European countries

(5) Other incentives

- **Tax treaties** –Kenya has tax treaties with Uganda and Tanzania, COMESA countries, Canada, Denmark, Malawi, Norway, Sweden, The United Kingdom and Zambia. These treaties provide for avoidance of double taxation and reduction or waiver of withholding taxes
- **Accessibility to Capital provided by the a stable financial market**

Kenya has a well-developed financial sector that comprises of Commercial Banks, mortgage finance companies and insurance companies among others. In addition debt and securities market is rapidly expanding with one stock market i.e. the Nairobi stock exchange as a secondary market for both equity and debt securities. The Capital Markets Authority (CMA)

approves issue price, timing of sales and allotment plan for share and debt regulates the securities market.

- **Work permits (renewable after every two years)** –The Government allows investors to have key expatriate staff in senior management positions or where local with specific skills is not available.
- **Major investment opportunities**

Existence of investment opportunities in agriculture, manufacturing, building and construction, in tourism sector among others

2.8 Involvement of Kenyan firms in International business

Until the 1990s when the Government liberalized the economy, Kenyan firms have been involved in international trade as the mode of engaging in international operations.

2.8.1 Performance of the exports sector

Kenya's international trade has been realizing trade deficits since 1996.This is evidenced from the continued downward trend of export to import ratios standing at 54.0 % in 2000 compared to 59.0 % in 1999 and 70 % in 1996 [The Economic survey, 2001]. This has been attributed to the sluggish performance of export earnings since 75 % of the principal export commodities had recorded decline in quantities and or reduction in prices, while import have continued to increase in volumes and or increase in prices.

The principal exports have been Tea, horticulture, and coffee and petroleum products, which contributed 64.7 % of the domestic earnings in year 2000. The principal imports include industrial machinery, road motor vehicles, crude petroleum, petroleum products, animal/vegetable fats and oils and un-milled wheat.

2.8.2 Composition of international trade

In the year 2000, export earnings from food and beverage constituted 56.3 % out of which 84.3 % of these earnings, were from primary products, non-food industrial supplies19.1%, fuel and lubricants 8.6 % transport equipment0.5 %.

In the year 2000, imports constituted 7.7 %, a growth of 26.2 %; industrial supplies 27.4 %, fuel and lubricants 25.6 % and transport and equipment 16.7 %.

2.8.3 Direction of trade

The COMESA region has now overtaken the European Union as a destination of Kenya's exports. Exports to Uganda and Tanzania accounted 26.2 % of the total exports, leaving 3.6 % to other African countries. There was a drop in exports to Tanzania due to drastic drop in exports of margarine and shortening oils, soaps and animal and vegetable oils while exports to Uganda increased.

Imports from South Africa constituted 72.9 of the total imports from Africa.

2.8.3.1 Trade within the Common market for Eastern and Southern Africa countries (COMESA) and other African countries

In the year 2000, exports to COMESA accounted for **42.1** % of the total exports, with Uganda and Tanzania absorbing **62.2** % of the total exports to COMESA.

The major exports to Uganda were petroleum products, plastic articles, paper products, cement, textiles, medical products and footwear. Major exports to Tanzania were petroleum products, plastic articles, chewing gum, medicinal products, tobacco, paper and paperboard and footwear.

- **Tea** was the dominant export to Egypt and Sudan

Kenya's trade with COMESA is significant in that exports comprise of manufactured goods, unlike the European Union, which is dominated by primary products such as agricultural products.

- **South Africa** dominated the imports sector constituting **72.9** % of the total imports.

Imports from the country were maize, sugars, petroleum products, paper and paperboard, motor vehicles, fertilizers and medicinal products.

- Major imports from Uganda were fresh vegetables and tobacco manufacture, while from Tanzania were articles of plastics, cotton, glassware, animal feeds, and maize.

Imports from COMESA rose by 45 % in year 2000.

CHAPTER THREE: RESEARCH DESIGN

This chapter sets out the research method, which will be used to meet the stated objectives of the study. A survey research method will be used.

3.0 Population and Sampling frame

The population comprises of all those firms parented in Kenya, and have opened branches in the other East African countries. The study will be limited to nine [9] Kenyan parented firms with branches or subsidiaries in Uganda and Tanzania and are quoted in the Nairobi stock exchange. It will include manufacturing and non-manufacturing firms in all the sectors of the economy.

The researcher confirmed that there does not exist a directory showing Kenyan firms with branches or subsidiaries abroad. Such a list of companies is possible to develop for listed companies since they disclose information about subsidiaries/branches and their location in their annual audited reports. Since these companies are not many, the study will use a census approach.

