DETERMINANTS OF FOREIGN ENTRY STRATEGIES ADOPTED BY KENYAN FIRMS IN SELECTING AND ENTERING INTERNATIONAL MARKETS

By

WAICHARI PETER MWANGI

A MANAGEMENT PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION (MBA) DEGREE OF THE UNIVERSITY OF NAIROBI

NOVEMBER, 2010

DECLARATION

This Management Project is my original work and has not been presented for a degree in any of other University.

Signed____Date_______________________

Peter Mwangi Waichari

D61/70057/2009

The Management Project has been submitted for examination with my approval as the University Supervisor.

Signature____Date_______________________

Dr. Wahome Gakuru

Lecturer

School of Business

University of Nairobi.

DEDICATION

I wish to dedicate this project to my family and in particular my spouse Beatrice Waitherero for support and encouragement, to my son Alvin Samuel for giving the reason to study and work hard, and to my parents Grace Njeri, and the late Samuel Waichari for the efforts and sacrifices you made in bringing me up and teaching me the value of education.

ACKNOWLEDGEMENTS

To Almighty God for seeing me through the entire MBA Programme. Without the help of the Lord, I would not have made it. His Faithfulness is Everlasting, Glory and Honors be to Him.

Special thanks to my supervisor Dr.Wahome Gakuru for his advice, guidance and suggestions throughout the project.

To my family and special thanks to my wife Beatrice for constant support and encouragement throughout the MBA programme.

Appreciation to my classmate for their support in one way or another towards successful completion of this project and indeed the entire MBA course.

Sincere thank to the respondents who sacrificed their time to complete the questionnaires despite their busy schedules.

To the many other persons who played one role or another in my study, it may be impractical to mention all of you by your individual names, but I greatly recognize and appreciate your efforts and contributions to the completion of this project.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

COMESA	-	Common Market for Eastern and Southern Africa
CMA	-	Capital Market Authority
EAC	-	East Africa Community
EMC	-	Export Management Companies
FEM	-	Foreign Entry Mode
FDI	-	Foreign Direct Investments
GI	-	Greenfield Investment
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
NSE	-	Nairobi Stock Exchange
SADC	-	South African Development Community
TC	-	Transaction Cost
US	-	United States
UK	-	United Kingdom

ABSTRACT

The objectives of the study were to determine the determinants of the foreign market entry strategies and their significance on the optimal choices of foreign markets entry modes selected by Kenyan firms entering in to the international markets, determine the different entry strategies adopted by the Kenyan firms in venturing in to foreign markets and the reasons for these strategies, and to determine the challenges faced by the Kenyan firms in selecting and entering the foreign markets.

The research design was a descriptive survey and the population of interest was Kenyan firms listed at the NSE and have ventured in to the foreign markets. The sample consisted of 22 respondents. Both primary and secondary data was used in this study. Secondary data was collected through reviews of documents while primary data was collected using a semi structured questionnaire. The questionnaire contained both closed and open ended questions. Descriptive statistics was used in data analysis to determine the factors affecting choices of foreign entry strategies and their significance.

The findings of the study indicates that the determinants of Kenyan firms in selecting and entering in to the international markets is a function of various parameters, some of which are in the foreign business environment, others in firm characteristics specific factors and motives for foreign markets, and in the very context in which the decision is made. On the foreign business environment, the study has shown that the legal framework for trade, political factors such as political risk and host country stability, prospects for economic growth and political economic policies were considered to have significant effects on the entry strategies into the foreign markets. The firm's characteristics specific factors

considered to have large effects on the choice of the foreign entry strategies are firm's foreign market advantages, firm's resources, firms ownership advantage and the need to leverage on the firm's core competences. On the decision making context, it was found out that personal opinion on the quality of the information, attitude on foreign markets and personal perception on the foreign markets have major effects on entry strategies in to the international markets.

The study has shown that the optimal choices of entry modes varied amongst the respondents. Firms in service and financial industries preferred a joint venture or a wholly owned subsidiary while those in manufacturing preferred exporting before either getting in to a joint venture or setting up a wholly owned plant in the foreign markets. Overall the three most preferred entry strategies were exporting, joint venture and wholly owned subsidiary.

The study found out that government policies such on legal requirements, licensing, taxation and economic are major challenges in selecting and entering foreign markets. Other significant challenges noted are political interferences, lack of financial resources, levels of corruption in the host countries, political instability, poor infrastructure, lack of foreign markets' information and level of competitions in the international markets.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

An entry mode is an institutional arrangement that a firm uses to market its product in a foreign market in the first three to five years, which is generally the length of time it takes a firm to completely enter a foreign market (Root, 1994). The selection of an appropriate entry mode in a foreign market can have significant and far-reaching consequences on a firm's performance and survival (Davidson, 1982; Gatignon and Anderson, 1988; Root, 1994; Terpstra and Sarathy, 1994). For example, an inappropriate entry mode may block opportunities and substantially limit the range of strategic options open to the firm (Alderson, 1957); it may result in substantial financial losses to the firm, including exit from the foreign market, as Federal Express, (the German insurance giant) and McKinsey learned the hard way in Europe (Mathe and Perras, 1994). Merrill Lynch failed in its first attempt to enter the private client services market in Japan in the 1980s largely because of using a mode of entry that was at odds with the restrictive regulations in Japan at that time (Hill, 2002).

The importance of the foreign market entry mode decision has been well documented (Tallman and Shenkar, 1994). The entry mode chosen has a major impact on the level of control the Multinational Corporation (MNC) has over the venture (Root, 1994). 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 mode choice can be difficult, it is important that well thought out decisions be made. As a result of the importance of entry mode decisions, a large body of research examining the factors involved in firms' foreign market entry mode decisions has evolved. To date, however, very little research has focused on how Kenyan firms make entry mode choices. The purpose of this study is to examine the factors that Kenyan firms consider in making the choice among alternative entry modes when entering a foreign market.

1.1.1 Overview of the Foreign Market Entry Strategies

When selecting an entry mode, managers must identify the firms underlying motivation for venturing abroad (Cavusgil, 2008). Cavulsgil (2008) notes that companies internationalize for a variety of reasons. Some motivations are reactive while others are proactive. Moving to follow major customers abroad is a reactive move while seeking high growth markets abroad or preempting a competitor in home market are proactive move. Firms may venture a broad to enhance various competitive advantages, learn from rivals or pick up ideas about new products.

To select a market entry strategy, managers must consider the firms resources and capabilities, conditions in the target country, risk inherent in each venture, competition from existing and potential rivals and the characteristic of the product or service to be offered in the market. Firms internationalize due to push and pull factors. Initial internationalization may be accidental. Management must balance risk against return.

Each international venture provides learning experience that encourages further internationalization, going from relatively simple and low risky entry strategies to more complex strategies.

Business leaders look internationally for potential new markets for their product or service. New markets offer the probability of increasing revenue and decreasing the costs of goods sold, which serves to increase profits. Entering new international markets also allows a firm to follow its existing customers abroad, attack competition, obtain new sources for raw materials, acquire information, diversify internationally, and the opportunity to expand globally and exponentially.

The choice of foreign entry mode has been seen by scholars' to impact greatly on the entrant's future decisions and performance in foreign markets. The choice of foreign entry mode also carries with it great implications of on the resources commitment levels for a foreign firm, which is difficult to transfer from one location to another especially from high levels to low levels of resources commitment (Zhao and Decker, 2005). Root (2004) asserts that the choice of market entry mode is one of the most critical strategic decisions for MNCs.

A firm's strategy can be defined as actions that managers take to attain the goal of the firm. The decision about the choice of foreign entry mode is of strategic importance to the international expanding firm. The decision impacts greatly on the scale of resources commitment and has far reaching implications on future performance of the foreign business (Roots, 1994).

1.1.2 Determinants of Foreign Entries Strategies

Most past studies on foreign market entry modes have emphasized 'ownership advantage theory' (Hymer 1960, 1976; Kindleberger 1969), 'location specific advantage theory' (Franko 1971; Stopford and Wells 1972), 'internalization theory' (McManus 1972; Buckley and Casson 1976), 'transaction cost theory' (Williamson 1975; Buckley and Casson 1976; Casson 1982; Caves 1982; Anderson and Gatignon 1986; Kogut and Singh 1988; Erramilli and Rao 1993), 'strategic behaviour approach' (Harrigan 1985; Kogut 1988) and 'resource based theory' (Wernerfelt 1984; Barney 1986; Collis 1991; Peteraf 1993). Some recent studies have been trying to combine a number of theories into one-eclectic framework to explain the entry mode choice decision. Dunning's (1980, 1988) 'eclectic paradigm' denoted that the choice of entry mode decision is influenced by three types of factors: ownership-specific factors of a firm, location-specific factors of a market and internalization advantages of integrating transactions within the firm. Hill, Hwang and Kim (1990) developed their 'eclectic theory of the foreign entry mode choice' by combining transaction cost theory, internalization theory and strategic behaviour approach. Bell (1996) created a new eclectic framework to exam Dutch firms' entry mode decision by adding resource based theory into Hill, Hwang and Kim's eclectic mode.

The success of each foreign market entry is affected by many factors. Firms that want to invest in a foreign market need to consider possible impacts of these factors (Bell 1996). Root (1994), Mockler and Dologite (1997) have given a set of more clear and complete elaboration of factors affecting the decision choice of entry mode. They suggest that an initial concept of an entry mode can be determined by studying host country environmental, market, production, parent firm's home country, parent firm's product and resource commitment factors. However, Kumar and Subramaniam (1997) deemed that the existing literature on the choice of entry modes into international markets is based on the assumption that the mode of entry choice is a function of various exogenous factors, but an alternate view could be that certain factors endogenous to the decision task affect the choice of mode of entry. This view holds that a decision made by a manager depends not only on the relevant external factors but also on characteristics of the decision task, characteristics of the manager, and the manager's expectations about the quality of the information available to reach the decision as managers of multinational corporations may face time and resource constraints when making the decision.

The firm's choice of a particular foreign market entry mode is a function of a large number of diverse factors. It varies with product characteristics such as degree of differentiation, importance, age, and technological content (Stopford and Wells, 1972; Davidson, 1982; Goodnow, 1985; Gatignon and Anderson, 1987). It may depend upon certain firm characteristics such as size and resources, degree of diversification, and corporate policies (Stopford and Wells, 1972; Goodnow, 1980; Davidson, 1982; Root, 1987). Finally, entry mode choice by firms may also be determined by external environmental factors: host country trade and investment restrictions, host country market size, host country geographic and cultural distance, and exchange rate fluctuations (Aliber, 1970; Goodnow and Hansz, 1972; Stopford and Wells, 1972; Goodnow, 1980; Bauer-shmidt et al., 1985; Root, 1987; Gatignon and Anderson, 1987).

1.1.3 Internationalization of Kenyan Firms

While the Kenyan economy has come upon somewhat harder times in the "post election violence" era, some of the Kenyan firms have continued with their expansion in to the foreign markets. Undoubtedly, those that have thrived in foreign markets is as a result of doing effective planning in choosing the entry mode (e.g. exporting, joint venture, full ownership) through which they serve individual foreign markets.

In fact, Kenyan firms have aggressively entered markets in Uganda, Tanzania, Southern Sudan, Rwanda, and in the COMESA region. However, the process by which Kenyan firms select an institutional arrangement (i.e. choose an entry mode) in entering a foreign market has not been widely studied.

According to Financial Post, issue number 141 dated 30th July 2009, Kenya is rated the second largest investor after Britain, in Tanzania and Uganda. Other neighboring countries are also eyeing Kenya as a potential source of Foreign Direct Investment (FDI). As various regional blocks begin to take shape, a number of leading Kenyan companies are positioning to take advantage of the emerging markets. The strategy used by these companies range from setting up a distributorship, agency or subsidiary to establishing a whole processing plant in the foreign countries.

There are several Kenyan firms that have ventured in the East African Community (EAC), Common Market for East and Southern African (COMESA) and the Southern Africa Development Community (SADC). Those notable companies already having a regional presence include Bidco Oil Refineries Limited, Fina Bank, East African Cables, East African Breweries Limited, Kenya Commercial Bank, Equity Bank, Jubilee

Insurance, Athi River Mining, Portland Cement, Steadman Group, Kenol Kobil, Mabati Rolling Mills, Nation Media Group and UAP Insurance. The fundamentals driving these companies to go regional are as varied as the companies themselves, ranging from heavy industrial commercials like East African Cables to those in the service industry, including Steadman and Scan Group Limited. While players like Bidco Oil Refineries have set up Palm oil farm and plant in Uganda, others have moved into the regions previously affected by conflict, including Rwanda, Burundi and Southern Sudan.

There are many opportunities for trade and investment for Kenyan firms seeking internationalization. The opportunities also come with the real challenges in the foreign environment including political, economic, social cultural, technological and legal environment. There is need for every firm that intends to venture in to foreign business to determine the mode of foreign market entry that best suits its objectives and strategic fit in the foreign business environment. Huge amount of funds are involved in International business and the choice of a particular entry mode is very significant for carrying on business across borders (Sharan, 2003). Choosing the wrong foreign entry strategy may result in operational sub-optimization which may result in eventual business failure. An appropriate choice of entry strategy may also result in undue exposure to adverse environmental factors especially when the chosen entry mode implies large resource commitment. An inappropriate choice may also result in sub-optimization of the potential to reduce costs and, maximize on revenue generation. In the recent past, firms in Kenyan firms have developed interest in trade and investment opportunities beyond the borders. According to (Kieti, 2006), among the initial concerns of Kenyan firms seeking to go international are the timing of the entry, mode of the entry and the scale of entry.

1.2 Statement of the Problem

Entry strategy is the strategy adopted by a firm in entering foreign market. Entry strategy is important for organization because what works for one organization may not work for another firm. Additional strategy adopted in entering one country may not work for another country.

The selection of an appropriate entry mode in a foreign market can have significant and far reaching consequences on a firm's performance and survival (Davidson, 1982; Gatignon and Anderson, 1988; Root, 1994; Terpstra and Sarathy, 1994). For example, an inappropriate entry mode may block opportunities and substantially limit the range of strategic options open to the firm (Alderson, 1957); it may result in substantial financial losses to the firm, including exit from the foreign market, as Federal Express and McKinsey learned the hard way in Europe (Mathe and Perras, 1994). Merrill Lynch failed in its first attempt to enter the private client services market in Japan in the 1980s largely because of using a mode of entry that was at odds with the restrictive regulations in Japan at that time (Hill, 2002).

According to (Kieti, 2006), among the initial concerns of Kenyan firms seeking to go international are the timing of the entry, mode of the entry and the scale of entry. To date, however, very little research has focused on how Kenyan firms make entry mode choices. It is for this reason that it has been necessary to conduct a study in this area in order to determine the sort of determinants that underlies entry strategies by Kenyan firms as they venture in to the foreign market.

1.3 Research Objectives

The following were the objectives of the study:

i. Determine the determinants of the foreign market entry strategies and their significance on the optimal choice of foreign entry modes selected by Kenyan firms in entering into the international markets.
ii. Determine the different entry strategies adopted by the Kenyan firms in venturing in to foreign markets and the reasons for these strategies.
iii. Determine the challenges faced by Kenyan Firms in selecting and entering the foreign markets.

1.4 Significance of the Study

In today's highly competitive environment, correct choice of entry strategy permits firms to attain competitive advantage. Despite much potential in foreign countries, some Kenyan firms have not been able to successfully penetrate such foreign markets. This study seeks to provide the much needed answers on the factors the firms seeking to go international will need to consider and to be aware of.

The study highlights the significant role that entry mode to various countries plays in creating sustainable competitive advantage. It enables and encourages the mangers to put emphasis on their selection mode to the various foreign markets.

To Kenyan firms seeking internationalization it will serve as reference point with regard to selection and entry strategies to foreign market. The findings on how Kenyan firms are selecting strategies to enter foreign markets to create competitive advantage would be beneficial to potential investors seeking to penetrate foreign market. Linking organizational success in foreign market to successful entry strategy would give impetus to the need to develop sound entry strategies.

To scholars, academicians, and general public it shall provide insight on the dynamic and rationale of selection and entry strategies to a foreign market. The empirical study will also result in secondary data available for other related studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter covers an introduction to the concept of strategy, reviews of theoretical and empirical literature on foreign entry mode alternatives and theoretical framework, theories of international entry mode choices and determinants of foreign entry strategies in to international markets.

2.1.1 The Concept of the Strategy

The word strategy originates from the Greek word strategos, which initially referred to the general in command of an army. Quinn, Mintzberg and James (1988) noted that there is no single universally accepted definition of strategy. Different authors and managers use the term differently, some including goals and objectives as part of strategy, while others make firm distinctions between them.

Quinn (1980) defined strategy as the pattern or plan that integrates an organization‘s major goals, policies and action sequences to a cohesive whole. He further asserted that a well formulated strategy helps to marshal and allocate organizations' resources in to a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment and continent moves by intelligence.

Peace and Robinson (1997) defined strategy as large scale, future oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives. Strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resource within a changing environment to meet the need of markets and fulfill stakeholder expectations (Johnson et al., 2005).

Porter (1985 defines strategy as the process of positioning a business to maximize the value of capabilities that distinguishes it from competitors. The term strategy is presented as plan, ploy, pattern, position and perspective and some of their interrelationships are then considered. Since strategic decisions influence the way organizations respond to their environment, strategy is a fundamental planning process. Strategy determines the businesses the organization will engage in and reveals the organizational purpose in terms of long-term objectives, action programs and resource allocation priorities, and attempts to achieve long term sustainable advantage in each of its businesses by responding properly to the opportunities and threats in the firm's environment, strengths and weaknesses of the organization.

2.2 Foreign Entry Mode Alternatives and Theoretical Framework

A firms strategy can be defines as the actions that managers takes to attain the goal of the firm (Hill, 2005). Daniels et al (2002) defines strategy as the specific group of decisions managers take to maximize their companies' performance. They further argues that the concept of the strategy in international business is important because some companies perform better than others within the same industries and performance differences relate largely to the various decision managers make and their abilities to carry our these decisions. Performance difference of firms in the same industry is thus brought about by differences in strategies and strategy implementation. International markets are extremely competitive due to the liberization of the world trade and investment environment.

The decision about the choice of foreign entry mode (FEM) is of strategic importance to the internationally expanding firms. The decision impact greatly on the scale of resources commitment and has far reaching implications on the future performance of the foreign business (Root, 1994). In light of the above observations about strategy and the question of foreign entry modes, this research project will regard the choice of foreign entry modes as strategic choices, hence refer to them as foreign entry strategies.

Foreign entries mode can be defined as “institutional arrangements that allow firms to use their product or services in a country exchange” (Calof, 1993). Similarly a market entry mode can be seen as “an institutional arrangements that makes possible the entry of company’s products, technology, human skills, management, or other resources in to the foreign” (Root, 1987).

Sharan (2003) classifies foreign entry modes in to three categories namely: The trade mode including exporting in all forms and counters trade, contractual entry modes including licensing, franchising, management contracts and turnkey projects and foreign investment modes including foreign portfolio investment and foreign direct investment (FDI) in either mergers or acquisitions or green field investments (GI).

Similarly (Daniels et al, 2002) view the entry modes to be in three categories only differing with Sharan by considering contractual entry mode as collaborative arrangements. Daniels et al view joint venture and equity alliances both of which forms of FDI as collaborative arrangements. Hill (2005) break down foreign entry strategies into six common strategies namely “exporting, turnkey projects, licensing, franchising, establishing joints ventures with a host country firm or setting up a new subsidiary in host country."

Management contract mentioned by (Sharan, 2003) and (Daniels et al, 2002) may not be significant mode of entry. They lose significance as soon as local talent is developed (Sharan 2003; 22) and on their own may not stand as entry modes for long term international business. Equity alliances and other strategic alliances are achieved in either of the equity based entry modes or in either of the contractual entry modes mentioned above. The next subsections will look at the literature describing the salient features of the six entry modes listed by (Hill, 2005).

2.2.1 Exporting

The trade mode is the first natural step for foreign expansion in international business. According to Daniels et al (2002), companies will usually export before engaging other mode of international business because exporting "requires the least commitment of the least risk to their resources". They cite the little need to transfer capital, personnel, equipment and production facilities to a foreign country in which the companies lack experience to be the reason for preference to this mode of entry. Sharan (2003) classifies exporting into two types; direct and indirect export. "Direct export is where a company takes full responsibility for making its good available for the target market by selling to end users normally through its own agents" Sharan (2003). Indirect exporting according to Sharan is where the exporting company sells its products to intermediaries who in turn sell the same product to the end users in the target market.

Sharan further argues that choice of this mode of export depends on the nature of the commodity, the exporter desire to get greatly involved in international business and the exporter's infrastructure and capacity to get more involved in export. In both indirect and direct export modes there may be intermediaries such as Export Management Companies (EMCs) and trading firms. Hill (2005) defines EMCs as specialists who act as the export marketing department or the international department for the client firms. According to Sharan (2003) an EMC can act as a distributor, taking title to the goods and selling them on its account and assuming trading risk. The EMC can also act as an agent charging commission on sales.

Although (Hill, 2005) suggest that the quality of EMC varies he suggests the following some characteristics of EMCs as having a network of contacts in the potential markets, they have multilingual employees, have a good knowledge of different business mores and being fully conversant with the ins and outs of the and exporting process and with local business regulations. Trading companies according to Sharan provide services to the exporter in addition to the actual exporting activities such as storage facilities, and financing services (Sharan, 2003). With their origin in Europe, these companies are now common in Japan and South Korea.

2.2.2 Turnkey Projects

Turnkey Operations involves a contract for construction of operating facilities that are transferred for a fee to the owner when they are ready to commence operations (Daniels et al, 2002). In a turnkey project , "the contractor agrees to handle every detail of the project for a foreign client, including the training of the personnel" Hill (2005), this mode is mostly used by the engineering and construction companies where the manufacturer or consulting firms decides not to take any investment on their own behalf in the foreign country.

Daniels et al further observe that turnkey contracts often occur as large project often running into billions of US Dollars and they are often government projects. Sharan (2003) also argues that turnkey agreements take place where the initial construction aspect of the project is more complex than the operational part. He further notes that in both cases, the price is either fixed where the licensor bears the risk of cost overruns or a cost plus price. In Lavery de Billey bulletin, (Daniels Dagenais, 2003) notes that since the supplier contractor is responsible for the design, general contracting and execution of all specialized tasks, it is generally easier for the supplier to provide the client with a performance guarantee.

2.2.3. Licensing

According to Sharan (2003), licensing is "an arrangement by which a firm transfers its intangible property such as expertise, know-how, blue prints, technology and manufacturing designs to a firm located abroad". It is also known as technical collaboration. Hill (2005) notes that a license will be given for a particular period and the period can be renegotiated. Daniels et al (2002) further note that the rights may be exclusive –within a particular territory or non-exclusive. In this entry strategy, the licensor does not have to take risk placing tangible assets abroad.

Cross licensing occurs among firms in which technological changes are frequent and companies choose to exchange technology for their different products rather than compete with each other (Daniels et al, 2002). Daniels et al further observe that in the case of subsidiaries, when a firm owns less than 100% “a separate licensing agreement may be by means of compensating the licensor for the contributions beyond mere investment of capital and managerial resources.”

2.2.4 Franchising

Hill (2005) defines franchising as “a specialized form of licensing in which the franchiser not only sell the intangible property (normally a trade mark) to the franchisee, but also insists that the franchiser must agree to abide by strict rules as to how it does business”. In this case the licensee does not have as great control over the sale of product in the foreign market as in licensing as it encompasses the transfer of a total business function (Sharan, 2003). Sharan further observes that whereas licensing is common in manufacturing industries, franchising is more common in service industries where the brand name is more important.

Sharan notes that franchising may take either a direct or indirect form. In the direct franchising the franchiser frames policy, monitors and directs the activities in each host country base whereas indirect franchising involves sub-franchisers between the original franchiser and the host country units.

2.2.5 Joint Ventures

This is where two or more companies share ownership of an FDI (Daniels et al, 2002). Daniels et al describe a consortium as a joint venture where more than two organizations participate in a joint venture. They also note that the more organizations involved in the ownership of a joint venture the more complex the ownership arrangement will be.

2.1.6. Wholly Owned Subsidiaries

In this mode of entry, the foreign firm owns 100% of the equity of the subsidiary in the foreign market. This can be realized either as Greenfield investment-GI or through the acquisition of an established firm in the host nation (Hill, 2005). Sharan (2003) consider wholly owned subsidiaries as FDI which can either be in the form of a Greenfield Investment or through merger and acquisitions or through brown field investment, a combination of GI and merger and acquisitions. Cannice (2004) observes that while both international trade and foreign direct investment continue to grow, the rate of growth in foreign direct investment is more than double than of international trade and attributes this phenomenon to the effectiveness of foreign subsidiaries.

Hill (2005) sees the process of selecting an entry mode as a trade off process between the disadvantages and advantages of the various possible entry modes. Hill (2005) summarizes the advantages and disadvantages of the entry mode in the table below:

Table 2.2: Advantages and Disadvantages of Entry Modes

Entry mode	Advantages	Disadvantages
Exporting	Abilities to realize location economies, ability to realize experience curve and economies.	High transportation costs, Trade barriers and problems with locating agents.
Turnkey contracts	Ability to earn returns from process technology skills in countries where FDI is restricted	Creating efficient competitors and lack of long term market presence.

Entry mode	Advantages	Disadvantages
Licensing	Low development costs and risks	Lack of control over technology Inability to realize location economies Inability to engage in global strategic coordination
Franchising	Low development costs and risk	Lack of control over quality Inability to engage in global strategic coordination
Joint ventures Inability to realize location and experience economies	Access to local partner's knowledge Sharing development costs and risks Political acceptability	Lack of control over technology Inability to engage in global strategic coordination
Wholly owned subsidiaries	Protection of technology Ability to engage in global strategic coordination Ability to realize location and experience economies	High costs and risks

Source: Charles Hill (2005), International Business.

Hill (2005) adds that despite existence of trade –offs between advantages and disadvantages of entry modes, some generalizations can be made about the optimal choices of entry mode depending on the core competences of the firm and its pressures regarding cost reductions.

2.3 Theories of International Entry Mode Choices

Most past studies on foreign market entry modes have emphasized 'ownership advantage theory' (Hymer 1960, 1976; Kindleberger 1969), 'location specific advantage theory' (Franko 1971; Stopford and Wells 1972), 'internalization theory' (McManus 1972; Buckley and Casson 1976), 'transaction cost theory' (Williamson 1975; Buckley and Casson 1976; Casson 1982; Caves 1982; Anderson and Gatignon 1986; Kogut and Singh 1988; Erramilli and Rao 1993), 'strategic behaviour approach' (Harrigan 1985; Kogut 1988) and 'resource based theory' (Wernerfelt 1984; Barney 1986; Collis 1991; Peteraf 1993).

Some recent studies have been trying to combine a number of theories into one-eclectic framework to explain the entry mode choice decision. Dunning's (1980, 1988) 'eclectic paradigm' denoted that the choice of entry mode decision is influenced by three types of factors: ownership-specific factors of a firm, location-specific factors of a market and internalization advantages of integrating transactions within the firm. Hill, Hwang and Kim (1990) developed their 'eclectic theory of the foreign entry mode choice' by combining transaction cost theory, internalization theory and strategic behaviour approach. Bell (1996) created a new eclectic framework to exam Dutch firms' entry mode decision by adding resource based theory into Hill, Hwang and Kim's eclectic mode.

2.3.1 The Internalization Theories

The internalization theory explains why a firm would own and operate a production facility in a foreign market instead of using licensing or supply agreement with a local business entity in the foreign market. In addressing this issue, the internalization theory relies heavily on transaction costs analysis. Hence, internalization theory and the transaction cost (TC) theory are viewed as the same theory (Madhok, 1997; Rugman, 1980). A market transaction involves transaction costs; that is, costs associated with negotiating, monitoring, and enforcing a contract (Coase, 1937; Williamson, 1975). Foreign direct investment (FDI), meaning sole ownership or joint venture, is more likely to occur when transaction costs are high (Coase, 1937). The internalization theory considers low-level modes of entry, such as licensing, supply agreement or management contract, to be the default mode of operation; that is, a low-level mode of entry is preferable until proven otherwise (Anderson and Gatignon, 1986). The internalization theory, like other industrial organization-based theories of the firm, assumes perfect competition, homogeneous firms and mobility of resources among firms, including perfect transferability of know-how between a parent company and its foreign subsidiary.

The ability of the internalization theory to explain entry mode choice in today's international business has been found wanting in a number of areas. The theory is not appropriate for comparing FDI with exporting because it focuses on conditions that lead to market failure, which in turn lead to FDI (Erramilli and Rao, 1993; Hennart, 1989). Market failure arises when there are barriers to free flow of products between countries and when there are obstacles to the sale of know-how. Barriers to the free flow of products between countries reduce the profitability of exporting, while obstacles to the sale of know-how increase the profitability of FDI relative to licensing. Also, the theory fails to recognize that strategic consideration, such as capability development or enhancement, may be the motivation for adopting a collaborative mode of entry (Kogut, 1988). While the internalization theory explains why a firm may choose FDI as an entry mode, it does not explain the role of location advantages in entry mode choice.

2.3.2 The Eclectic Theory

To overcome some of the shortcomings of the internalization theory, Dunning (1977, 1980, 1988) propounded an eclectic theory of FDI, which has ownership advantage, location advantage, and internalization advantage as its key components. Ownership advantage refers to competitive or monopolistic advantage that helps a foreign firm overcome the disadvantages of competing with local firms. Location advantage refers to market potential and country risks that make conducting business in the foreign market profitable. And internalization advantage refers to contractual risks that make controlling the foreign affiliate through FDI more beneficial than licensing a local firm to offer the product in the foreign market (Agarwal and Ramaswami, 1992).

Despite partial acceptance, the eclectic model does not provide a unified perspective in the explanation and prediction of entry mode choice (Tallman, 1991). The model does not explain why two firms in the same line of business and with similar ownership, internalization, and location advantages would not necessarily choose the same entry mode in the same foreign market (Dunning, 1993). Furthermore, extant eclectic models ignore the impact of broad product characteristics (goods versus services), home country factors, and boundary variables (weight to value ratio of the product, logistics or transportation costs and currency exchange rates between home and host countries) on choice of entry mode.

Both the internalization theory and the eclectic theory predict no FDI when there is no market failure, but firms are known to engage in alliances to enhance their competitive advantage, or competitive position (Denekamp, 1995). Also, the internalization model and the eclectic model have been criticized for ignoring a firm's internal characteristics, factors considered to be among the fundamental drivers of a firm's strategic behavior (Bartlett and Ghosal, 1991; Zou and Cavusgil, 1996). This shortcoming is not trivial because it has been demonstrated that a firm's idiosyncratic internal characteristics may influence the firm's strategic behavior and performance, even when the firm and other members of the industry face identical external forces (Dunning, 1993; Zou and Cavusgil, 1996).

2.3.3 The Resource Based Theory

The resource-based theory views the firm, not the industry, as the source of competitive advantage, (Capron and Hulland, 1999). Competitive advantage resides in the resources (assets and capabilities) available to the firm (Barney, 1991; Peteraf, 1993; Teece *et al.*, 1997). The theory recognizes the fact that resources are both heterogeneous across firms and imperfectly mobile (Barney, 1991; Hunt and Morgan, 1995). It accepts industrial-organization-based (IO-based) theories' view that the firm is a combiner of input and seeker of efficiency in production and distribution. But it goes further than IO-based theories by pointing out that a firm's success in the marketplace may depend not only on the environment in which the firm operates but also on the firm's contribution in shaping that environment (Conner, 1991).

Regarding entry mode selection, the resource-based theory, unlike competing theories, explains not only the differences in entry mode choice observed across firms in an industry, but also why all firms in the industry do not and cannot pursue strategies that are likely to offer the highest returns. Instead, firms adopt strategies that their resources can support. Thus, the resource-based approach to entry mode choice incorporates the core notion of strategic management: the notion that a firm competes well in a setting in which there is a fit between the firm's resources and external opportunities (Conner, 1991; Vasconcellos and Hambrick, 1989).

The resource-based approach assumes sole ownership to be the default entry mode; it is the preferred entry mode until proven otherwise. Sole ownership is an ideal mode of operation (Stopford and Wells, 1972). This assumption is consistent with empirical research that found that US firms preferred sole ownership entry mode (Anderson and Gatignon, 1986; Erramilli and Rao, 1993). There is also documented evidence that Japanese firms view alliance as a second-best alternative to sole ownership (Ouchi and Johnson, 1974; Hamel, 1991). This fundamental assumption of the resource-based approach is in sharp contrast with that of the transaction cost approach. The transaction cost approach, consistent with its basic assumption of perfect competition, views shared-control mode, such as franchising, licensing, management contract, or supply contract, as the default mode of entry (Anderson and Gatignon, 1986).

2.3.4 The Decision Making Process (DMP Model)

The Decision Making Model (DMP) was proposed by (Root, 1994) and developed by Young et al. (1989), Kumar and Subramaniam (1997), Pan and Tse (2000) as well as Eicher and Kang (2002). The model argues that entry mode choice should be treated as multistage decision making process where diverse factors such as objectives of the intended market entry, existing environment, as well as the associated risks and costs, have to be taken into the account. Zhao and Decker (2004) argue that is a practical model since it focuses on optimizing the process of decision making but not on exploring which factors might affect and what their impact on entry mode choice is. They consider this model as imperfect because it ignores the roles of the organization and the decision maker in the decision making process.

2.4 Determinants of Foreign Entry Strategies

The firm's choice of a particular foreign market entry mode is a function of a large number of diverse factors. It varies with product characteristics such as degree of differentiation, importance, age, and technological content (Stopford and Wells, 1972; Davidson, 1982; Goodnow, 1985; Gatignon and Anderson, 1987). It may depend upon certain firm characteristics such as size and resources, degree of diversification, and corporate policies (Stopford and Wells, 1972; Goodnow, 1980; Davidson, 1982; Root, 1987). Finally, entry mode choice by firms may also be determined by external environmental factors: host country trade and investment restrictions, host country market size, host country geographic and cultural distance, and exchange rate fluctuations (Aliber, 1970; Goodnow and Hansz, 1972; