IMPLEMENTATION OF FOREIGN DIRECT INVESTMENT AS AN INTERNATIONALISATION STRATEGY BY KENYAN FIRMS IN THE EAST AFRICAN COMMUNITY

BY

MUSYA ERICK MUNYAO

A Research Project Submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration, School of Business, University of Nairobi.

November, 2013.

DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

Signed;………………………………. Date……………………………….

MUSYA ERICK MUNYAO – D61/64528/2010

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

Signed:……………………………… Date:…………………………………….

DR. JACKSON MAALU

SENIOR LECTURER,

DEPARTMENT OF BUSINESS ADMINISTRATION

DEDICATION

To my late parents; Mr John Musya Munyao and Mrs.Jennipher Akendo John for teaching me the value of hardwork. To Mr. and Mrs. Sam Munyao, my adopted parents for giving me hope where there was none.

ACKNOWLEDGEMENTS

I first and foremost thank God the almighty for the gift of life, good life and health through my entire study period to date. Secondly, I wish to thank the university of Nairobi for giving me the opportunity of studying for an MBA degree in Strategic Management. My sincere gratitude to my supervisor Dr. Jackson Maalu who has supported me throughout my project with his patience and knowledge and always being available for any guidance I required.

I also wish to express my special gratitude to my employer – Helma Freight Ltd for its support and dedication in staff development matters. Through its support both financially and materially, I have been able to successfully complete the study. Special thanks go to my family Nicholas, Kevin and Anastasia for their love and moral support.

Finally I wish to thank my lecturers and my colleagues for their ideas and knowledge in pursuance of this course.

ABSTRACT

Firms in developing countries have in the recent past adopted foreign direct investment as a strategy to expand its market and increase revenues. The ideology of the East African Community has also come of age in the recent years with the formation of the new EAC which increases the number of members of the EAC to five from the original three. This study focused on the experiences of Kenyan firms implementing FDI in the EAC, together with the challenges that the firms have gone through and the factors that have promoted successful implementation of the same. The study adopted a census survey research design and the population of the study comprised of 34 Kenyan firms that have invested in the EAC. Primary data was collected by use of questionnaires. The study found out that most Kenyan firms are satisfied with the level of success of their investment in the EAC and that foreign direct investment was the right strategy for the firms in their quest to internationalize. It was also found out that the involvement of senior level management is important for successful implementation of foreign direct investment together with the firms experience in the home market. Of the challenges of implementation of foreign direct investment beuracracies and duplicity of government agencies, corruption and regulations were found to be the major challenges while geographical proximity, host governments openness to foreign direct investment and protection of foreign investors were the factors that promoted successful implementation of foreign direct investment. Finally it was concluded that more still needs to be done to promote FDI within the EAC. The study recommends that further research could be carried out to identify industry specific factors that promote and pose challenges to the successful implementation of foreign direct investment by Kenyan firms. Another possible area of research would be to identify other firms not covered in the research and find out their experiences and challenges.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

EAC - East African Community

FDI- Foreign Direct Investment

OFDI- Outward Foreign Direct Investment

CEO- Chief Executive Officer

MD- Managing Director

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Over the recent years many organizations have been adopting internationalization and more specifically foreign direct investment as an internationalization strategy. Foreign direct investment is a capital intensive venture and highly risky at the same time therefore organizations need to undertake proper implementation of the same to avoid consequences that may be dire to the organization.

One of the major hall-marks of the twenty first century business environment is the phenomenal growth of globalization(Pinho and Martins, 2010). Impelled by globalization there is now intense policy focus on internationalization of national firms(Zimmerman and Kattuman, 2007) . All firms engage in business activities for profitability and its therefore important to note that each and every organization will stop at nothing but to ensure that they achieve the highest possible level of profitability which has a direct relationship with the market share hence the need for internationalization of firms. Dunning through his eclectic paradigm theory noted that firms would undertake internationalization through foreign direct investment because of organizational, location and internalization reasons.

The coming into force of the new and expanded EAC in 2010 presents an expanded market and opportunities for companies. This together with the fact that the region offers an untapped market and has over the years become relatively politically stable and conducive for business to thrive has encouraged foreign direct investment by both local companies and those from overseas. The protocols such as; The East African customs union and the common market protocol also give additional incentive for inter-regional trade.

.

1.1.1 Concept of Internationalization

Internationalization enables firms to gradually spread their business operations and activities beyond the national boundaries (Ahmad and Kitchen, 2008). Organizations venture into international business activities so as to reap the numerous benefits of the same which include but are not limited to; increasing market share, capturing new customer base, following their customers to international countries, avoiding competition and above all increasing sales/revenue.

Internationalization is a concept that has over the recent years been extensively studied and practiced. No single standard definition has been adopted to describe internationalization as seen from the following different definitions by earlier writers. Albaum et al (1989) define internationalization as a step by step process of international business development whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets.

Welch and Luosterinen (1988) defined internationalization as business activities that cross national borders with the intention of creating value for the organization. The outward movement of international operations of a firm can be described as internationalization according to Zeng et al, 2008. While Turnbull (1985) described internationalization as the outward movement of a firm's operations. Though there is lack of a standard definition of internationalization, it clearly comes out that internationalization involves the expansion of business activities by a home firm from the local to international markets and when a firm has internationalized, its activities are not limited to a single country but are conducted in different countries.

When making decisions to internationalize a firm has to make a decision on the entry mode. Maunda (2011) noted that researchers have divided entry mode choices into two aspects namely; non-equity and equity modes. Non-equity modes are divided into market oriented modes such as direct and indirect exports and contractual modes such as turnkey projects, contract manufacturing, management contracts, strategic alliances, licensing and franchising. Equity entry modes include partly owned modes or joint venture and wholly owned subsidiary (Foreign direct investments) or sole ownership (Kumar and Subramanian, 1997; Loyatif, 2003). Entry modes can also be looked at through the level of control of the business activities by the firm where the modes can be divided into; low control modes which are exporting, countertrade and global sourcing. These provide the least control over foreign operations, since the focal firm delegates considerable responsibility to foreign distributors, moderate control modes are contractual relationships such as licensing and franchising and project-based collaborative ventures and finally high control modes which are equity joint ventures and FDI. The focal firm attains maximum control by establishing a physical presence in the foreign market.

It's also important to note that each mode of entry has its advantages and disadvantages and it's important for an organization to select an entry mode that will ensure profit maximization and achievement of the goals it has set out to achieve. Of most importance to this study is the Equity/high control entry mode and precisely foreign direct investment.

1.1.2 Foreign Direct Investment

The past thirty years have seen a marked increase in both the flow and stock of FDI in the world economy. Global foreign direct investment inflows rose 16% in 2011, surpassing the 2005-2007 pre-crisis level for the first time despite the continuing effects of the global financial and economic crisis of 2008-2009 and the ongoing sovereign debt crises. UNCTAD projections for the medium term based on macroeconomic fundamentals continue to show FDI flow increasing at a moderate but steady pace reaching $1.8 trillion and $1.9 trillion in 2013 and 2014 respectively barring any macro economic shocks. Pre-dominantly over the years the developed countries have been leading the pack in terms of foreign direct investment inflow and outflow which is evidenced by the fact that these countries have the biggest multinational enterprises. The likes of USA, United Kingdom, France, Germany, Japan just to name a few fall into this pack. Over the years though the developing countries have come to embrace this new phenomenon and such regions as the developing countries and the newly emerging markets have become targets for foreign direct investment inflow and doing some3 outflow themselves. Kenya's foreign direct investment inflows and outflows for the past seven years average $141 and $17 million respectively. (UNCTAD,World investment report 2012).