3.1 Data collection

Data will be collected using a structured questionnaire. The questions will mainly be closed-ended based on the general factors from the literature, that influence firms'decisions to go abroad and the investment policies and incentives obtained from the Kenya investors' guide. The importance of factors or the comparison of the investment policies and incentives will be rated using a 3-point Likert scale. In this research, factors refer to those aspects other than incentives while incentives are specific to a country [Sharma, Madhu1989]. The questionnaire will be divided into three parts. The first part will seek to gather specific information about the company. The second part aims at finding out the importance of the factors that motivated the firm to go abroad. The third part aims at gathering information on the relative attractiveness of the investment policies and incentives offered by the Governments of Kenya, Uganda and Tanzania. The approach for filling in the questionnaire will be drop-pick later. The questionnaires will be given to the CEO or General managers of companies who may delegate to the relevant member(s) of staff.

3.2 Data analysis

The study is descriptive in nature and therefore descriptive statistics i.e. mean, mode and median will be used to analyze the data. The study will use frequency tables and percentages of mean scores which will be evaluated and ranked to give the importance of factors and the rating of the of the attractiveness incentives and policies offered by the Kenya, Uganda and Tanzania Governments. The Spearman's rank order correlation test will be used to test the significance of differences of the relative attractiveness of the investment policies and incentives offered by the governments of Kenya, Uganda and Tanzania.

CHAPTER FOUR: FINDINGS AND DISCUSSION

This chapter presents the research findings and the discussion of the findings.

4.0 Distribution of the respondent firms by sector and country

4.1 Distribution of the companies by sector

Sector	Number of companies	Percentage
Manufacturing	4	44.4
Services	3	33.3
Others	2	22.2
Total	9	100.0

4.2 The distribution of the companies in the Uganda and Tanzania

Uganda	7	58 %
Tanzania	5	42 %
Total	12	100 %

As shown in the table 4.1, there were nine companies studied, majority [44.4 %] of which were in the manufacturing sector. It was noted from table 4.2 that there were a total of twelve (**12**) firms in the two countries as opposed to the nine (**9**) parent companies in Kenya, since three of these had subsidiaries (branches) in both countries.

The study also revealed that eight **(8)** companies opened branches in these countries after 1993, while one company in the insurance industry had opened foreign branch (es) before 1993. This timing by most companies to internationalize after 1993 may be as a result of the economic liberalization implemented by the Kenya government in that year. This resulted in increased competition through imports, hence the erosion of market share of the domestic firms.

4.3 Distribution of the subsidiaries /branches by sector in the two neighboring countries

Sector	Tanzania	Uganda	Total number of firms
Manufacturing	4	4	8
Services	1	1	2
Others	0	2	2
Total	5	7	12

Majority of these firms had externalized to Uganda possibly because of the expected higher returns due to her higher economic growth rate.

4.4 Distribution of firms by the type of foreign market entry strategy

Type of strategy	Number of firms	Percentage
Direct foreign investment [DFI]	6	67
Strategic Alliance	2	22
Portfolio investment	1	11
Total number of firms	9	100

It is evident from the table that majority (67%) of the firms deployed a foreign production strategy, which is the most risky [unfamiliar] and involving but has the highest return. Since firms are internationalizing into neighboring countries, they are familiar with or have good information about these countries, thus reducing the level of risk associated with foreign production.

4.5 Scores of the factors which influence firms' decisions to externalize

Factor	Very important	Important	Less important	Total scores	Percentage of total scores
	3	2	1		
Political stability	**24**	**2**	**0**	**26**	**14.3**
Access to new customers	18	4	1	23	12.6
To follow former customers	3	4	6	13	7.1
To lower production costs	6	4	5	15	8.2
To reduce risk exposure	15	6	1	22	12.1
To extend a product's demand/lifecycle	3	2	7	12	6.6
To overcome trade barriers	6	6	4	16	8.8
To gain competitive advantage over other firms	12	4	3	**19**	10.4
Access a more developed infrastructure	3	8	4	15	8.2
To follow other firms that have gone abroad	0	2	8	10	5.5
Other factors not stated above	0	4	7	11	6.0
Total scores	90	46	46	182	100.0

As shown in the table 4.5, there were eight that companies rated political stability as very important, which corresponded to a weight of [3], **one** as important and weighted as [2] and **none** rated this factor as less important with a weight of [1]. The total score for this factor was twenty-six [26] i.e. the total of row one. The scores of other factors can be explained in a similar manner.

4.6 Ranking of the factors which influence firms' decisions to go abroad

Factor	Scores	Rank
Political stability	**26**	**1**
Access to new customers	23	2
To reduce risk exposure	22	3
To gain competitive advantage over other firms	19	**4**
To overcome trade barriers	16	5
To lower production costs	15	6.5
Access a more developed infrastructure	15	6.5
To follow former customers	13	8
To extend a product's demand/lifecycle	12	9
To follow other firms that have gone abroad	10	10
Other factors not stated above	11	11

Table 4.6 indicates political stability was ranked one [1] in importance, followed by access to new customers, then reduction of risk exposure etc.

Political stability implies the absence of political risk, which may increase some environmental threats or reduce others thus affecting corporate profitability. Political risks may be industry specific or may affect the whole economy. It may also lead to confiscation, expropriation, nationalization or domestication of foreign owned firms [investments] as happened in Uganda during Idd Amin's dictatorial reign. These political consequences explain why managers rank this factor very highly.

Access to new customers came second in ranking. This is explained possibly by the competitive threats brought about by international competition arising from the implementation of economic reforms by the Government in 1993. These reforms included economic liberalization, which saw the increase of imports in the domestic market leading to

loss of market by domestic firms. It was, therefore imperative, that firms expand into foreign markets as a response to neutralize these threats.

Reduction of risk exposure by firms came third in importance. It is argued that firms can stabilize their earnings if they operate in different geographical [countries] markets since different countries experience the different stages of the business cycles at different times. Kenya has been experiencing an economic recession since 1995 when the economic growth was **positive 4.8** % and has continued to decline since then. The economic growth was at its worst in year 2000 when it was **negative 0.3** %. This explains why some firms expanded into neighboring countries whose economies were recovering and experienced higher growth rates in order to hedge against the country specific [systematic] risk.

To extend a product's demand/lifecycle came second last in importance. Usually firms extend the demand of a product when its demand in the domestic market reaches maturity or decline stages of its lifecycle. They will transfer the product to countries that are in earlier stages of growth where demand exceeds supply. Since Uganda and Tanzania are psychologically close to Kenya with similar levels of economic development [developing countries] their demand patterns for products are likely to be the same. Therefore Kenya may not extend a products' demand to these countries and hence the low rating of this factor.

Following other firms that have gone abroad was rated the least in importance of the stated factors. Firms follow others abroad to prevent early entrants from pre-empting the foreign markets entered, especially for developing countries' governments who may limit the number of companies into their countries. Since most Kenyan firms have traditionally operated in the domestic market, the need to follow others did not arise, hence the very low rating of this factor.

4.7.0 Relative attractiveness of the investment policies and incentives offered by the governments of Kenya, Uganda and Tanzania

4.7.1 Scores of the relative attractiveness of the investment policies and incentives for Kenya and Uganda

Investment policies	Kenya			Uganda		
	Weight			Weight		
	3	2	1	3	2	1
Economic liberalization	12	0	3	9	0	4
Repatriation of capital and profits	9	6	1	3	6	3
Guarantee against expropriation	21	0	0	0	0	7
International protection of investments through ICSID	9	8	0	0	8	3
Investment Incentives						
Export subsidy programs	9	8	0	0	8	3
Remission of duties on capital goods	3	12	0	0	12	1
Investment allowance on initial outlay	6	10	0	0	10	2
Recovery of losses against future profits	6	10	0	0	10	2
Access to regional markets[EAC, COMESA]	3	12	0	0	12	1
Duty free entry to European Union	0	14	0	0	14	0
Preferential treatment of manufactured product to USA, Japan and EU	0	14	0	0	14	0
Existence of treaties to avoid double taxation	6	8	1	3	8	2
Stable financial markets	9	6	1	3	6	3
Protection of patents and trade marks	6	10	0	0	10	2
Work permits for expatriate staff	6	8	1	3	8	2
Existence of investment opportunities	6	4	4	12	2	2
Total scores	111	130	11	33	128	37

There were seven Kenyan companies that had branches or subsidiaries in Uganda. Therefore the maximum score possible for any policy or incentive was twenty-one [21]. For example, economic liberalization scored fifteen 15] points i.e. four companies ranked it better, weighted [3], no company rated it comparable weight [2] and three rated it worse, i.e. [1]. The other scores were derived in a similar manner. From this table the total scores for the rows were calculated which correspond to investment policies and incentives. This was done for each country, for example economic liberalization for Kenya scored fifteen [15] points.

4.7.2 Total factor scores for Kenya and Uganda

Investment policies	Kenya		Uganda	
	Scores	Percent	Scores	Percent
Economic liberalization	15	71.4	13	61.9
Repatriation of capital and profits	16	76.2	12	57.1
Guarantee against expropriation	21	100.0	7	33.3
International protection of investments through ICSID	17	81.0	11	52.4
Investment Incentives				
Export subsidy program	17	81.0	11	52.4
Remission of duties on capital goods	15	71.4	13	61.9
Investment allowance on initial outlay	16	76.2	12	57.1
Recovery of losses against future profits	16	76.2	12	57.1
Access to regional markets[EAC, COMESA]	15	71.4	13	61.9
Duty free entry to European Union	14	66.7	14	66.9
Preferential treatment of manufactured product to USA, Japan and EU	14	66.7	14	66.9
Existence of treaties to avoid double taxation	15	71.4	13	61.9
Stable financial markets	16	76.2	12	57.1
Protection of patents and trade marks	16	76.2	12	57.1
Work permits for expatriate staff	15	71.4	13	61.9
Existence of investment opportunities	14	66.7	16	76.2
Total scores	252	**56.0**	198	**44.0**

This table is derived from table 4.7.1 and gives the total factor scores per row i.e. the investment policies and incentives. From the table the following observations can be made:

- Kenya was rated as better in most of the investment policies and incentives than Uganda
- Duty free entry of products to the European Union and preferential treatment of manufactured products to USA, Japan and European Union was comparable in the two countries
- Kenya was rated very highly in guaranteeing against expropriation with a score of 100% as compared to Uganda 33.3 %.

This may be explained by the historical stability of the Kenyan government as compared to Uganda where during the reign of Idi Amin, Asians were expelled without compensation for their investments.

- Kenya was rated as better than Uganda, when it came to access of regional markets. This may be due to the fact that Uganda has no port services, which is cheaper than any other mode of transport to neighboring markets.
- Kenya was worse off than Uganda in terms of the existence of opportunities for investment. This low rating of the existence of investment opportunities may be explained by the poor performance of the economy from a growth rate of 4.8 % in 1995 and has been steadily declining to negative 0.3 % in the year 2000. While this was happening in Kenya, Uganda's economy has been growing very steadily hence offering good opportunities for investment.

However, the overall rating of the investment policies and incentives offered in Kenya was 56.0 % while Uganda had 44.0 %. This indicates that investment policies and incentives are better in Kenya than is the case with Uganda.

In order to test significance of the observation that investment policies and incentives are better in Kenya than in Uganda, from table 4.7.2, the Spearman's rank correlation coefficient was used [Francis, 1995].

The Spearman's rank correlation coefficient formula is as follows:

$$r=1-\frac{6(\Sigma d^2)}{n(n^2-1)}$$

n is the number of bivariate data, $d^2=[r_x-r_y]^2$

r_x and r_y are the ranks of the bivariate variables x and y respectively

4.7.3 Ranking of the factor scores for Kenya and Uganda

Kenya		Uganda		$d^2=[r_1-r_2]^2$
Factor scores	Rank $[r_1]$	Scores	Rank$[r_2]$	
21	1	16	1	0.0
17	2.5	14	2.5	0.0
17	2.5	14	2.5	0.0
16	6	13	6	0.0
16	6	13	6	0.0
16	6	13	6	0.0

Table 4.7.3 Contd.

16	6	13	6	0.0
16	6	13	6	0.0
15	11	12	11	0.0
15	11	12	11	0.0
15	11	12	11	0.0
15	11	12	11	0.0
15	11	12	11	0.0
14	15	11	14.5	0.25
14	15	11	14.5	0.25
14	15	7	16	1.0
Totals				1.5

This table is derived from table 4.7.2, in which guarantee against expropriation in Kenya was ranked first with 21 points.

Calculation of the r for Kenya versus Uganda:

$r=1-6(1.5)/16(16^2-1)$

$=1-9/4080$

=0.998

This result indicates a high degree of correlation of the ranking of the investment policies and incentives between Kenya and Uganda. This may be interpreted to mean that policies and incentives between the two countries are almost comparable

4.7.4 Scores of the of the relative attractiveness of investment policies and incentives for Kenya and Tanzania

Investment policies	Kenya			Tanzania		
	Weight			Weight		
	3	2	1	3	2	1
Economic liberalization	12	0	1	3	0	4
Repatriation of capital and profits	6	6	0	0	6	2
Guarantee against expropriation	6	6	0	0	6	2
International protection of investments through ICSID	6	6	0	0	6	2
Investment Incentives						
Export subsidy program	6	4	1	3	4	2
Remission of duties on capital goods	3	8	0	0	8	1

Table 4.7.4 contd

Investment allowance on initial outlay	3	8	0	0	8	1
Recovery of losses against future profits	3	8	0	0	8	1
Access to regional markets[EAC, COMESA]	3	4	2	3	6	1
Duty free entry to European Union	0	10	0	0	10	0
Preferential treatment of manufactured product to USA, Japan and EU	3	6	1	3	6	1
Existence of treaties to avoid double taxation	3	6	1	3	6	1
Stable financial markets	6	0	3	6	4	1
Protection of patents and trade marks	6	4	1	3	4	2
Work permits for expatriate staff	12	2	0	0	2	4
Existence of investment opportunities	6	0	3	9	0	2
Total scores	84	78	13	36	82	27

There were five Kenyan companies, which had opened branches in Tanzania.This table is similar to table 4.7.2 except that in this case the maximum possible total score for each policy or incentive is fifteen points.

4.7.5 Total factors scores for Kenya and Tanzania

Investment policies	Kenya		Tanzania	
	Scores	Percent	Scores	Percent
Economic liberalization	13	86.7	7	46.7
Repatriation of capital and profits	12	80.0	8	53.3
Guarantee against expropriation	12	80.0	8	53.3
International protection of investments through ICSID	12	80.0	8	53.3
Investment Incentives				
Export subsidy program	11	73.3	9	60.0
Remission of duties on capital goods	11	73.3	9	60.0
Investment allowance on initial outlay	11	73.3	9	60.0
Recovery of losses against future profits	11	73.3	9	60.0
Access to regional markets[EAC, COMESA]	9	60.0	11	73.3
Duty free entry to European Union	10	**66.7**	10	66.7
Preferential treatment of manufactured product to USA, Japan and EU	10	66.7	10	66.7
Existence of treaties to avoid double taxation	10	66.7	10	**66.7**

Table 4.7.5 Contd

Stable financial markets	9	**60.0**	11	73.3
Protection of patents and trade marks	11	73.3	9	60.0
Work permits for expatriate staff	14	93.3	**6**	40.0
Existence of investment opportunities	9	60.0	11	73.3
Total scores	175	**54.7**	144	**45.3**

This table is derived from table 4.7.4 by transferring the row totals from there, which is equivalent to calculating the scores for each policy or incentive.

The following observations can be made from the table:

- Tanzania was also rated better in terms of stable financial markets. This is due to the strong supervisory role of the Tanzanian central bank, a role played rather poorly by the Central bank of Kenya evidenced by the collapse of commercial banks in the 1980s and 1990s

- The existence of investment opportunities is better in Tanzania than Kenya. This is due to the vibrancy of the Tanzanian economy as compared to Kenya's economy that is in recession.

- Kenya was worse off than Tanzania in terms of access to regional markets, although Tanzania is not a member of COMESA. This may be explained by the efficiency of Dar-es-Salaam port services, which serves as an entry or exit point for goods to and from the Great lakes region, Zambia and Zimbabwe in addition to the efficient Tazara railway line which links Tanzania and other southern African countries. Although Kenya has a similar infrastructure, that is the port of Mombassa and the Kenya-Uganda railway line, the port is inefficient and the rail line is prone to derailment. This also explains why firms may locate subsidiaries in Tanzania in order to exploit the domestic market and the neighboring countries market opportunities through use of efficient port and rail facilities.

Based on these observations, the overall rating of the Kenyan investment policies and incentives appear to be better than is the case with Tanzania.

As was the case for Uganda, the **Spearman's rank correlation coefficient** test will be applied to this data to determine the significance of these observations

4.7.6 Ranking of scores for Kenya and Tanzania

Kenya		Tanzania		$d^2=[r_1-r_2]^2$
Factor scores	Rank $[r_1]$	Scores	Rank$[r_2]$	
14	1	11	2	1
13	2	11	2	0
12	4.5	11	2	6.25
12	4.5	10	5	0.25
12	4.5	10	5	0.25
12	4.5	10	5	0.25
11	9	9	9	4.0
11	9	9	9	0.0
11	9	9	9	0.0
11	9	9	9	0.0
11	9	9	9	0.0
10	12	8	13	1.0
9	14.5	8	13	2.25
9	14.5	8	13	2.25
9	14.5	7	15	0.25
9	14.5	6	16	2.25
Totals				20.0

Calculation of Spearman's rank correlation coefficient

$$r=1-\frac{6(\Sigma d^2)}{n(n^2-1)}$$

n is the number of bivariate data, $d^2=[r_x-r_y]^2$

$r=1-6(20)/16(16^2-1)$

$=1-120/4080$

$=$**0.971**

This figure **[0.971]** indicates a very high degree of correlation, very close to positive one [1], which represents a positive perfect correlation between two variables. This means that the investment policies and incentives in Kenya and Tanzania almost similar.

However this degree of correlation is lower than that between Kenya and Uganda **[0.998]**, which implies that the policies and incentives are more similar or comparable than is the case between Kenya and Tanzania.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.0 The rating of factors which influenced Kenyan firms to internationalize when establishing subsidiaries in Uganda and Tanzania.

From the research findings, the following factors in a declining order of importance, influenced the decision to internationalize:

- Political stability
- Access to new customers
- Risk exposure
- Competitiveness
- Trade barriers

5.1 Investment policies and incentives

In regard to the relative attractiveness of the investment policies and incentives offered by the governments of Kenya, Uganda and Tanzania, the following conclusions were made:

(a) Kenya's investment policies are superior to Tanzania and Uganda in the following areas:

- The degree of economic liberalization
- Repatriation of capital and profits
- Guaranteeing against expropriation
- Providing international protection of investments through membership to

International center for settlement of investments disputes [ICSID].

(b) The following investment incentives were rated as better in Kenya than either Uganda or Tanzania:

- Export subsidy programs
- Remission of duties on capital goods
- Investment allowance on initial capital outlay
- Recovery of losses against future profits
- Protection of Patents and trade marks
- Provision of work permits for expatriate staff

(c) Uganda and Tanzania were better than Kenya in terms of the existence of investment opportunities. Kenya was rated better than Uganda in terms of the stability of financial markets, although worse than Tanzania.

The overall superiority of Kenya's investment policies and incentives over Uganda or Tanzania make the Kenyan domestic market very 'attractive'. This means that foreign firms can enter the market more easily, given the relative high degree of economic liberalization relative to the other two countries. As a result, Kenya has experienced a sudden influx of imported goods consequently exposing Kenyan firms to severe international competition. Faced with this competitive threat, Kenyan firms have responded by engaging in across border operations in search of new customers.

Given the better investment opportunities in Uganda and Tanzania, and a declining economic growth [recession] in Kenya coupled with international competition, Kenyan firms find these countries to be attractive. Uganda and Tanzania offer good opportunities for Kenyan firms to invest across borders or internationalize.

In addition, these foreign investments by Kenyan firms to Uganda and Tanzania, is consistent with the extant literature on the pattern of direct foreign investment [DFI] as follows:

- Geographical proximity of the three nations
- A close international business relationship continuing between former colonial power and their colonies

5.2 Recommendations

(a) Since Kenya has superior policies and incentives than her East African neighbors, the Kenya Government needs to urgently address other pertinent investor concerns in order to attract and retain them. These concerns were cited by previous studies as follows:
   - High cost or inadequate supply of electricity
   - Poor road conditions
   - High level of insecurity
   - Inadequate and poor telecommunication services
   - Official corruption

(b) Further research should be carried out to find out the performance of these firms since deploying the internationalization strategy.

(c) The motivation to overcome trade barriers was rated fifth in importance of the factors considered by firms. Therefore there is need to lower the trade barriers further between the three East African countries in the spirit of formation of the East African community.

References

Ansoff H. Igor and Edward J. McDonnell [1990]. Implanting strategic management, 2nd Edition. Europe, Prentice Hall.

Bakunda, Geoffrey [2000]. Management Competence and the Degree of Internationalization of Firms in Uganda. An unpublished Doctoral synopsis for PHD Proposal, Makerere University Business School, Uganda.

Ball Donald A and Wendell H. McCulloch, JR [1993]. International Business: Introduction and Essentials. Massachusetts, Richard D Irwin, Inc.

Barney Jay B [1997]. Gaining and sustaining competitive advantage. New York, Addison-Wesley Publishing company.

Beamish, Paul W, J Peter Killing, Donald J. Lecraw and Harold Crookel [1991]. International management: Texts and Cases. Boston MA, Irwin Inc.

Daily Nation, March 20th 2001. Confidence in economy wanes. Business Week pp3.

Daily Nation, May 4th, 2001. Castle and KBL tussle over malt 'monopoly'. Business and Finance, No. 12655, pp12.

Daily Nation, 15th May 2002. Now South Africans buy 20 per cent share of Breweries, No.13024, pp1.

Daily Nation, May 26th 2002. Investors shun Kenya for neighbours, No 13034, pp14.

Daniells, John D [1988]. International business: Environments and Operations. New York, Addison-Wesley Publishing company.

Economic Survey [2001]: Central Bureau of Statistics, Ministry of Finance and Planning, Republic of Kenya.Nairobi, Government Printer pp91-114.

Ellis, John and David Williams [1995]. International Business Strategy. London, Pitman publishing.

Farmer, R N and B M Richman [1980]. International Business 3rd Edition. Bloomington, Indiana Cedarwood Press.

Francis, A [1995]. Business mathematics and statistics 4th Edition. Guernsey, Channel Islands, Queensway press co ltd.

Globerman, Steven [1986]. International Business Management. New Jersey, Englewood, Prentice-Hall.

Grimward, Nigel 1992. International trade-New patterns of trade, Production and Investment: New York, Routledge 29 West 35 street.

Keegan, Warren J [2000]. Global Marketing Management. India, Prentice-Hall, Private limited

Kenya Association of Manufacturers [2000]. Analysis on the Current manufacturer problems (unpublished).

Kenya Commercial Bank prospectus, 1998

Kenya: Investors Guide 2001.Investment Promotion Council

Kibera, Francis N and B C Waruinge [1988]. Fundamental of Marketing: An African perspective. Nairobi, Kenya Literature Bureau.

Lipsey Richard G and K Alec Chrystal [1995]. An introduction to positive economics. Oxford [ELBS], Oxford University Press.

Porter, Michael E [1990]. The competitive Advantage of Nations. New York, Macmillan Inc, Free Press.

Robock, Stefan H, Kenneth Simmonds and Jack Zwick [1977]. International business and Multinational enterprises. Ontario, Irwin-Dorsey limited.

Roger, Bennett [1999]. International Business-Frameworks. London, Financial Times, 2nd Edition.

Ross, Stephen A, R W Westerfield and J F Jaffe [1990]. Corporate Finance. Boston, MA, Irwin Inc.

Rugman, Allan M, D J Lecraw and L D Booth [1985]. International Business Firm and Environment. New York, McGraw-Hill, Inc.

Shapiro, A C [1991]. Foundations of multinational financial management. Massachusetts, Allyn and Bacon

Sharma, Madhu [1989]. Factors considered important by Multinational Corporations when deciding on the host country to invest in-A case study of Kenya. Unpublished MBA dissertation, University of Nairobi, Nairobi, Kenya.

The Eastern Africa Association 2002, Views of Foreign investors in Kenya- Annual questionnaire (unpublished).

Yoffie, David B and B Gomes-Casseres [1994]. International trade and competition: Cases and Notes in Strategy and Management. Singapore, McGraw-Hill Book Co.

4-4(6)

UNIVERSITY OF NAIROBI
FACULTY OF COMMERCE
MBA PROGRAMME - LOWER KABETE CAMPUS

Telephone: 732160 Ext. 208
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE: 11TH SEPT 2002

TO WHOM IT MAY CONCERN

The bearer of this letter: S. N. KIMATA
Registration No: D61/P/8414/98
is a Master of Business & Administration student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

Thank you.

DR. MARTIN OGUTU
LECTURER & CO-ORDINATOR, MBA PROGRAMME

MO/ek

APPENDIX A: QUESTIONNAIRE

SECTION A: COMPANY DETAILS

1. In which country is your parent company registered? ----------------------------

2. Is your company in manufacturing [ ] Services [ ] Others [ ]

3. (a) Do you have any branches outside Kenya? Yes [ ] No [ ]

   (b) If yes please give their location

   Tanzania [ ] Uganda [ ] Others (specify)...

4. When were the branches opened? Before 1993 [ ] After 1993 [ ]

5. Which of the following describes the nature of your investment outside Kenya?

(a) Foreign Direct Investment [ ] (b) Strategic Alliance (Joint ventures/contracts) [ ]

(c) Portfolio investment [ ] (d) any other (Specify) ....

SECTION B: IMPORTANCE OF FACTORS THAT INFLUENCE FIRMS TO GO ABROAD

Please indicate by ticking in the appropriate box how important each of the following factors were in your company's decision to invest in Uganda and/or Tanzania, by entering 3=Very important, 2=important or 1=less important.

	Very important	Important	Less important
1. Political stability			
2. Access to new customers			
3.To follow former customers			
4.To lower production costs			
5.To reduce risk exposure			
6.To extend a product's demand/lifecycle			
7.To overcome trade barriers			
8.To gain competitive advantage(s) over others firms			
9.To access a more developed infrastructure			
10.To follow other firms that have gone abroad			
11. Others factors not stated above			

SECTION C: COMPARISON OF THE INVESTMENT INCENTIVES PROVIDED BY THE KENYA GOVERNMENT AND THOSE OFFERED BY UGANDA AND TANZANIA GOVERNMENTS

Please indicate your rating of the relative attractiveness of the investment policies and incentives provided by the governments of Kenya, Uganda and Tanzania.

Key: 3=better, 2=comparable, 1=worse

	Kenya	Uganda
INVESTMENT POLICIES		
1.Economic liberalization		
2.Repatriation of capital and profits		
3.Guarantee against expropriation		
4.International protection of investments through membership in ICSID		
INVESTMENT INCENTIVES		
1.Export subsidy programs		
2.Remission of duties on capital goods		
3.Investment allowance on initial outlay		
4. Recovery of losses against future profits		
5.Access to regional markets[EAC,COMESA]		
6. Duty free entry to the European Union		
7. Preferential duty treatment of manufactured products to the USA, Japan, and most European Union countries		
8. Existence of tax treaties to avoid double taxation		
9. Stable financial markets		
10. Protection of Patents and trade marks		
11. Work permits for expatriate staff		
12. Existence of investment opportunities		

	Kenya	Tanzania
INVESTMENT POLICIES		
1.Economic liberalization	☐	☐
2.Repatriation of capital and profits	☐	☐
3.Guarantee against expropriation	☐	☐
4.International protection of investments through membership in ICSID	☐	☐
INVESTMENT INCENTIVES		
1.Export subsidy programs	☐	☐
2.Remission of duties on capital goods	☐	☐
3.Investment allowance on initial outlay	☐	☐
4. Recovery of losses against future profits	☐	☐
5.Access to regional markets[EAC,COMESA]	☐	☐
6. Duty free entry to the European Union	☐	☐
7. Preferential duty treatment of manufactured products to the USA, Japan, and most European Union countries	☐	☐
8. Existence of tax treaties to avoid double taxation	☐	☐
9. Stable financial markets	☐	☐
10. Protection of Patents and trade marks	☐	☐
11. Work permits for expatriate staff	☐	☐
12. Existence of investment opportunities	☐	☐

Legend;

ICSID-International Center for Settlement of Investment Disputes
COMESA-Common Market for Eastern and Southern Africa

APPENDIX B: TABLES

Appendix-1: Factors considered important by Multinational Corporations when deciding on the host country to invest in-A case study of Kenya, by Sharma

This study concluded that the following:

(a) Political stability of the host country, tax incentives, availability of technology, guarantee for capital repatriation and availability of capital were very important.

(b) Tax incentives, infant industry protection, membership to ICSD, freedom of operations were considered adequate

Appendix-2: Net Direct Foreign Investments (Million Dollars) in Kenya, Tanzania and Uganda

YEAR	KENYA	TANZANIA	UGANDA
1970	14	0	4
1980	79	0	0
1989	62	-2	6
1990	57	0	0
1991	19	1	0
1992	6	3	12
1993	2	23	55
1994	4	50	88
1995	33	120	121
1996	13	150	121
1997	40	158	175
1998	42	172	210
1999	42	183	222
*2000	127	N/A	N/A
*2001	50	N/A	N/A

Source: FKE [Federation of Kenya Employers] study: N/A - Not available

Appendix-3: 20 member countries of COMESA

Angola	Malawi
Burundi	Mauritius
Comoros	Namibia
Democratic Republic of Congo	Uganda
Djibouti	Rwanda
Egypt	Seychelles
Eritrea	Sudan
Ethiopia	Swaziland
Kenya	Zambia
Madagascar	Zimbabwe

Source: COMESA section, Ministry of Tourism, Trade and Industry, Nairobi.

Appendix-4: Companies listed at the Nairobi Stock Exchange parented in Kenya and have branches (subsidiaries) in Tanzania and Uganda

Commercial and Services sector

Nation Media Group Ltd.

Uchumi Supermarket Ltd.

Finance and Investment Sector

Jubilee Insurance Company

Kenya Commercial Bank

ICDC investment Company

Industrial and Allied Sector

Athi River mining company

East African Breweries limited

Kenya Oil Company Ltd. [Kenol/Kobil]

Unga Group Ltd.