INTERNATIONAL ENTRY STRATEGIES USED BY HUAWEI TO ENTER THE TELECOMMUNICATIONS INDUSTRY IN KENYA

BY

KOIGI HANNAH WANJIKU

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER, 2013

DECLARATION

This research project is my original work and that it has not been submitted for examination in any other university.

Signature --------------------------------- Date……………………………

KOIGI HANNAH WANJIKU

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

Signed ---------------------------------- Date…………………………..

DR.JOHN YABS

LECTURER

SCHOOLOF BUSINESS

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENTS

I take this opportunity to give thanks to the Almighty God for giving me good health and strength to go through this study.

I am greatly indebted to my supervisor Dr.John Yabs for his professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives.

And for the support of the many individuals that made it possible for production of this research document for their support, may the Almighty bless you.

DEDICATION

I dedicate this research project to my family members, my dear parents Peter Koigi and Margaret Njeri, my siblings Robert, Pollyanne, Rachel and Stephen lastly but not least to my dear husband Duncan Mwaura for their love, support, patience, encouragement and understanding. They gave me the will and determination to complete my masters.

ABSTRACT

The purpose of the study was to determine the International entry strategies used by Huawei to enter the telecommunication industry in Kenya. The research design used in the study was case study. The researcher used interview guides as the main data collection instrument from the sampled employees at the company. The study targeted 5 employees in the management levels of the company. A qualitative content analysis was employed to analyse the respondents' views about the international entry strategies used by Huawei Technologies Co. Ltd. The data was then coded to enable the researcher made explanatory assertions. The study found out that there are different entry strategy used by Huawei to enter the telecommunication industry in Kenya and these were International entry strategies, exporting strategy, licensing strategy, joint venture strategy and full ownership strategy. Exporting strategy is whereby a company sells its physical products which are manufactured outside the target country to the target country though exporting is generally viewed as a low commitment form of market entry, it is not as easily classified on this continuum. Licensing and franchising strategy is whereby non-equity associations between an international company and a party in the host country in which technology or management systems are transferred to the host party. Joint venture as an arrangement whereby the firm is required to share equity and control of the venture with a partner from the host country and participation may vary with some companies accepting either a minority or majority position. The other strategy the study found out was full ownership strategy whereby the parent company takes 100% equity stake in the operation in the foreign country.

The study concluded that the choice of Kenya as a market for Huawei products has enlarged the opportunities in Kenya and the nearby markets especially in the East African countries. It also concluded that the telecommunications industry in Kenya has been characterized by a price war in recent years following the market entry of the third and fourth network. It also concluded that being a foreign industry in the Kenyan market Huawei has faced challenges that have affected the profitability its operations and has forced them to streamline their operations in developing new revenue streams in an environment of falling average revenue per user in the voice market. The study also concluded that joint venture strategy was the most preferred as a market entry and that they were significant risk associated with the formation of a joint venture arrangement and that foreign market entry strategy decisions had evolved and as a result important decisions on entry strategy had to be examined and the factors involved in firms' foreign market entry. The study made recommendations based on the International entry strategies used by Huawei to enter the telecommunication industry in Kenya as follows: Huawei Company should do all that is possible about its potential partner's business practices and financial condition, as well as its ability to complete the proposed and on-going projects; specifically outline all aspects of contract administration in the joint venture agreement; develop early in the relationship distributions to joint venture partners and cash management plans in order to consider which partner controls the cash and make well thought out decisions since they keep on evolving.

TABLE OF CONTENTS

Title page i
Declaration iii
Acknowlegments ivii
Dedication iv
Abstract v

CHAPTER ONE: INTRODUCTION 1
1.1 Background of the study 1
1.1.1 Concepts of International Business 2
1.1.2 International entry strategies 3
1.1.3 Telecommunication in Kenya 4
1.1.4 Huawei Technologies Company 6
1.2 Research Problem 8
1.3 Research Objective 8
1.4 Value of the Study 8

CHAPTER TWO:LITERATURE REVIEW 10
2.1 Introduction 10
2.2 Theoretical foundation 10
2.2.1 Bargaining power theory 10
2.2.2 Transaction Cost Analysis (TCA) Theory 11
2.3 International Entry Strategies 12
2.3.1 Exporting strategy 13

2.3.2 Licensing strategy 15

2.3.3 Joint venture strategy 17

2.3.4 Full ownership strategy 19

CHAPTER THREE:RESEARCH METHODOLOGY 22

3.1 Introduction 22

3.2 Research design 22

3.3 Data Collection 22

3.4 Data Analysis 23

CHAPTER FOUR:DATA ANALYSIS, RESULTS AND DISCUSSION 24

4.1 Introduction 24

4.1.1 Response Rate 24

4.2 Demographic information 24

4.2.1 Level of management 24

4.2.2 Opportunities influencing Kenyan market 25

4.2.3 Challenges Huawei Company face in Kenya 26

4.3 Level of control in the Multinational enterprise 26

4.4 Manufacture of Huawei Company products 28

4.5 Growth of the Kenyan Market 28

4.6 Licensing and franchising arrangements in Kenya 29

4.6.1 International licensor protection 30

4.7 Challenges associated with joint venture arrangement 31

4.8 Level of control of Joint venture strategy 32

4.8.1 Method of acquiring ownership 32

4.9 Benefits of Joint venture strategy 33

CHAPTER FIVE:SUMMARY,CONCLUSIONS AND RECOMMENDATIONS .. 35

5.1 Introduction.. 35

5.2 Summary of Findings.. 35

5.3 Conclusion 36

5.4 Recommendations... 37

5.5 Recommendation for Further Studies 37

REFERENCES 38

APPENDICES

Letter of introduction…………………………………………………………………..i

Interview guide for Huawei Company Staff…………………………………………..ii

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

There are many options for entering into an overseas market .Choosing the right strategy depends on a number of considerations. The choice will involve a trade-off between the amount of control an organization wants and the level of commitment of resources. Before choosing a market entry strategy, an organization should take time to evaluate its business standing, its strengths and weaknesses, Johnson (2008). According to Lynch (2008), it is important for an organization to understand how business is conducted in an industry of interest and more specifically in its target market. International experience that a company has also plays a major role in making appropriate decision on market entry. The other important factor is how much finance is available for utilization in achieving this objective as well as organization's level of ability, resource capacity and entry options best suited for its products or services.

As Lovas and Ghoshal (2000) noted, the international business offers the possibility of exploiting three sources of the competitive advantage unavailable for the national companies; global efficiencies, the multinational flexibility and worldwide learning process. The international firm can improve its efficiency either through its location advantages, or through the scope or scale economies. The first ones appear when locating the production subsidiaries in any place of the world, in order to have the lowest cost of production or distribution, or the highest quality of goods and services. The multinationals may reduce their costs achieving scale economies. Moreover, by expanding the production lines in every country they enter, the companies may also enjoy

scope economies. In this situation, not only do they cut the production and marketing costs, but also they intensify the lowest line-levels.

Driscoll, (2005) makes a distinction between three broad groupings of foreign market entry modes; export, contractual and investment-based. Keegan (2003) notes that most classifications of market entry modes contain only generic categories, such as direct or indirect exporting, franchising, licensing, joint venturing, partially or wholly owned overseas subsidiary, management contracting and contract manufacturing. Market entry mode selection is a particular case of the wider decision process category often referred to in the literature as market servicing decisions (Barker & Kaynak, 2002; Benito & Welch, 2004). According to Root (2004), three basic approaches to entry mode selection are possible: selection in absence of any market entry strategy, or ``the sales approach'' characterized by, among others, short time horizons, no systematic selection criteria, few product adaptations and no effort to control overseas distribution; selection in accordance with an existing market entry strategy (i.e. naõ Ève or pragmatic rules (Root, 2004)); and selection which considers some strategy rule(s) and involves systematic comparisons of alternative modes available.

1.1.1Concept of International Business

Daniels, Radebaugh and Sullivan, (2007) describes International Business (IB) as all transactions that take place between two or more regions, countries and nations beyond their political boundaries that are commercial in nature they include private and governmental, sales, investments, logistics, and transportation transactions. Usually, private companies undertake such transactions for profit; governments undertake them

for profit and for political reasons. International Business refers to business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc. (Joshi, 2009).

Daniels, Radebaugh and Sullivan, (2007) indicated that enterprises that are involved in International Business are referred to as multinational enterprises (MNEs). Therefore, MNEs are companies that have a worldwide approach to markets and production or one with operations in more than a country often called multinational corporation (MNC) or transnational company (TNC). MNE is an efficient agent for transferring capital, managerial skills, culture, technology, industrial know how, product design, line and brand name, and goods and services across countries. MNE also transfers information such as its superior information gathering ability, headquarters discoveries, and exploit opportunities beyond the domestic market. MNE can bear the risks of ventures great size and financial strengths better than the domestic company can do.

1.1.2International entry strategies

The issue of market entry strategy continues to be of great interest to international business academics and practitioners (Malhotra, *et al.,* 2003; Mayrhofer, 2004). The chosen market entry strategy is important as it determines the manner in which multinational enterprises (MNEs) develop and implement marketing programs, coordinate business activities both within and across markets, and ultimately the MNEs' success in foreign markets (Malhotra *et al.*, 2003). From a market entry strategy

standpoint, one of the greatest challenges for MNEs investing abroad is overcoming the liability of foreignness (LOF), i.e. the liability associated with foreign operations (Mezias, 2002; Miller and Parkhe, 2002).

Market entry strategies are inherently difficult. A firm's managers need to consider the influence of numerous factors both internal and external to the firm in deciding when and how to enter a market with a new product (Lieberman and Montgomery, 2001). Firms face a particularly difficult decision of planning when it is best to enter a market with a new product in response to a market introduction of a pioneering new product by a major competitor. When the competitive stakes are high, it is clearly in a firm's best interest for its management to plan carefully such a market entry timing decision by giving careful consideration to a broad array of information including information on the competitor, the competitor's product offering, the market, and the firm's internal resources and product offerings.

1.1.3 Telecommunication in Kenya

Telecommunication in Kenya dates back to the 19th century with Kenya's earliest telecommunications connections to the outside world were the submarine cables linking Zanzibar, Mombasa, and Dar es Salaam laid by the Eastern & South African Telegraph Company in 1888. Internally, the construction of a telegraph network began with a 200-mile coastal line linking the port city of Mombasa with Lamu. Extension into the interior of the country began in 1896 in conjunction with the building of the railway system, forming a dual "backbone" for Kenya's communications infrastructure. Telephone service soon followed. In 1908, the public telephone network began service in Nairobi, the

capital, and in Mombasa. In Nairobi that year, eighteen telephone subscribers were connected.

Since the beginning of the liberalization of the telecommunications sector in 1999, Kenya has seen fast Internet growth and even faster mobile phone growth. Encouraged by this development, the government has plans to turn Kenya into East Africa's leader in Information and Communications Technology (ICT). Since1999, Kenya has experienced radical changes as the liberalization process of the telecommunications sector began. Of vital importance to the process was the establishment of the Communications Commission of Kenya (CCK) in February of that same year through the Kenya Communications Act, 1978. CCK's role is to license and regulate telecommunications, radio communication and postal services in Kenya. Since then a visible boost has gripped the industry.

Kenya's telecommunications and broadband market has undergone a revolution following the arrival of four fiber-optic international submarine cables, ending its dependency on limited and expensive satellite bandwidth. The country's international bandwidth increased more than fifty-fold between 2009 and 2013.

A price war has characterized Kenya's mobile communications sector in recent years, following the market entry of the third and fourth network. This has led to accelerated subscriber growth, but it has also presented challenges to the profitability of the operators, forcing them to streamline their operations and develop new revenue streams in an environment of falling average revenue per user (ARPU) in the voice market. Third generation (3G) mobile broadband services as well as mobile payment and banking

services are delivering these additional revenues, but all service segments are highly competitive. For fourth generation (4G/LTE) technology, the Kenyan government is following a unique open-access approach with plans to license a multi-facetted consortium to operate the network.

1.1.4 Huawei Technologies Company

Huawei Technologies Company Limited is a Chinese multinational networking and telecommunications equipment and services company headquartered in Shenzhen, Guangdong. It is the largest telecommunications equipment market in the world, having overtaken Ericsson in 2012. Huawei is a leading global ICT solutions provider, and was founded in 1988 by ex-military officer Ren Zhengfei and formed as a private company owned by its employees. Its core missions are building telecommunications networks, providing operational and consulting services and equipment to enterprises inside and outside of China, and manufacturing communications devices for the consumer market.

Huawei has over 140,000 employees, around 46% of whom are engaged in research and development (R&D). It has 20 R&D institutes in countries including China, the United States, Germany, Sweden, Ireland, India, Russia, and Turkey. Its products and services have been deployed in more than 140 countries and it currently serves 45 of the world's 50 largest telecoms operators, contributing to the sustainable development of society, the economy, and the environment, Huawei creates green solutions that enable customers to reduce power consumption, carbon emissions, and resource costs. Africa is a fast growing region for Huawei, where core business areas include solutions for operators,

Global Services, consumers, and enterprises. More than 60 operators in more than 20 African countries deploy Huawei solutions. Huawei has operations in Kenya.

1.2 Research Problem

In Kenya, Chinese FDIs have been accelerated by the low requirements in the licensing of the investments. Licensing agreements allow companies to take full advantage of new and exciting technologies while limiting their overall risk to royalty payments until a particular technology is fully developed and thus ready to put new products into the manufacturing pipeline. With some help from a variety of government agencies in the form of grants for R&D as well as other financial assistance for such things as incubator programs, once timid college researchers are now stepping out and becoming cutting edge entrepreneurs. Kenya has attracted Chinese Foreign Direct Investment (FDI) as a result of her abundant natural resources and size of domestic markets. Improved access to foreign markets for Kenyan products through negotiations and agreements with partners and improving the quality of Kenyan processed products to meet required standards in those markets has led to increased foreign direct investments (Rono, 2011).

Considerable research has been conducted that suggests the desirability of certain market entry timing strategies for a wide array of conditions in the competitive environment (Bowman and Gatignon, 1995; Brown and Lattin, 1994; Green *et al*., 1995). Locally, studies regarding entry strategies and multinational enterprises in Kenya have been done. Mutambah (2012) conducted a study on entry strategies adopted by multinational manufacturing companies in Kenya. Ndwiga (2010) conducted a study foreign market entry strategies used by British Multinational corporations in Kenya. Kwemoi (2011) did

a study to determine foreign market entry strategies used by multinational corporations in Kenya taking a case of Case of Coca Cola Kenya Ltd. However, despite this massive inquiry into entry strategies by MNCs into Kenyan Market, none of these studies, both local and international, has focused on the entry strategies used by the Huawei Technologies Co. Ltd into the Kenyan market. It is in this light that the study seeks to fill the existing gap in this area by investigating, what are the international entry strategies used by Huawei to enter the telecommunication industry in Kenya?

1.3 Research Objective

The study sought to determine the International entry strategies used by Huawei to enter the telecommunication industry in Kenya.

1.4 Value of the Study

To the Kenyan multinational enterprises, the study is invaluable to the Kenyan multinational enterprises management in that it will provide an insight into the various strategies used when entering a new market for effective and successful marketing strategy and increase of profits.

To the government, the study is useful to the government in policy making regarding taxation and other regulatory requirements of the multinational enterprises operating in the country.

To the academicians, the study will provide a useful basis upon which further studies on market entry strategies in the private sector could be conducted. This is because, the

study will add to the existing pool of knowledge and therefore form part of literature on entry strategies by multinationals

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents theoretical foundation and review of past literature on entry strategies used by multinationals in new markets. Therefore, the chapter is structured into theoretical foundation and empirical review.

2.2 Theoretical foundation

The theoretical foundation looked into are the bargaining power theory and the Transaction Cost Analysis (TCA) Theory.

2.2.1 Bargaining power theory

Bargaining power theory asserts that the entry mode a firm chooses depends on the relative bargaining power of the firm and the foreign government (Franko, 1971; Stopford and Wells, 1972; Tallman and Shenkar, 2004). As noted by Gomes-Casseres (1990) and others who have employed the bargaining power framework, access to foreign markets is controlled by political actors at home and abroad, so that the initial market entry decision has to include the political imperative. Without these actors' explicit or implicit permission, no subsequent marketing activity is possible (Boddewyn and Brewer, (1994).

International firms must often negotiate with a variety of governmental actors to accomplish all or part of their objectives (Wells, 1973).Thus; the bargaining power of the political and corporate actors in market entry decisions becomes a salient consideration

(Fagre and Wells, 1982; Gomes-Casseres, 1990). Bargaining power theory starts from the premise that a firm has a natural preference for a high-control mode of entry, since this is the most desirable arrangement in-terms of the firm's long-run ability to dominate a foreign market. However, the firm may be forced to settle for a lower control mode of entry if it has low bargaining power.

As used in this study, the term bargaining power refers to a bargainer's ability to set the parameters of the discussion, win accommodations from the other party, and skew the outcome of the negotiation to the desired ownership alternative (Lax and Sebenius, 1986; Tung, 1988).A primary source of the host government's power in the negotiations is its ability to control the market access (Kumar and Subra Manian, 1997) and to hand out or withdraw in incentives for the investment project. On the other hand, as noted by Kumar and Subramanian (1997), BP theory suggests that much of the firm's bargaining power stems from ``ownership advantages'' that it possesses, such as the ability to employ people and contribute to the local economy. According to the bargaining power theory, the actual mode of entry a firm eventually settles for will depend on the relative bargaining power between the firm and the host government.

2.2.2 Transaction Cost Analysis (TCA) Theory

TCA theory posits that a company will internalize operations that it can perform at a lower transaction cost than would be the case if the firm exported or entered into a contractual arrangement with a local partner. While TCA has been the most widely used theory in prior studies of entry modes, some issues pertaining to its applicability to non-Western contexts have been raised. Indeed, several scholars have questioned the

appropriateness of applying transaction cost analysis to East Asian cultures because of its focus on institutional structures and their impact on transaction costs. North (1981) and Granovetter (1979), for example, assert that the way in which institutions are structured in a country can have an impact on the transaction costs associated with partnering.

Hence, since a society like Japan has different institutional structures than Western nations, the application of transaction cost analysis may be inappropriate. One good example of institutional difference is the presence of keiretsu in Japan, in which members of a network attempt to work closely with and help of the members of the group (Camargo and Saito, 1995).In such a context, short-term focus on transaction costs may not be a central goal. In a system with higher levels of trust, opportunistic behaviors (a central concept of TCA theory) may also be less of a threat to businesses, leading to a reduction in the costs associated with partnering (Hill 1995).

2.3 International Entry Strategies

International Market Entry Strategies refer to the extension of ownership of a firm to cover new markets, new sources of materials and new stages of the production process; also referred to as the internationalization process can be incremental (Lymbersky, 2008). The internationalization process can be incremental, in stages or a big leap and range from export, full ownership, and joint ventures and licensing/franchising. The choice of entry mode is done at firm level after evaluating the various options and their inherent risks and is therefore a strategic decision for the firm. The importance of the foreign market entry strategy decision has been well documented (Reid, 2005).

The entry mode chosen has a major impact on the level of control the Multinational enterprise has over the venture (Basche, 2006). Some entry modes, such as exporting and licensing, are associated with low levels of control over operations and marketing, but are also associated with lower levels of risk. In contrast, other entry modes such as joint ventures and full ownership of facilities involve more control, but entail additional risk. Since reversing an inappropriate entry strategy choice can be difficult, it is important that well thought out decisions be made. As a result of the importance of entry strategy decisions, a large body of research examining the factors involved in firms' foreign market entry strategy decisions has evolved.

2.3.1 Exporting strategy

Exporting involves a company selling its physical products which are manufactured outside the target country to the target country (Tallman and Shenkar,2004).While exporting is generally viewed as a low commitment form of market entry, it is not as easily classified on this continuum. As has been noted in prior studies, there can be a wide spectrum of commitment and control of the exporting firms, since some exporting arrangements (i.e. indirect exporting) simply involve selling to an intermediary such as an export trading company, while other arrangements involve forging relationships with distributors. For this reason, past theories of modal choice have not been designed to predict the choice between exporting and the other three alternatives (Kim and Hwang, 1992; Erramilli and Rao, 1993). An additional factor that makes it difficult to compare exporting cases to other modes of entry is that exporting involves production in the home country, while the other modes involve production in the host country. When a MNC approaches a host government about entering into a licensing, joint venture, or full

ownership mode of entry, the firm is acknowledging that it believes there are advantages associated with host country production that would not be afforded by exporting (Erramilli and Rao, 1993). The main issue from a bargaining power perspective (the theory being tested in this study) becomes the level of control the MNC will have over the venture. Exporting, however does not involve host country production and hence does not involve bargaining with the government (at least not in the same context as the other three types of arrangements.

Albornoz *et al*. (2010) and Defever *et al*. (2010) provide evidence based on Argentinean and Chinese export data that firms tend to export sequentially, by entering one market at first and other (nearby) markets after initial success in the first one. Although, most of the firms enter foreign markets sequentially, there are also significant numbers of firms that enter several foreign markets simultaneously upon their first export market entry. For example, according to Damijan *et al.* (2011) about 40 per cent of Slovenia's firms enter more than 1 market on their 1st entry to exporting. Further, Roth and Morrison (2002) high performing exporters confront and respond to the foreign country task environment more effectively. They do so through a strategic planning process that develops and implements unique strategies based on differentiating competitive advantages.

Rauch and Watson (2003) have provided some justification for the known observation why exporters usually start small. In Rauch and Watson (2003), this is due to the uncertainty related to building export-importer relationships. The uncertainty about foreign demand and export abilities of the firm is alleviated only once the firm has started to export (only then it learns 'how good it is in exporting'; see also Eaton *et al*. 2008). It takes time to build the confidence and trust (to lower the likelihood on non-performance

and lack of ability to provide suitable goods in large quantities) between foreign partners. Therefore, new exporters tend to start initially with exporting only small quantities and to one (or few) foreign market (Rauch and Watson 2003, Albornoz *et al*. 2010). The growth of exports tends indeed to be sluggish according to empirical evidence, as for example Damijan *et al.* (2011) have showed based on detailed export transaction data from Slovenia.

2.3.2 Licensing strategy

Licensing and franchising arrangements are non-equity associations between an international company and a party in the host country in which technology or management systems are transferred to the host party (Shane, 2004). Licensing is a common method of international market entry for companies with a distinctive and legally protected asset, which is a key differentiating element in their marketing offer. It involves a contractual arrangement whereby a company licenses the rights to certain technological know-how, design, patents, trademarks and intellectual property to a foreign company in return for royalties or other kinds of payment. Because little investment on the part of the licensor is required, licensing has the potential to provide a very large return on investment (ROI). However, because the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

According to Rauch and Watson (2003) licensing is favorable over other entry methods in the following conditions; import and investment barriers; legal protection possible in target environment; low sales potential in target country; large cultural distance and

where the licensee lacks ability to become a competitor.Basche(2006) notes that licensing offers businesses many advantages, such as rapid entry into foreign markets and virtually no capital requirements to establish manufacturing operations abroad. Returns are usually realized more quickly than for manufacturing ventures. The other major advantage of licensing is that, despite the low level of local involvement required of the international licensor, the business is essentially local and is in the shape of the local business that holds the license. As a result, import barriers such as regulation or tariffs do not apply.

On the other hand, the disadvantages of licensing as indicated by Tallman and Shenkar, (2004) are that control over use of assets may be lost over manufacturing and marketing. The licensee usually has to obtain approval from the international vendor for product design and specification. This is because the licensee is not a representative of the international vendor and, compared to a distributor or franchisee, is much more of an independent business that licenses only one specific and closely defined aspect of the marketing offer. Perhaps, the most important disadvantage of licensing is to run the risk of creating future local competitors. This is particularly true in technology businesses, in which a design or process is licensed to a local business, thus revealing "secrets," in the shape of intellectual property that would otherwise not be available to that local business. In the worst case scenario, the local licensee can end up breaking away from the international licensor and quite deliberately stealing or imitating the technology. Even in a best case scenario, the local licensee will certainly benefit from accelerated learning related to the technology or product category. Participation in international markets via licensing is therefore best suited to firms with a continuous stream of technological

innovation because those corporations were able to move on to new products or services that retain a competitive advantage over “imitator” ex-licensees.

2.3.3 Joint venture strategy

Tallman and Shenkar (2004) define a joint venture as an arrangement whereby the firm is required to share equity and control of the venture with a partner from the host country. In a joint venture, an investing firm owns roughly 25 to 75 percent of a foreign firm, allowing the investing firm to affect management decisions of the foreign firm. Under a joint venture (JV) arrangement, the foreign company invites an outside partner to share stock ownership in the new unit. The particular participation of the partners may vary, with some companies accepting either a minority or majority position. In most cases, international firms prefer wholly owned subsidiaries for reasons of control; once a joint venture partner secures part of the operation, the international firm can no longer function independently, which sometimes lead to inefficiencies and disputes over responsibility for the venture (Dehghan, 2008).

If an international firm has strictly defined operating procedures, such as for budgeting, planning and marketing, getting the JV Company to accept the same methods of operation may be difficult. Problems may also arise when the JV partner wants to maximize dividend payout instead of reinvestment or when the capital of the JV has to be increased and one side is unable to raise the required funds. Desai, Foley and Hines (2005) has shown that JVs can be successful if the partners share the same goals with one partner accepting primary responsibility for operations matters. Despite the potential for problems, joint ventures are common because they offer important advantages to the

foreign firm. By bringing in a partner the company can share the risk for a new venture. Furthermore, the JV partner may have important skills or contacts of value to the international firm. Sometimes, the partner may be an important customer who is willing to contract for a portion of the new unit`s output in return for an equity participation. In other cases, the partner may represent important local business interests with excellent contacts to the government.

A firm with advanced product technology may also gain market access through the JV route by teaming up with companies that are prepared to distribute its products. Many international firms have entered Japan, China and Eastern Europe with JVs. But, not all joint ventures are successful and fulfill their partners' expectations. Despite the difficulties involved, it is apparent that the future will bring many more joint ventures. Successful international and global firms will have to develop the skills and experience to manage JVs successfully often in different and difficult environmental circumstances (Root, 2004).

In a joint venture, organizations pool or share their resources and expertise with other firms and the parties share the rewards or risks of starting a new venture (ling *et al*, 2005). A joint venture involves constantly sharing equity and risks and also participation in management between partners forming a long lasting, profit seeking relationship (Karkkainen, 2005). The advantages of joint venture are saved capital and less restricted resources for foreign country operations. Also the risks involved in international market entry are smaller and through joint venture the firm acquires highly important resources, like local knowledge and experiences (Luostarinen and Welch, 1990; Root, 1994). Joint ventures permit closer relationships with local government and other organizations such

as labor unions. Joint ventures make also possible to minimize risk of exposing long term investment capital, while at the same time maximizing the leverage on the capital that is invested (Czinkota *et al*, 1992).

2.3.4 Full ownership strategy

An additional entry alternative is full ownership of facilities in the host country, whereby, the parent company takes a 100% equity stake in the operation in the foreign country. Full ownership can involve either acquiring an existing business or investing in new facilities in the host country (Root, 2004). In this strategy; an international company handles all production activities in a foreign country and owns 100% of the company. According to Desai, Foley and Hines (2005), fully owned organizations obtain greater control over operations and higher profits since there is no ownership split agreement. However, such entry method requires large investments and faces higher risks, especially in the political, legal and economical arenas.

According to Dehghan (2008), full ownership also referred to as foreign direct investment can happen in two ways: firstly, it can buy an active company; secondly, it can establish a new company- through Greenfield investments. Greenfield investment means using funds to build an entirely new facility. Even though such approach entails full control and no risk of cultural conflicts, its costs are extremely high, and returns on investment are obtained in the long-run due to the extent of time required to build the facility, start operations, and attain economies of scale and the experience-curve. When firms choose to set up wholly owned foreign subsidiaries as the entry mode, they are establishing operations in a foreign country without direct involvement of firms from that

country (ling *et al*, 2005). The core advantage of the foreign direct investment for the firm is the maintained control over the technology, marketing, and distribution of its products (Hitt *et al*, 2003). The disadvantages of the Greenfield investment are usually often complex establishing process and potential high costs. Establishing new wholly owned subsidiary takes a lot of time, and thus is not appropriate for rapid entering in foreign markets. Establishing the Greenfield investment needs also the greatest contribution of knowhow of all the international market entry alternatives (Karkkainen, 2005).

In contrast, acquisition allows organizations to get to the foreign market faster. Organizations taking the acquisition approach use its funds to buy existing facilities and operations. This is done by acquiring the equity of the firm that previously owned the facility. Acquisition as an entry method is preferable in the following situations: when speed of entry is important for the business' success; when barriers to entry (i.e. high economies of scale of local competitors) can be overcome by acquisition of a firm in the industry targeted; when the entering firm lacks competencies important in the new business area (Westin, 2003).

Basche(2006) notes that since the organization buys an existing firm, it can take advantage of well-established brands and existing economies of scale to increase its competitiveness in the new market. However, in order to be successful, Lymbersky (2008) indicates that the organization must properly identify potential companies in the targeted market and conduct a thorough evaluation of the to-be acquired company. The evaluation process should prevent the organization of overestimating the economic benefits of the acquisition, as well as underestimating its costs.

After the acquisition, the success depends on how well the integration of both organizations is done. Synergy is essential in this case. Besides high investments and high risks, most acquisitions difficulties arise from the complexity of integrating differing corporate cultures, which can generate many unforeseen problems.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design and research method used to carry-out the study. In particular issues related research design, the population, the type of data to be collected, data collection instrument, validity and reliability of the instrument, and the technique for data analysis and presentation are discussed.

3.2 Research design

A case study design was used for this study. The research strategy involved content analysis in order to find the underlying principles (Thomas, 2011). The case study design was aimed at establishing the entry strategies used by Huawei to enter the telecommunication industry. Descriptive research designs were used in preliminary and exploratory studies to allow researchers to gather information and summarize, present and interpret data for the purpose of clarification (Orodho, 2003).

3.3 Data Collection

In order to investigate the foreign market entry strategies used by Kenyan multinational enterprises, interview guide (see Appendix 1) was used to gather information from sampled employees at the company. Interview questions were designed to investigate the market entry strategies used by Huawei Technologies Co. Ltd to enter the Kenyan market.

According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The

population of interest /respondents of this study were the staff at Huawei Technologies Co. Ltd. The study targeted 5 employees in the management levels of the company. The researcher used the interview guide as the main data collection instrument. The interview was in-depth allowing the interviewer to ask opinions or get unrestricted comments to allow the researcher take notes for analyze and give recommendations for the study.

3.4 Data Analysis

Before processing the responses, the case study aimed to search for data patterns that would help in the analysis. A qualitative content analysis was employed. The content analysis was used to analyze the respondents' views about the international entry strategies used by Huawei Technologies Co. Ltd. The data was then coded to enable the researcher made explanatory assertions. Narratives were used to describe the overall results.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data presentation and analysis. The main objective of the study was to determine the International entry strategies used by Huawei to enter the telecommunication industry in Kenya. The study targeted 5 employees in the management levels of the company. The researcher used the interview guide as the main data collection instrument. A qualitative content analysis was employed.

4.1.1 Response Rate

Sample size was 5 employees in the management levels of the Huawei Technologies Co. Ltd. All the five interviews conducted, information was filed and returned making a response rate of 100%. According to Mugenda and Mugenda (1999), a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent, so from Mugenda (1999), the response was excellent, hence the response rate was deduced as excellent.

4.2 Demographic information

4.2.1 Level of management

The study found out the level of management of the respondents and elaborated their roles. According to the study findings there were three levels of management that were indicated. These included top level management, middle level management and lower level management. The majority of the respondents indicated that they were in middle

level management which was comprised of different managerial levels. The study went ahead to ask them to indicate the roles they play in the Huawei Technologies Co. Ltd as managers. Supervisor: responsible for a small group of people, usually doing the same job or very similar jobs. The supervisor handles work assignments, timekeeping and problem solving. They are responsible for quality, motivation, and training. Project Manager: responsible for the planning, organizing, directing, and monitoring management functions, but usually in partnership other managers; also they are responsible for quality, schedule, and budget, but not for the people related functions like training and discipline. Manager: responsible for HR responsibility, and more discretion. Senior Managers: responsible for the administrative and functional direction of a group of employees. They generally have more discretion and greater financial authority. General Managers: responsible for supervising the other managers of all their functions in the company, they are also the hiring authority for the company.

4.2.2 Opportunities influencing Kenyan market

The study sought to find out the opportunities that influenced the choice of Kenya as a market for the company. According to the study findings, the respondents indicated the opportunities influencing the Kenyan market as a choice is credited to the Kenya's telecommunications and broadband market that has undergone a revolution following the arrival of four fiber-optic international submarine cables, ending its dependency on limited and expensive satellite bandwidth. According to the country's international bandwidth, it has increased more than fifty-fold between 2009 and 2013. A price war has characterized Kenya's mobile communications sector in recent years, following the market entry of the third and fourth network. Third generation (3G) mobile broadband

services as well as mobile payment and banking services are delivering these additional revenues, but all service segments are highly competitive. For fourth generation (4G/LTE) technology, the Kenyan government is following a unique open-access approach with plans to license a multi-facetted consortium to operate the network.

4.2.3 Challenges Huawei Company face in Kenya

The respondents were asked to indicate the challenges Huawei Company is facing in Kenya and according to the study findings the Huawei Company was faced with the challenges of profitability of other operators forcing them to streamline their operations and develop new revenue streams in an environment of falling average revenue per user (ARPU) in the voice market. The respondents also indicated that one of the greatest challenges for investing abroad for Huawei Company is overcoming the liability of foreignness i.e. the liability associated with foreign operations from a market entry strategy point. The respondents also indicated the challenge of making well thought out decisions since they keep on evolving, because of the difficulties faced in reversing an inappropriate entry strategy choice.

4.3 Level of control in the Multinational enterprise

The respondents were asked to indicate the ways on how the choice of entry strategy in the Kenyan market has affected the level of control the Multinational enterprise has over the venture. According to the study findings some entry modes, such as exporting and licensing, are associated with low levels of control over operations and marketing, but they are also associated with lower levels of risk. In contrast, other entry modes such as joint ventures and full ownership of facilities involve more control, but entail additional

risk. As a result of the importance of entry strategy decisions, a large body of research examining the factors involved in firms' foreign market entry strategy decisions has evolved.

The respondents were also asked to indicate the factor that has influenced the choice of Kenyan market. According to the study findings the respondents indicated that Kenya has one of the fastest Internet growth and even faster mobile phone growth in Africa and this has encouraged the Huawei Company in selecting Kenya to enterprise its products. Kenya has experienced radical changes as the liberalization process of the telecommunications sector began and has become more dynamic in the sector as the (Information, Communication and Technology) ICT industry grows.

The respondents were asked to indicate whether the choice of Kenya as a market has influenced their decision to market in the nearby markets. According to the study findings the response from respondents indicated that the choice of Kenya as a market for Huawei products has influenced their decision to market in nearby markets especially the East African Region. Kenya being named the East Africa's leader in Information and Communications Technology (ICT) in 1999, it has experienced radical changes as the liberalization process of the telecommunications sector began. Of vital importance to the process was the establishment of the Communications Commission of Kenya (CCK) in February of that same year through the Kenya Communications Act, 1978. CCK's role is to license and regulate telecommunications, radio communication and postal services in Kenya. Since then a visible boost has gripped the industry.

4.4 Manufacture of Huawei Company products

The respondents were asked to indicate where the company manufactures the products that are sold in the Kenyan market. According to the study findings, the results indicated that the manufacture of Huawei products is mainly done in China. Huawei is the second largest telecommunications equipment maker in the world, behind only Sweden's Ericsson. Huawei Company manufactures its products and distributes them all over the world in different countries. Huawei products and services have been deployed in more than 140 countries and it currently serves 45 of the world's 50 largest telecoms operators, contributing to the sustainable development of society, the economy, and the environment. Africa is a fast growing region for Huawei, where core business areas include solutions for operators, Global Services, consumers, and enterprises. It has more than 60 operators in more than 20 African countries deploy Huawei solutions inclusive of Kenya.

4.5 Growth of the Kenyan Market

The respondents were asked since the entry in Kenya whether the Huawei market had grown. According to the study findings, since the entry of Huawei products in Kenyan, the market has shown positive gradual growth. This is because of the healthy competition introduced in the Information Communication and Technology (ICT). With the advancement of new technology in the ICT market, Huawei products improve immensely by bringing the latest products in the market. There are indicators to show that the Kenyan market and this include licensing. Licensing has the potential to provide very large returns on investment. Licensing is considered a favorable entry method considered

in the following conditions; import and investment barriers; legal protection possible in target environment; low sales potential in target country; large cultural distance and where the licensee lacks ability to become a competitor. Joint venture arrangements provide Huawei Company with many opportunities to expand their businesses and spread risk in the Kenyan market. This is done by forming local contacts/parties that have leverage the knowledge and resources of a joint venture partner that has an understanding of the market. Combined talents and resources such as financial strength, workforce, equipment, and bonding capacity, while sharing the risks involved in completing a particular project. Additional working capital sources; increased bidding power and bonding capacity; better bidding and estimating and other benefits that could result from the formation of a joint venture include the possible reduction in overall insurance costs, as well as a sharing of the liability and risk among the venture partners.

4.6 Licensing and franchising arrangements in Kenya

The respondents were asked to indicate whether their company had done any licensing and franchising arrangements with any party in Kenya. According to the study findings, Huawei has made licensing and franchising arrangements with Safaricom, the largest mobile operator in Kenya, in order to establish owned subsidiaries and make high technology co-operation in the world while the local parties resort to strategic alliances. Licensing and franchising arrangements are non-equity associations between an international company and a party in Kenya, for example Safaricom limited in which technology or management systems are transferred to the host party.

The study went further to ask the respondents how licensing and franchising arrangements have influenced the company's operations and Return on Investment (ROI). According to the study findings, licensing is a common method of international market entry for companies with a distinctive and legally protected asset, which is a key differentiating element in their marketing offer. The respondents further stated that because little investment on the part of the licensor is required, licensing has the potential to provide a very large return on investment (ROI). However, because the licensee produces and markets the product, potential returns from manufacturing and marketing activities may be lost.

4.6.1 International licensor protection

The respondents were asked how the company protects itself from cases where the local licensee can end up breaking away from the international licensor and quite deliberately stealing or imitating the technology. According to the study findings the respondents indicated that the company forms joint venture arrangement by licensing with local parties in the country which in most cases international firms prefer wholly owned subsidiaries for reasons of control because once a joint venture partner secures part of the operation, the international firm can no longer function independently, which sometimes lead to inefficiencies and disputes over responsibility for the venture.

Another strategy used for the protection of international company is having full ownership and this can involve either acquiring an existing business or investing in new facilities in the host country (Root, 2004). In this strategy; an international company handles all production activities in a foreign country and owns 100% of the company.

4.7 Challenges associated with joint venture arrangement

The respondents were asked to indicate whether there were challenges associated with joint venture arrangement. According to the study findings the respondents they indicated that there are challenges that are associated with joint venture arrangement. There is significant risk associated with the formation of a joint venture. A company may commit resources to a project in which its partner, as well as the area, may be unfamiliar. This is why it is imperative that companies learn all that is possible about its potential partner's business practices and financial condition, as well as its ability to complete the proposed project(s).

Some of the challenges associated with joint venture arrangements were indicated as follows: Unclear assignment of responsibilities; many of the responsibilities of each joint venture partner are implied at the start of the joint venture. However, all aspects of contract administration should be specifically outlined in the joint venture agreement. Performance bonds; financing and working capital of the joint venture; construction costs charged to the joint venture; distributions to joint venture partners and cash management considerations where by when there are large sums of idle cash available, an important issue to consider is which partner controls the cash. Problems may arise when certain partners borrow cash from the joint venture for their use, repaying the loans as funds are needed. This can be a very risky practice, especially if one partner is withdrawing these funds to cover cash shortages on its own projects. To avoid cash flow problems, it is critical that a cash management plan be developed early in the relationship.

4.8 Level of control of Joint venture strategy

The respondents were asked to comment on the level of control of Joint venture market entry strategy. According to the study findings the respondents gave their comments on the level of control of joint venture market entry strategy. According to the respondents the level of control of the partner may vary with some companies accepting either a minority or majority position. Other cases the international firm may prefer to own subsidiaries for reasons of gaining more control over the minority partner. On securing a joint venture of the operation according to Dehghan (2008), the international firm can no longer function independently, which sometimes lead to inefficiencies and disputes over responsibility for the venture.

4.8.1 Method of acquiring ownership

The respondents were asked to indicate the methods of acquiring ownership how it has influenced the performance of the Kenyan market. The respondents indicate that licensing and franchising arrangements between an international company and a party in the host country affect technology or management systems and are transferred to the host party. Through licensing a party host can acquire ownership by contractual arrangement whereby a company licenses the rights to certain technological know-how, design, patents, trademarks and intellectual property to a foreign company in return for royalties or other kinds of payment. The other method of acquiring ownership is by joint venture arrangements international firms own subsidiaries for reasons of control and other companies accept to participate as either a minority or majority position while an

alternative way for acquiring ownership is by full ownership strategy whereby the parent company takes a 100% equity stake in the operation in the foreign country.

4.9 Benefits of Joint venture strategy

The respondents were asked to indicate the benefits of Joint venture strategy. According to the study findings the respondents indicated some of the benefits of joint venture market entry strategy. When an international company considers bidding on work in an unfamiliar area, local contacts or parties may be advantageous to leverage the knowledge and resources of a joint venture partner that has an understanding of this market.

Combined talents and resources allows a joint venture to pool their individual areas of expertise and resources, such as financial strength, workforce, equipment, and bonding capacity, while sharing the risks involved in completing a particular project. Additional working capital sources forms a joint venture that may allow the combined entity to have a stronger capital base from which to draw, such as additional cash, financing, and capital contributions from shareholders of each company. This can prevent cash shortfalls, which could hinder the profitable completion of the project. Increased bidding power and bonding capacity by combining resources and entity which may provide more bidding power and bonding capacity than the individual entities could, thus allowing the combined entity to bid on larger projects.

Better bidding and considering that the joint venture partner is well informed on the business practices in the local construction market, it may be advantageous to draw on its insights in preparing more accurate bids. For example, the partner may be more familiar with the local costs, which includes union and other burden expenses. The partner may

also be familiar with the local suppliers and the pricing of products, as well as local laws and ordinances, which may be over looked by a company who has not worked in the local business environment.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of the summary of findings, conclusion and recommendation of the study and there after the suggestions for further studies respectively.

5.2 Summary of Findings

The summary of the findings were done according to the study objective and results obtained in chapter four. The objective of the study was to determine the International entry strategies used by Huawei to enter the telecommunication industry in Kenya. The study found out that there are different entry strategy used by Huawei to enter the telecommunication industry in Kenya and these were International entry strategies whereby it is an extension of ownership of a firm to cover new markets, new sources of materials and new stages of the production process; also referred to as the internationalization process can be incremental. Exporting strategy is whereby a company sells its physical products which are manufactured outside the target country to the target country though exporting is generally viewed as a low commitment form of market entry, it is not as easily classified on this continuum. Licensing and franchising strategy is whereby non-equity associations between an international company and a party in the host country in which technology or management systems are transferred to the host party. Joint venture as an arrangement whereby the firm is required to share equity and control of the venture with a partner from the host country and participation may vary with some companies accepting either a minority or majority position. The other strategy the study found out was full ownership strategy whereby the parent company takes 100%

equity stake in the operation in the foreign country. Full ownership also involved either acquiring an existing business or investing in new facilities in the host country.

5.3 Conclusion

The study concluded that the choice of Kenya as a market for Huawei products has enlarged the opportunities in Kenya and the nearby markets especially in the East African countries. The study also concluded that the telecommunications industry in Kenya has been characterized by a price war in recent years following the market entry of the third and fourth network. The study concluded that being a foreign industry in the Kenyan market Huawei has faced challenges that have affected the profitability its operations and has forced them to streamline their operations in developing new revenue streams in an environment of falling average revenue per user in the voice market. The study also concluded that joint venture strategy was the most preferred as a market entry. The study concluded that they were significant risk associated with the formation of a joint venture arrangement. The study concluded that foreign market entry strategy decisions had evolved and as a result important decisions on entry strategy had to be examined and the factors involved in firms' foreign market entry.

5.4 Recommendations

The study made the following recommendations based on the International entry strategies used by Huawei to enter the telecommunication industry in Kenya.

The study recommended that Huawei company should do all that is possible about its potential partner's business practices and financial condition, as well as its ability to complete the proposed and on-going projects.

The study recommended that Huawei Company should specifically outline all aspects of contract administration in the joint venture agreement.

The study recommended that Huawei Company should develop early in the relationship distributions to joint venture partners and cash management plans in order to consider which partner controls the cash.

The study recommends that Huawei Company there should make well thought out decisions since they keep on evolving, because of the difficulties faced in reversing an inappropriate entry strategy choice.

The study also recommended that Huawei Company should come up with strategies to overcome the liability of foreignness.

5.5 Recommendation for Further Studies

The researcher recommends that a similar study should be embarked on different international telecommunications industries in Kenya to verify the study results. Finally the researcher recommends that future researchers should investigate on the influence of government policies on international companies in the country.

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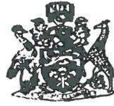

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Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE..16th SEPT. 2013

TO WHOM IT MAY CONCERN

The bearer of this letter ....KOIGI HANNAH WANJIKU....

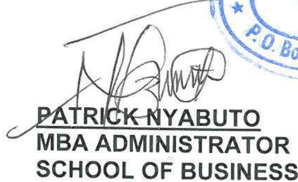
Registration No....D61/60085/2011....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

APPENDICE: INTERVIEW GUIDE FOR HUAWEI COMPANY STAFF

Introduction: Background questions

1. Which level of management are you in? And what are your roles?
2. What are the opportunities that influenced the choice of Kenya as a market for the company?
3. Are there any challenges involved? Name them.
4. In your own opinion, in what ways has the choice of entry strategy in the Kenyan market affected the level of control the Multinational enterprise has over the venture?
5. Where does the company manufacture the products that it sells in the Kenyan market?
6. What factors influenced the choice of Kenyan market?
7. Has the choice of Kenya as a market influenced your decision to market in nearby markets?
8. Since the entry in Kenya, do you think that the market has grown? If yes, explain the growth.
9. Has the company done any licensing and franchising arrangements with any party in Kenya? If yes name the parties?
10. How has the licensing and franchising arrangements influenced the company's operations and Return on Investment (ROI)?
11. In case of licensing, the local licensee can end up breaking away from the international licensor and quite deliberately stealing or imitating the technology. How does the company protect itself from such an occurrence?
12. Are there challenges associated with joint ventures? Explain.
13. Comment on the level of control in this form of market entry strategy?
14. How has the method of acquiring ownership influenced market performance?
15. What are the benefits associated with this form of market entry strategy?