Foreign direct investment plays a major role in the world economy and has over the years improved across the globe. It's important to explore more on what foreign direct investment entails. As the trend towards increasingly global markets continues, foreign direct investment is regarded as an important way for firms to obtain benefits of globalization(Carson et al,2001).The enormous increase in foreign direct investment flows is one of the clearest signs of globalization in the world economy over the past 20 years(UNCTAD,2006).

Foreign direct investment is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant, and equipment. A foreign direct investment can also be defined as an investment involving a long term relationshipand reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor (UNCTAD 2002).

Foreign direct investment normally occurs when a firm invests directly in facilities to produce and or market a product in a foreign country (Dunning, 1988). Carson et al, 2001 alluded that foreign direct investment incorporates wholly owned foreign investment which is the creation of a wholly owned subsidiary through either acquisition or setting up a new operation, Greenfield site. In summary, a company from one country making a physical investment into building a factory in another country is the classical definition of foreign direct investment according to UNCTAD (2002).

The above means that foreign direct investment is a capital intensive venture. As seen earlier, there are various means/modes through which firms can enter foreign markets in their quest to internationalize. With each mode there is motivation and at the same time there is a downside to it.

1.1.3 The East African Community

The East African Community (EAC) is the regional intergovernmental organization of the Republics of Burundi, Kenya, Rwanda, the United Republic of Tanzania, and the Republic of Uganda, with its headquarters in Arusha, Tanzania. The Treaty for Establishment of the East African Community was signed on 30 November 1999 and entered into force on 7 July 2000 following its ratification by the original three Partner States; Kenya, Tanzania and Uganda. The Republic of Rwanda and the Republic of Burundi acceded to the EAC Treaty on 18 June 2007 and became full Members of the Community with effect from 1 July 2007. The EAC aims at widening and deepening co-operation among the Partner States in, among others, political, economic and social fields for their mutual benefit.

To this extent the EAC countries established a Customs Union in 2005 and a Common Market in 2010. The next phase of the integration will see the bloc enter into a Monetary Union and ultimately become a Political Federation of the East African States. The regional integration process is at a high pitch at the moment as reflected by the encouraging progress of the East African Customs Union and the establishment in 2010 of the Common Market. The negotiations for the East African Monetary Union, which commenced in 2011, and fast tracking the process towards East African Federation all underscore the serious determination of the East African leadership and citizens to construct a powerful and sustainable East African economic and political bloc.

The common market protocol was established in 2010 and it provides for: free movement of goods, free movement of persons, free movement of labor, the right of establishment, the right of residence, the free movement of services and the free movement of capital. The overall objective of the common market is to widen and deepen cooperation among the partner states in the economic and social fields for the benefits of the member states. Among the common market's specific objectives are to accelerate economic growth and development of partner states through attainment of the free movement of goods, persons and labor rights of establishment and free movement of services and capital, strengthen, coordinate and regulate the economic and trade relations among the partner states in order to promote accelerated, harmonious and balanced development within the community, sustain the expansion and integration of economic activities within the community, promote common understanding and cooperation among nationals of partner states, enhance research and technological advancement to accelerate economic and social development.

1.2 Research Problem

Foreign direct investment is both expensive and risky compared to exporting and licensing. FDI is expensive because a firm must bear the costs of establishing production in a foreign country or of acquiring a foreign enterprise and risky because of the problem associated with doing business in a different culture where the rules of the game may be very different(Hill,2009). Firms would therefore invest in foreign direct investment due to the following different motives regardless of the risks and costs involved; market seeking, resource or asset seeking and efficiency seeking motives. Foreign direct investment as an internationalization strategy therefore requires firms to undertake significant research and planning before undertaking the same so as the firm reaps the benefits of the same.

The establishment of the new EAC in 2009 has brought about an increase in outward foreign direct investment by Kenyan firms in the EAC taking advantage of the relatively regional economic superiority according to the World Bank report on de-fragmenting Africa. The East African Community brings forth several opportunities for foreign direct investment and provides an untapped market for different products and services. Kenyan firms have done well in making their presence felt within the region but this has not been easy. According to Mufuruki(2011), Kenyans get singled out for harsh treatment in Tanzania, notwithstanding the fact that Kenya has been Tanzania's biggest trading partner. This has been the status quo for the majority of the East African region which includes targeting of Kenyan firms by the various governments a case in point the refusal by the Tanzanian government to renew the work permit of the Nation media group's Kenyan CEO and ordered a Tanzanian be hired to take his place and the recent raid of one of the group's stations in Uganda. This among other factors such as restriction on full ownership and cold war from the local competitors are among the many challenges facing the Kenyan firms that have invested in the East African community.

A number of researchers have done research on foreign direct investment, Munyoki(2011) looked at the role of the Kenya Investment Authority in attracting foreign direct investment in Kenya where he discovered several initiatives were being undertaken by the authority. Dinga(2009) explored the impact of foreign direct investment on economic growth of Kenya. Yabs(2011) by studying the entrepreneurial initiatives, business environmental factors and the success of Kenya's outward foreign direct investment in East Africa found out that among the factors that led to success of Kenya's outward foreign direct investment were the entrepreneurial aggressiveness and risk taking nature of Kenyan businessmen, experience of Kenyan businesses at home among other environmental factors. None of the relevant studies reviewed above focuses on the implementation of Foreign direct investment and more so implementation of the same by Kenyan firms in the East African community. This study seeks to bridge that knowledge gap and explore the implementation of FDI as an internationalization strategy.

This research seeks to answer the following questions; What are the experiences of Kenyan firms in implementing Foreign direct investment in the East African Community? What are the factors influencing successful implementation of FDI by Kenyan firms in the East African Community? What are the challenges of implementing foreign direct investment in the East African Community?

1.3 Objectives of the Study

The objectives of this study are:

i. To determine the experiences of Kenyan firms in implementing foreign direct investment in the East African Community.

ii. To determine the challenges of implementing foreign direct investment by Kenyan firms in the East African Community.

iii. To determine the factors influencing successful implementation of foreign direct investment by Kenyan firms in the East African Community.

1.4 Value of the Study

The study is meant to add value to the Kenyan firms that intend to undertake foreign direct investment by giving an insight of the experiences of others before them and basically how to handle and deal with the implementation process.

The different governments within the East African Community through this study can get pointers on what they need to do to attract foreign direct investment into their countries by addressing the environment specific challenges of their countries.

The study is also important to scholars as the study will increase to the body of knowledge in this area. This study will give scholars more insight on the challenges that firms experience when they undertake outward foreign direct investment and specifically

Kenyan firms in the East African community. Also scholars will get more knowledge on the success factors for the Kenyan firms in the East African community and what caused failure if any and the general experiences of the Kenyan firms that have invested in the EAC. This study will give a basis for literature review for scholars in relation to implementation of foreign direct investment and help them identify gaps for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of related literature on Internationalization and foreign direct investment as a mode of internationalization by various researchers, scholars, analyst and authors. Theoretical issues, environmental factors affecting implementation of foreign direct investment, modes of foreign direct investment and empirical studies of foreign direct investment will be discussed.

2.2 Internationalization and Choice of Market Entry Mode

Internationalization of a company can be seen as a process that enables the company to operate in foreign markets besides the domestic markets (Njoroge, 2011). Internationalization therefore is about foreign market entry whereby a local firm seizes to be local and becomes a multinational corporation. There are two opposing views concerning the firm's foreign market entry mode decisions which are the internationalization or gradual involvement view and the contingency or strategy view (Konopa and Kwon, 1992). Njoroge (2011) broke down the internationalization process into four stages namely: no regular export activities, export via independent representatives (agents), sales subsidiaries and production/manufacturing. This sequence of stages is referred to as the establishment chain. Development does not follow the whole sequence either because some markets are not large enough for resource demanding stages among others. We also expect jumps in the establishment chains in firms with extensive experience from other markets.

The establishment of an entry mode is an important part of the process of internationalization, it signifies the formal organizational arrangements of business practices that; cross borders, transfer aspects of the business into the host country, and indicate the form of return in terms of revenue and investment. The entry mode therefore has legal, accounting, organizational and strategic implications (Dimitratos et al, 2009). Also Konopa and Kwon (1992) noted that foreign market entry modes are the means of linking the company's products to its foreign markets.

Firms can use six different modes to enter foreign markets: exporting, turnkey projects, licensing, franchising, establishing joint venture with a host country firm or setting up wholly owned subsidiaries (Hill, 2009).The choice of entry mode is usually and important exercise in a firm's quest to internationalize therefore a firm must put a lot of consideration into the entry mode so as to ensure attainment of the firm's objectives.

There are various factors that influence a firm's choice of entry mode. Koch (2001) divided the factors into three categories i.e internal factors, external/internal factors and external factors. Internal factors include: the company size and resource availability due to the fact that some entry modes such as foreign direct investment are equity ventures as compared to others which are less equity ventures. The experience of using an entry mode before, the market share targets and profit level targets are also important internal factors that influence the choice of entry mode. Within the external/internal factors such factors as the competencies, capabilities and skills required to implement the entry mode and their availability plus the sufficiency and reliability of information on entry modes available are considered. Finally the external factors are basically environmental and in this factors like; characteristics of foreign country business environment, market barriers, industry feasibility and market growth rate come to play.

A firm's entry mode choice depends on not only the characteristics of the company and its products but also on the foreign market characteristics (Konopa and Kwon, 1992). Goodnow (1985) and Root (1987) viewed company and product characteristics as internal factors and foreign market's characteristics as external factors. Goodnow identified corporate strength, competitive position, corporate policy and product characteristics as internal factors and the foreign market's opportunity, its economic development, political environment and government's policy as extern.al factors while Root viewed the characteristics of a company's products and resource commitment as internal factors and the target market factors, environment and production factors as external factors. For the purposes of this study the researcher will focus on the foreign direct investment entry mode.

2.3 Theories of Foreign Direct Investment

Over the years, several theories have been developed to try to explain the existence of foreign direct investment. The market imperfections theory states that firms constantly seek market opportunities and their decision to invest overseas is explained as a strategy to capitalize on certain capabilities not shared by competitors in foreign countries. Market imperfections for products and factors of production explains the capabilities or competitive advantage of firms (Hymer, 1970).According to this theory, market imperfections arise due to barriers such as tariffs and foreign exchange controls that restrict the free flow of goods between nations and to avoid such barriers its better for MNCs to move abroad through FDI instead of exporting or licensing (Munyoki, 2011).

The international production theory suggests that the propensity of a firm to initiate foreign production will depend on the specific attractions of its home country compared with resource implications and advantages of locating in another country. This theory suggests that not only does resource differentials and the advantages of the firm play a part in determining overseas investment activities but foreign government actions may influence the piecemeal attractiveness and entry conditions for firms (Katsikeas and Morgan, 1999).

Knickerbocker (2003) looked at the relationship between FDI and rivalry in oligopolistic industries .He was of the view that foreign direct investment is an imitative behavior by firms through looking at oligopolistic markets where there are few firms which are interdependent on each other such that the action of one firm will have a ripple effect on the other firms. For foreign direct investment, he argues that when one firm in an oligopolistic market decides to set up production facilities in another country, the other firms are likely to follow suit so as to maintain their market share and beat competition.

Buckley and Carson (1976) internalization theory stipulates that, firms aspire to develop their own internal markets whenever transactions can be done at lower costs within the firm. Internalization theory explains that FDI arises to replace market transactions with internal transactions and this maybe the reason why a firm would want to make use of the ownership advantage by itself such that it is the only one involved in the transfer of the advantages it possesses across national boundaries to its foreign subsidiaries. Dunning (1993) through his OLI (eclectic paradigm) theory tried to summarize the previous theories of foreign direct investment. The OLI paradigm states that FDI is undertaken if ownership (O) advantages like proprietary technology exist together with location specific advantages (L) in host countries e.g low factor costs and potential benefits from internalization (I) of the production process.

2.4 Forms of Foreign Direct Investment

A firm's decision to go abroad is concerned not only about what markets to enter but also about how to enter them (Lee and Lieberman, 2010). Foreign direct investment as an entry mode can take different forms and faces which can be distinguished through being either; Greenfield investments or mergers and acquisitions or by the nature of ownership i.e equity participation, wholly owned direct investment, equity joint ventures and finally by the level of integration either forward vertical or backward vertical integration.

A Greenfield investment occurs when a firm invests to build a new facility. A firm can establish a wholly owned subsidiary in a country by building a subsidiary from the ground up, the so called Greenfield strategy (Hill, 2009). Liu and Zhang (2007) noted that whereas as green field investments provide the greatest control over local facilities, it may at times not obtain policy privileges from the host government Moreover Greenfield investments represent full ownership and the need to form a new venture. Hill (2009) distinguishes one great advantage of Greenfield ventures as giving the firm a much greater ability to build the kind of subsidiary the company wants which consequently makes it easier to build an organization culture and establish a set of operating routines in a new subsidiary.

Against this advantage though we have high degree of risk, slowness in establishing and the possibility of being pre empted by more aggressive global competitors who enter via acquisitions and build a big market presence limiting the Greenfield venture.

In markets where there are already well established incumbent enterprises and where global competitors are interested in establishing their presence a green venture maybe too slow to establish sizeable presence (Loyatif, 2003).

In an acquisition the firm acquires an existing company and at the same time a merger is a special type of acquisition where two firms join to form one/ a larger firm. Acquisition provides the fastest means of building a presence in a foreign market but it is fraught with overpayment and the challenge of cultural and national differences (Liu and Zhang, 2007) while at the same time no new venture needs to be formed. Acquisitions are a good way to preempt competitors and managers may believe acquisitions are less risky than Greenfield ventures (Hill, 2009). If a firm is going to make an acquisition its management should be cognizant of the risks associated with acquisition such as difficulty in merging two organizational cultures, over evaluation of the firm to be acquired and consider these when deciding which firms to purchase (Maunda, 2011).

FDI can also be through a fully owned subsidiary where the investor fully owns the foreign assets or an equity joint venture where a separate firm is created through the investment or pooling of assets by two or more parent firms that gain joint ownership of the legal entity. A wholly owned subsidiary will often be preferred when a firm's competitive advantage is based on technological competence because it reduces risk of control over that competence. Also a wholly owned subsidiary may be required if a firm is trying to realize location and experienced curve economies as firms pursuing global and transnational strategies try to do(Maunda, 2011).

Vertical integration for a foreign direct investment occurs when a firm seeks to own several stages of the value chain. The integration can be forward vertical where the firm develops capacity to sell its products by investing in downstream value chain facilities such as marketing and selling operations or backward vertical integration in which the firm acquires capacity abroad to provide inputs for its foreign or domestic production processes by investing in upstream facilities typically factories, assembly plants or refining operations.

2.5 Factors influencing Foreign Direct Investment

Foreign direct investment is regarded as a means of exploiting firm specific assets in a foreign market (Hymer, 1960; Caves, 1971). Foreign direct investment would help the investing firm penetrate the domestic market, gain access to raw materials, diversify its business activities and rationalize production processes. Also FDI overcomes some of the barriers associated with exporting e.g trade barriers and transport costs (Carson et al, 2001). Dunning (1971) also noted that a large proportion of overseas investment is motivated by defensive tactics from competitors for example, markets reaching saturation and as a reaction to problems in the home country (Watters, 1995).

Increased technological intensity within the firm’s industry (Clegg, 1998) and reduction in transport costs (Davidson and McFetridge, 1985) also promote foreign direct investment. Hill (2009) looked at the motivations of foreign direct investment by pinpointing the various disadvantages of the other modes of entry i.e exporting and licensing. Trade barriers such as tariffs and quotas for example which discourage exporting would be a motivator for a firm to invest in another country coupled with this is, are the transport costs associated with exports, these would be significantly reduced through foreign direct investment. Giving away a firm’s technological knowhow to a potential foreign competitor, loss of control over such activities as manufacturing, marketing and strategy plus lack of the competitive advantage of the organization by the licensee are among the reasons why a firm would opt to invest in another country rather than opt for licensing according to Hill. These motivations for foreign direct investment also pass as advantages of the same.

2.6 Factors affecting Strategy Implementation

It can be much easier to think of a good strategy than implement it(Floyd and Woolridge,1990). Most strategies stumble in the implementation phase at the same time managing the implementation phase is often more difficult than coming up with the strategy in the first place but ideas that cannot be translated into action serve little purpose (Allio,2005).

Al Ghamdi (1998) noted the following as among the problems of strategy implementation based on Weasel (1993) individual barriers to strategy implementation; competing activities distracting the attention from implementation, lack of clearly defining the changing responsibility of employees, lack of key formulators participation in implementation, lack of early communication of problems requiring involvement of top management.

Freedman (2003) also noted the following implementation pitfalls; strategy inertia, lack of stakeholder commitment, strategic drift, strategic dilution, strategic isolation and impatience. Sterling (2002) pointed at unanticipated market changes where intended market conditions change before a strategy takes hold, effective competitor responses to strategy, application of insufficient resources where a lack of resources is generally a bigger threat to capital intensive strategies, lack of buy in or communication of strategy and lack of focus in implementation of strategy.

In summary Peters et al (1980) considered seven organizational factors that must be put into consideration so as to ensure effective strategy implementation i.e The Mckinsey's 7-S framework. Those factors are; strategy, structure, systems, style, staff, skills and subordinate goals. Once these are taken care of then a strategy should be successfully implemented. Firms often fail in foreign markets because of inappropriate entry and operation strategies(Welch and Luostarinen, 1988). Also failure of proper implementation of the strategy and the challenges of implementation of the same contribute to the success or lack thereof of a firm's entry/investment in the foreign market.

2.7 Empirical Justifications of Foreign Direct Investment

Yabs (2012) through studying the entrepreneurial initiatives, business environmental factors and the success of Kenya's outward foreign direct investments in East Africa found out that the success of Kenyan firms like Kenya Commercial Bank and Jubilee Insurance in East Africa was as a result of the experience, resources and expertise gained by these organizations in the local market which is also a reason they decided to take up foreign direct investment. These are the organizational factors in Dunning’s OLI theory. The need to take advantages offered by the EAC common market and opportunities offered by the EAC treaty and protocols was also another motivation for foreign direct investment which is reflected in the OLI theory as locational factors.

Financial incentives, zero corporate taxation policy and availability of skilled labour are among the major factors that influenced foreign investors in Bahrain and Northern Ireland. These factors increased the attractiveness of the two countries for foreign direct investment. As a peripheral region of the UK, Northern Ireland is seen as an attractive location by many investors particularly as a means of accessing the European Union market. Similarly Bahrain is a member of a duty free bloc of states, Carson et al(2002). The international production theory and locational factors are evidenced in this comparative study of the Bahrain and Northern Ireland.

Saayman and Saayman(2007) found a positive relationship between tourists visiting South Africa and investing in the country’s tourism industry. Among the factors that attracted investment into the South African tourism industry include; location, climate and scenery. These fall under location factors that motivate foreign direct investment

Kaynak et al(2006) comparative study of foreign direct investment in the regions of Caucasus and Central Asia and specifically Georgia and Krygyz through an analysis of various dimensions of FDI brought out a number of theoretical issues. The results indicated that the FDI activity in Georgia and Kyrgyz Republic was a market-seeking type focusing heavily on location-specific attractions of the two countries. Although the issue of corruption affects foreign investors, it does not act as a major deterrent of FDI inflows. The most serious problem influencing the performance of FDI firms was found to be inefficiency of local labor force, excessive bureaucracy and red tape, and differences inherent in the business practices of host countries. In general, however, it was found that foreign investors have been satisfied with their performance largely due to the relatively smooth competition and the availability of several market niches in both host country markets. This brings out locational factors as a reason for foreign direct investment by firms.

Through a study of the determinants of foreign direct investment in the Middle East North Africa region, Ebbers and Rogman(2013) found strong support for the notion that oil producing countries receive less FDI at least partly as a result of policy choices related to the openness of their economies to FDI. Only recently have some OPEC members started to encourage FDI notably Saudi Arabia and the UAE. These efforts have been met with significant success making these two countries the top two recipients of FDI in the MENA region since 2006. The openness of the countries in the MENA region to investment has also affected the performance of the foreign direct investors in the respective countries.

CHAPTER THREE; RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives a discussion on the type of research that was conducted, how data was collected, the data collecting instrument and the procedures and techniques used in data analysis for the collected data. Specifically the following subsections are discussed; Research design, Population, Data Collection procedure and finally data analysis.

3.2 Research Design

The study adopted a descriptive census survey aimed at assessing the implementation of foreign direct investment as an internationalization strategy by Kenyan firms in the EAC. The survey research design is a very valuable tool for assessing opinions and trends. The descriptive survey gives a description of how foreign direct investment is undertaken by Kenyan firms. Given that the population under study was small a census survey was more befitting to the study so as to enable generalization of the findings.

3.3 Population

The population of this study was all the Kenyan firms that have invested within the East African Community. There was no a well defined source of all the Kenyan firms that have invested within the EAC. Therefore to try and accommodate the different firms from different sectors that have invested within the EAC, the researcher generated a population of 34 firms from different sources which include; 19 firms from The Nairobi Securities Exchange, 4 firms from The East African Community Business Council,4 firms from The Kenya Association of Manufacturers, 4 firms from The Association of Kenya Insurers and 3 firms from The Kenya shippers council that have invested within the EAC as at July,2013, and this formed the population of this study.

3.4 Data Collection.

Primary data was collected using semi structured questionnaires. Questionnaires were more appropriate because they gave respondents liberty in expressing their definition of a situation that was presented to them. The questionnaires were administered through the drop and pick method and email method where appropriate.

3.5 Data Analysis

Once data was collected it was captured and analyzed using Statistical Package for the Social Sciences(SPSS).The data was analyzed using descriptive statistics where frequency tables, percentages, mean and standard deviation were used to draw conclusions to findings. To achieve the first and second objectives of determining the experiences of Kenyan firms in implementing foreign direct investment in the EAC and the challenges of implementing foreign direct investment in the EAC, frequencies and percentages were used to determine the most common experiences by the firms and the least thereof. Mean scores and percentages were also be used to establish the most common challenges of implementation of foreign direct investment within the EAC by Kenyan firms.

In order to achieve the third objective of establishing the most common factors that affect the successful implementation of foreign direct investment by Kenyan firms within the EAC mean scores were used to identify the most common factors that influenced successful implementation of foreign direct investment and the least important factors thereof.

CHAPTER FOUR; ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This chapter presents the analysis and findings of the study. The first section presents the background information of the companies. This is then followed by analysis based on the research objectives which are; to determine the experiences of Kenyan firms in implementing foreign direct investment in the EAC, to determine the challenges of implementing foreign direct investment by Kenyan firms in the EAC and to determine the factors influencing successful implementation of foreign direct investment by Kenyan firms in the EAC. The data was analyzed using percentages and statistical measures. Out of the 34 questionnaires handed out, only 22 questionnaires were properly filled out and returned bringing the successful response rate to 63%.

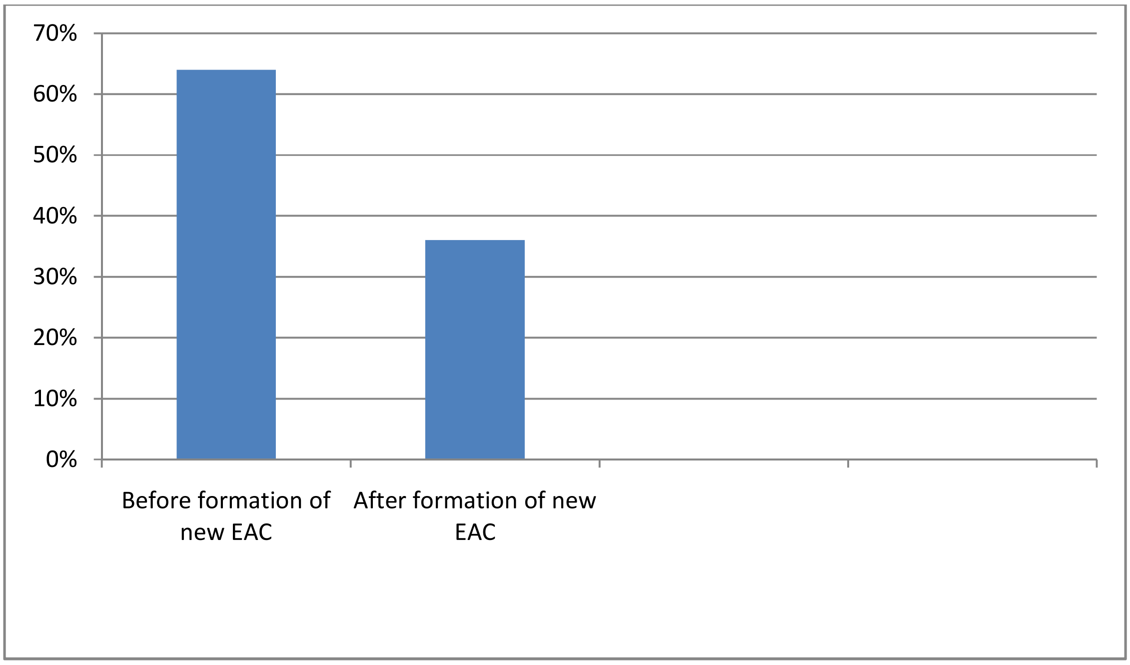
4.2 Organizations Background Information

The background information of the organisations was established. This information included the period when the firm undertook foreign direct investment within the EAC i.e before the formation of the new EAC or after, and the form of foreign direct investment the organization used to internationalize. This information gives an insight into the organizations process of foreign direct investment.

4.2.1 Period When the Organization Undertook FDI Within the EAC

The EAC in its current state comprises of 5 member states i.e Kenya, Uganda, Tanzania, Rwanda and Burundi. This is the new EAC which is an evolution from the old EAC that only had 3 member states i.e Kenya, Uganda and Tanzania. The new EAC was formed in 2009. Respondents were asked to indicate the period in which their firms had invested in the EAC which would explain some of the experiences that they have gone through. The respondents were asked to indicate whether they had invested in the EAC before the formation of the EAC or after the formation of the EAC. Findings are illustrated in Fig 4.1 below.

Figure 4.1 Period When the Organization Undertook FDI Within the EAC



Source;Research Data(2013)

From figure 4.1 above 64% of the respondents indicated that their firms invested in the EAC before the formation of the new EAC which included two new member countries i.e Rwanda and Burundi while 36% invested in the region after the formation of the new EAC. This therefore means that most of the Kenyan firms invested in the region before the formation of the new EAC therefore they faced difficulties investing in Burundi and Rwanda as they could not enjoy some of the treaties under the EAC such as the common markets protocol

4.2.2 Form of Foreign Direct Investment Used to Internationalize

Firms that intend to internationalize through foreign direct investment can choose among several foreign direct investment market entry modes while entering foreign markets. Among the forms of foreign direct investment modes include; establishment of a Greenfield venture, acquiring already existing operations in the foreign market or a merger with an existing player in the foreign market. Each of these modes of foreign direct investment has its benefits and challenges.

The study sought to find out the form of foreign direct investment that the Kenyan firms had used in their quest to internationalize and consequently the benefits and challenges of using that particular mode. Respondents were asked to indicate which among the three FDI entry modes they used to internationalize i.e Greenfield venture, merger and acquisition. The findings are illustrated in Table 4.1 below.

Table 4.1 Form of Foreign Direct Investment Used to Internationalize

Mode of Foreign Direct Investment	**Frequency (No. of times mentioned)**	**Percentage**
Greenfield Venture	17	77%
Acquisition	4	18%
Merger	1	5%
	22	100%

From the frequency table above, a majority of the respondents (77%) indicated that they established Greenfield ventures, 18% percent of the respondents acquired already existing companies while only 5% of the respondents entered into a merger. The companies that invested through Greenfield ventures sighted lack of inheritance of cultural problems from other companies and establishment of a standardized look and feel for their products and brands throughout the region as the major benefits of this form of FDI. The major challenges sighted by respondents for this form of FDI were the high cost of investment, longer breakeven and longer market acceptance. The companies that undertook acquisition sighted continuity as a major benefit and resistance to change from existing staff as the biggest challenge. The firms that undertook mergers sighted synergy with other companies as the major benefit and developing a common culture as a major challenge.

4.3 The Experiences of Kenyan Firms in Implementing Foreign Direct Investment in the EAC

One of the objectives of the study was to find out the experiences of Kenyan firms while implementing foreign direct investment in the EAC. To achieve this objective the respondents were asked to respond to several questions with regard to implementation of their operations within the EAC.

4.3.1 Firms Experience in the Home Market

A firms experience in their home market could play a vital role in the firms' quest to expand to other international markets especially if the new markets have similar characteristics to the firms' local market. Given the cultural similarity between the members of the EAC the study sought to find out the extent to which the firms experience in the local market assisted in the successful implementation of its investment in the foreign markets. Respondents were asked to rate the extent to which the firms' home experience assisted in successful implementation with the extent ranging from no extent at all to a great extent. The findings are illustrated in table 4.2 below.

Table 4.2 Firms Experience in the Home Market

To what extent has the firms experience in the home market assisted in the successful implementation of FDI.	**Frequency (No of times mentioned)**	**Percentage**
No extent at all	1	4.5%
Minimal extent	3	13%
Average extent	2	9%
Good extent	9	40%
Great extent	7	33.5%
	22	100%

From Table 4.2 above, 73.5%(found by summing the frequency of those who rated to a good extent and great extent) of the respondents acknowledged the fact that the firms home experience played an important role in the successful implementation of foreign direct investment while the remaining 26.5% rated between average extent and no extent at all. This therefore means that the experience of the Kenyan firms in the home market played an important role in their quest to internationalize in the EAC given the cultural similarity of the markets.

4.3.2 Financial Resources of the Firm

Foreign direct investment is a capital intensive venture as compared to other foreign market entry modes. This therefore means that before a firm sets out to invest internationally through FDI it must have the financial resources to actualize its strategy. Financial resources will not only assist in actualizing the strategy but could also determine the level of success of a foreign direct investment. Respondents were therefore asked to determine the extent to which the firms' financial resources have assisted in the successful implementation of foreign direct investment. The findings are illustrated in table 4.3 below.

Table 4.3 Financial Resources of the Firm

To what extent has the firms financial resources determined the level of success of the FDI	Frequency (No. of times mentioned)	Percentage
No extent at all	1	4.5%
Minimal extent	2	9%
Average extent	2	9%
Good extent	7	33.5%
Great extent	10	44%
	22	100%

From Table 4.3 above, 73.5%(found by summing the frequency of those who rated to a good extent and great extent) of the respondents acknowledged the fact that the firms level of financial resources played an important role in the successful implementation of foreign direct investment while the remaining 26.5% rated between average extent and no extent at all. This therefore means that the level of financial resources of the Kenyan firms played an important role in ensuring successful implementation of FDI within the EAC.

4.3.3 Involvement of Senior management in implementation of foreign direct investment

For any strategy implementation process to be successful, the involvement of senior level and mid level management is paramount. This is due to the fact that these are the members of the organization tasked with the implementation of the strategy. The respondents were therefore asked to determine the level of involvement of senior level management in implementation of foreign direct investment which would consequently determine the level of success of the foreign direct investment. The results are illustrated in table 4.4 below.

Table 4.4 Involvement of Senior Management in the Implementation of FDI

To what extent has the senior management of the firm been involved in implementation of FDI	**Frequency(No of mentions)**	**Percentage**
To no extent	-	-
Minimal extent	-	-
Average extent	¤ 2	9%
Good extent	6	27%
Great extent	14	64%
	22	100%

Table 4.4 shows that 91% of the respondents(found by summing frequency of those who rated good extent and excellent extent)involved their senior level management in the implementation of foreign direct investment within the EAC majorly, this is in line with the fact that it is paramount to involve senior management in the strategy implementation process. The remaining 9% involved senior management on an average basis.

4.3.4 Timing of the FDI

When undertaking internationalization the timing of the foreign direct investment is an important aspect and can influence the success or failure of a foreign direct investment. The EAC has over the years transformed from the initial 3 member state community to the current 5 member state community. Over time also the EAC has seen several protocols and treaties being signed with the aim of making the business environment within East Africa friendly. Some of the treaties implemented up to date include; The East African customs Union and the common markets protocol. These protocols have gone a long way to improve the business environment within the EAC. The respondents were therefore asked to indicate the extent to which the timing of their investment affected the implementation of FDI. The results are illustrated in table 4.5 below.

Table 4.5 Timing of the FDI

To what extent has the timing affected the implementation of FDI	**Frequency(No. of mentions)**	**Percentage**
No extent	1	4.5%
Minimal extent	7	33.5%
Average extent	6	24%
Good extent	7	33.5%
Great extent	1	4.5%
	22	100%

According to the above table, there were varied views on the importance of the timing of the investment with 33.5% of the respondents stating the minimal extent of its importance and 33.5% indicating importance to a good extent of the timing. These views reflect the fact that the firms engaged in FDI within the EAC over different periods of time.

4.3.5 Foreign Direct Investment as an Internationalization Strategy

There are several entry strategies that firms can use to internationalize. These strategies could be classified as either capital intensive (foreign direct investment) or non capital intensive strategies (exporting, licensing) and high level control or low level control strategies. Respondents were asked to indicate whether among the several internationalization strategies FDI was the right strategy for their firms to use. All the respondents agreed that foreign direct investment was the right strategy for the firm in its quest to internationalize.

4.3.6 Level of Satisfaction with the Success of the Foreign Direct Investment

Every organization sets out to make profits and be successful. Foreign direct investment as an internationalization strategy if not well implemented will not achieve the level of success the firm sets out to achieve in the first place. In light of this therefore firms were asked to indicate the extent to which they are satisfied with the level of success of their foreign direct investment. The findings are illustrated in table 4.6 below.

Table 4.6 Level of Satisfaction with the Success of the FDI

To what extent are you satisfied with the level of success of the foreign direct investment	**Frequency(No. of mentions)**	**Percentage**
No extent	-	-
Minimal extent	-	-
Average extent	7	31%
Good extent	10	45%
Great extent	5	24%
	22	100%

Study results as per table 4.6 above indicate that majority of the respondents are quite satisfied with the level of success of their foreign direct investment with 45% being the highest percentage indicating that they are satisfied to a good extent with the level of success, 31% are satisfied to an average extent with the level of success and 24% to a great extent satisfied with the level of success of their investment. Outward FDI by Kenyan firms to the EAC can therefore be regarded as successful as all firms level of satisfaction with success ranges from average to great.

4.4 Challenges of Implementation of Foreign Direct Investment Faced by Kenyan Firms in the EAC

The second objective of this study was to find out the challenges that Kenyan firms faced in implementation of foreign direct investment within the East African community. In order to achieve this objective, respondents were first asked to specify the country in the EAC in which they have invested before being asked to identify the challenges of implementing foreign direct investment in those countries. This is then followed by respondents indicating the factor that posed the biggest challenge in their quest to internationalize.

4.4.1 Countries in the EAC that Kenyan Firms have Invested in

Organizations can engage in outward foreign direct investment in more than one country depending on several factors such as; the firms strategy/goal, market availability for products and financial capability. The more the number of investment destinations would also mean diversified/more challenges that the firm will face. Organizations were therefore asked to indicate if they had invested in single or multiple destinations within the EAC.

Study results indicate that 50% of the Kenyan firms have engaged in outward foreign direct investment in more than one country in the East African community. This means that only 50% of the respondents have invested in one country in the EAC.

The EAC offers Kenyan firms four investment destinations i.e Tanzania, Uganda, Rwanda and Burundi. This study further sought to find out the most popular destination for foreign direct investment by Kenyan firms in the EAC. The respondents were asked to indicate the countries within the EAC in which their organizations had invested in. The results are illustrated in table 4.7 below.

4.7 Number of Kenyan firms in each Country in the EAC

Country	**Frequency(No. of mentions)**	**Percentage**
Tanzania	16	38%
Uganda	11	26%
Burundi	4	10%
Rwanda	11	26%
	42	100%

The Results from table 4.7 above indicate that Tanzania is the most popular foreign direct investment by Kenyan firms with 38% having invested while Uganda and Rwanda are next with 26% each and the least popular being Burundi. This could be because of a number of reasons including geographical proximity and country specific factors.

4.4.2 The Environmental Challenges Faced by Kenyan Firms in the Implementation of Foreign Direct Investment.

All businesses/organizations are faced with different environmental challenges in their quest to achieve their objective of profitability. The challenges will vary depending on different factors such as; the industry, environment of operation. The challenges that organizations go through can be grouped in 5 broad classes which are; Political, Economic, Social, Environmental and Legal factors. This Study therefore sort to find out the challenges that organizations go through in their quest to internationalize. The respondents were asked to indicate the extent to which the different factors posed a challenge to the implementation of foreign direct investment by their organizations within the EAC. The findings are illustrated in table 4.8 below.

Table 4.8 Environmental Challenges Faced by Kenyan firms in FDI.

Challenge	No	Min	Max	Mean	Std Deviation
National government of the host country	22	1	5	2.5	0
Local competitors	22	1	4	2.2272	0.0704
Local market/Customers	22	1	4	2.636	-0.008
Economic factors of host country	22	1	5	2.5909	-1.7729
Infrastructural development	22	1	5	2.636	-0.008
Legislation and regulations of host country	22	1	5	3.1818	-0.0004
Corruption	22	1	5	3.1818	-0.0004
Political stability	22	1	5	2.590	-0.02
Insufficient investment incentives	22	1	5	2.727	-0.006
Beuracracies and duplicity of government agencies	22	1	5	3.545	-0.01

For purposes of interpretation, mean rating between 1-3.0 was considered as minimal extent therefore minimal challenges, while a mean of 3.0-5.0 was considered as great extent therefore a major challenge in the implementation of foreign direct investment by the firms in the EAC.

From the responses shown in Table 4.8 above , three of the ten challenges are considered as major challenges by firms (mean > 3.0) when investing in the EAC. Beauracracies and duplicity of government agencies (mean 3.545) emerged as the biggest challenge to implementation of foreign direct investment in the EAC. This was followed by corruption and legislation and regulations of the host country (mean 3.1818 each). Other challenges that firms also considered as hindrances to successful implementation of foreign direct investment were insufficient investment incentives (mean 2.727), infrastructural development and reception of the local market (2.636 each). The factors that firms considered as posing minimal challenges in implementation of foreign direct investment were economic factors (mean2.5909), political stability (mean 2.590), national governments of host country (mean 2.5) and local competition (mean 2.2272)

4.5 Factors Influencing Successful Implementation of Foreign Direct Investment in the EAC.

The final objective of this study was to determine the factors that influenced successful implementation of foreign direct investment by Kenyan firms in the EAC. Whereas there are challenges that firms face in their quest to internationalize, there lies many factors that enable a smooth process of implementation of foreign direct investment within the EAC. These factors would explain the increase in the number of Kenyan firms that are engaging in foreign direct investment and being a success while at it. In order to achieve this objective the common factors that affect implementation of foreign direct investment were identified and respondents were asked to indicate the extent to which the factors influenced the successful implementation of foreign direct investment within the EAC. The findings are illustrated in table 4.9 below.

Table 4.9 Factors Influencing Successful Implementation of Foreign Direct Investment in the EAC.

Factor	No	Min	Max	Mean
Establishment of the EAC	22	1	5	3.727
Geographical proximity	22	1	5	4.136
Cultural similarity within the EAC	22	2	5	3.454
Protection of investors by the host government	22	1	5	3.818
Host governments openness to FDI	22	3	5	3.863
Legal and regulation factors	22	3	5	3.5
Attraction of foreign investors by host government	22	2	5	3.681
Infrastructural development	22	1	5	3.545
Political stability	22	1	5	3.272
Currency stability of host country	22	1	5	3.227
Common market protocol	22	1	5	3.227
Market availability	22	1	5	3.272
Frequency of regulation changes	22	1	5	3.181
Taxation policy	22	1	5	3.00

For purposes of interpretation, mean rating between 1-3.0 was considered as a factor with minimal influence on the successful implementation of foreign direct investment, while a mean of 3.0-5.0 was considered to have influenced greatly the successful implementation of foreign direct investment in the EAC. All of the 15 factors considered were found to have played a great role in the successful implementation of foreign direct investment with all surpassing the mean of 3.0 (>3.0). Of most importance was geographical proximity which organizations found convenient because of the closeness of the EAC to Kenya. The next important factors include the host governments openness to foreign direct investment (mean 3.863), protection of foreign investors by the host governments (mean 3.818) , the establishment of the EAC (mean 3.727) , attraction of foreign direct investors by the host government(mean 3.681). The other factors were also considered important to the successful implementation of foreign direct investment though to a lesser scale with a mean of between 3.0 - 3.545, these include; host country's political stability, currency stability, the common market protocol, market availability, frequency of regulation changes, taxation policy, infrastructural development.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 Introduction

This chapter presents a summary of the findings, as regards to the main objectives of the study. Based on these findings the conclusions were drawn and some recommendations on the way forward made. The objectives of the study were to determine the experiences of Kenyan firms in implementing FDI in the EAC, the challenges faced by Kenyan firms while implementing FDI in the EAC and the factors that promoted the successful implementation of FDI by Kenyan firms in the EAC.

5.2 Summary of the Findings

In order to gather the experiences of the Kenyan firms while implementing FDI in totality a number of issues were studied. It was observed that 64% of the respondent firms invested within East Africa before the formation of the new EAC and 36% after this therefore discouraging investment in Rwanda and Burundi for the former.

The other aspect studied was the mode of foreign direct investment undertaken and 77% of the respondents invested through Greenfield ventures while 18% invested through acquisitions and 5% were mergers. Each form of FDI presented its own challenges and benefits with lack of inheritance of cultural problems and a standardized look for products being the benefits of Greenfield investments and capital intensiveness being the major challenge. Continuity was the major benefit for acquisitions while resistance to change was the biggest challenge, and finally synergy was the major benefit for mergers and resistance to change the biggest challenge.The most important organizational factors that promoted the successful implementation of foreign direct investment in the EAC by Kenyan firms were; involvement of senior management in the implementation process, financial capability of the firms, the firms experience in the home market and the involvement of middle level managers in the implementation process. All respondents agreed that FDI was the right strategy for their firms in their quest to internationalize and 72% of the respondents were satisfied with the level of success of their investments.

Before the challenges were studied, a number of aspects which include the number of firms invested in each country of the EAC and the number of countries that each of the respondents has invested in were looked at. It was found out that 50% of the respondents have invested in more than one country in the EAC and majority of the Kenyan firms studied had invested in Tanzania(16 out of 22) and the lowest number had invested in Burundi(4 out of 22). From the study it was found out that Beuracracies and duplicity of government agencies(mean 3.545) was the biggest challenge followed by corruption, legislation and regulations and insufficient incentives by the host government.

The study found out that of the most important factors that promoted successful implementation of foreign direct investment, geographical proximity was the most important. Other important factors include; the host government's openness to foreign direct investment, protection of foreign investors by the host governments, establishment of the EAC and the attraction of foreign investors by the host governments.

5.3 Limitations of the Study

The lack of a well defined source of the target population meant the need to use mapping from different sources which was not exhaustive therefore limiting the number of respondents for this study. A good number of the firms in the target population do not have a clear academic research support policy and my study brought about a challenge whereby for some cases I had to move from one office to another before I was finally given the go ahead to present my document and in some cases my document was declined. A good number of the company headquarters are located in Nairobi and I had to travel to Nairobi for data collection and since some of the respondents were busy and travelled frequently out of the country, it meant spending a lot of time trying to get my questionnaires filled.

5.4 Conclusion

From the responses obtained from the study, it can be concluded that most firms are satisfied with the level of success of their investment in the EAC and that foreign direct investment was the right strategy for the firm in its quest to internationalize.

The study also concludes that involvement of senior management in the successful implementation of foreign direct is important together with financial capability and experience of the firm in the home market. Beuracracies and duplicity of government agencies, corruption, legislation and regulations and insufficient incentives can be concluded as the major challenges in the implementation of foreign direct investment by Kenyan firms in the EAC. The study also concludes that geographical proximity, host governments openness to foreign direct investment, protection of foreign investors by host country, the establishment of the EAC and efforts by the host government to attract foreign investors as the major factors that affected the successful implementation of foreign direct investment.

5.5 Recommendations.

The EAC as an ideology has great potential of promoting more foreign direct investment not only by Kenyan firms but also by firms in the wider East African Community region. As at now the establishment of the East African community ranks fourth in the factors that promote successful implementation of foreign direct investment by Kenyan firm in the EAC. More should therefore be done by the EAC to ensure the effective implementation of some of its protocols such as the common markets protocol so as to create a conducive environment for firms to do business. Beuracracies and duplicity of government agencies together with corruption and legislation and regulations in the host countries are seen as major challenges to the implementation of foreign direct investment. The East African governments should therefore do more in championing the attraction of more foreign direct investors by reducing beuracracies and regulations together with curbing corruption in their countries.

5.6 Area for Further Research

The study wishes to recommend further research on experiences of further firms not covered in this research due to the fact that the mapping done to identify the population was not exhaustive. Further studies should also be done to identify sector specific experiences, challenges and factors that promote successful implementation of foreign direct investment by Kenyan firms in the EAC. This is because this research only focuses on the general attributes by Kenyan companies across different sectors.

REFERENCES

Albaum,G., Strandskov,J., Duerr,E., Dowd,L.(1989),"*Internal marketing and export management*,"Addison-Wesley, Workingham, England.

Ahmad,S.Z and Kitchen,P.J(2008)"Transnational corporations from Asian developing countries; The internationalization characteristics and business strategies of Sime DarbyBerhad, " *International Journal of Business science and Applied mgt*,vol.3.

Carson,ns,D.,Gilmore,A.,O'Donell,A.(2001)" Factors influencing foreign direct investment and international joint ventures;A comparative study of Northern Ireland and Bahrain"*International marketing review,Vol20 No.2 marketing review*, pp195-215Caves,R.E.(1971),"Industrial cooperation; the industrial economics of foreign investment," *Economica journal*,vol.38 No.149,pp, 1-27.

Davidson,W.H. and McFetridge,D.G(1985)," Key characteristics in the choice of international technology transfer mode,"*Journal of international business studies*,Vol16 No.2 pp5-21.

Dinga,M.O(2009),"A study of the Impact of foreign direct investment on Economic growth," Unpublished MBA project; University of Nairobi

Dunning,J.(1971),"The multinational,"George Allen & Unwin Ltd,London.

Erdener, K., Serkan,Y., Ekrem,T.(2006) "A Comparative Study of Foreign Direct Investment Activities in Georgia and Kyrgyz Republic", *Multinational Business Review*, Vol. 14 Iss: 3, pp.29 – 52

Ersoy, A.B and Kok,R.(2009),"Analyses of FDI determinants in developing countries," *International journal of social economics*, Vol 36 No.1 pp105-123

Hymer,S.(1960),"The international operations of National Firms,"MIT press,Cambridge,MA.

Koch, J.A(2001),"Factors influencing market and entry mode selection; developing the MEMS Model," *Marketing intelligence and planning*, vol.19(5), pp351-361.

Kumar,V. and Subramaniam,V.(1997)."A contingency framework for the mode of entry decision,"*Journal of World Business*,vol.32.

Liu,Z.,Zhang,Y.,Zhang,Z.(2007),"Choice of Entry modes in sequential FDI in an emerging economy," *Management Decision*,vol.45 No.2,pp749-772.

Loyatif,M.(2003). A theoretical model for matching entry modes with defensive marketing strategies, *Journal of American Academy of Business*,vol.2(2).

Maunda,A.B.(2011)."Factors influencing Internationalisation process at Kenya Commercial Bank Limited,"Unpublished MBA project,school of Business,University of Nairobi.

Munyoki S.C.(2001)," The role of Kenya Investment Authority in Attracting foreign direct investment in Kenya,"Unpublished MBA project,school of Business,University of Nairobi.

Musila,W.J. and Sigue,P.S(2006),"Accelerating foreign direct investment flow to Africa: from policy statements to successful strategies," *Managerial finance*,Vol.32 No.7 pp577-593.

Raps,A.(2005),"Strategy implementation-an insurmountable obstacle?" *Handbook of business strategy*, pp141-146.

UNCTAD World investment report 2012(unctad.org)

Watters,R.G(1995),"International business development; What are the considerations?," *Journal of Business and industrial marketing*,Vol.10 No.3 pp61-74.

Wint, G.A. and Williams, A.D(2002), “Attracting FDI to developing countries, A changing role for Government?” *The international journal of public sector management*, Vol 15 No.5pp361-374

World Trade Organisation-East African community trade policy review 2013.(wto.org.com)

www.eac.int

Yabs,J.(2011),”Entrepreneurial initiatives, business environmental factors and the success of Kenya’s outward foreign direct investment in East Africa,” Digital repository University of Nairobi.

Questionnaire

KEY

1 - To no extent at all
2 - To a minimal extent
3 - To an average extent
4 - To a good extent
5 – To a great extent

PART A: BACKGRROUND INFORMATION.

1. Name of Company……………………………………………………………………….
2. Position of respondent…………………………………………………………………...
3. Number of years in current position…………………………………………………..
4. Level of Education……………………………………………………………………....

PART B: ORGANISATIONAL INFORMATION.

1. When did your firm invest in the EAC?

   After the formation of the New EAC ( )

   Before the formation of the New EAC ( )

2.What form of foreign direct investment did your firm use to internationalize?

Greenfield Venture ( ) Acquisition ( ) Merger ( )

3. What benefits has this form of foreign direct investment brought about to your firm?...
……………………………………………………………………………………..
……………………………………………………………………………………..
4. What challenges has your firm faced as a result of using this mode?..................
……………………………………………………………………………………..
……………………………………………………………………………………..

5.To what extent has the firm's experience in the home market assisted in implementation of foreign direct investment strategy?

1 2 3 4 5

6.To what extent have financial resources determined the level of success of foreign direct investment by your firm?

1 2 3 4 5

7.To what extent has the senior management of the firm been involved in implementation of foreign direct investment?

1 2 3 4 5

8.To what extent have members of the organization (middle level managers) been involved in implementation of foreign direct investment?

1 2 3 4 5

10.To what extent has the timing affected the implementation of FDI in the EAC?

1 2 3 4 5

11.Was foreign direct investment the right strategy for the firm in its quest to internationalize?

Yes ( ) No ( )

12.To what extent has foreign direct investment as a choice of strategy affected success of the firm?

1 2 3 4 5

13.To what extent are you satisfied with the level of success of the foreign direct investment by your firm?

1 2 3 4 5

PART C; FACTORS INFLUENCING SUCCESSFUL IMPLEMENTATION OF FOREIGN DIRECT INVESTMENT IN THE EAC. (circle where appropriate)

1.In which country(s) in the EAC has your firm invested in?

Burundi ( ) Tanzania ( )

Rwanda ( ) Uganda ( )

2. To what extent has the establishment of the EAC promoted successful implementation of Foreign direct investment by your firm in the EAC?

1 2 3 4 5

3. To what extent has the geographical proximity affected the implementation of foreign direct investment in the EAC?

1 2 3 4 5

4.To what extent has cultural similarity within the EAC promoted the successful implementation of foreign direct investment?

1 2 3 4 5

5.To what extent has the host government protected foreign direct investors?

1 2 3 4 5

6.To what extent has the host government's openness to foreign direct investment affected the successful implementation of foreign direct investment?

1 2 3 4 5

7.To what extent has the legal and regulation factors affected the successful implementation of foreign direct investment?

1 2 3 4 5

8.To what extent has the host government contributed in attracting foreign direct investment?

1 2 3 4 5

9.To what extent has infrastructural development affected the successful implementation of foreign direct investment?

1 2 3 4 5

10.To what extent has the host country's political stability affected the successful implementation of foreign direct investment?

1 2 3 4 5

11. To what extent has the host country's currency stability affected the successful implementation of foreign direct investment?

1 2 3 4 5

12. To what extent has the common market protocol affected the successful implementation of foreign direct investment?

1 2 3 4 5

13.To what extent has market availability affected successful implementation of foreign direct investment?

1 2 3 4 5

14.To what extent has the frequency of regulation changes affected the successful implementation of foreign direct investment?

1 2 3 4 5

15.To what extent has the host country's taxation policy affected the successful implementation of foreign direct investment?

1 2 3 4 5

SECTION D; CHALLENGES TO SUCCESSFUL IMPLEMENTATION OF FOREIGN DIRECT INVESTMENT IN THE EAC.(circle where appropriate)

1.To what extent has the national government hindered successful implementation of foreign direct investment?

1 2 3 4 5

2.To what extent have the local competitors hindered successful implementation of foreign direct investment?

1 2 3 4 5

3.To what extent has the local market/customers hindered successful implementation of foreign direct investment?

1 2 3 4 5

4.To what extent has economic factors hindered successful implementation of foreign direct investment?

1 2 3 4 5

5.To what extent has infrastructural development hindered successful implementation of foreign direct investment?

1 2 3 4 5

6.To what extent has host country legislation/regulation hindered successful implementation of foreign direct investment?

1 2 3 4 5

7.To what extent has corruption hindered successful implementation of foreign direct Investment?

1 2 3 4 5

8.To what extent has political stability hindered successful implementation of foreign direct investment? 1 2 3 4 5

9.To what extent has insufficient investment incentives hindered successful implementation of foreign direct investment?

1 2 3 4 5

10.To what extent has bureaucracies and duplicity of government agencies hindered successful implementation of foreign direct investment?

1 2 3 4 5

Thank you for your time.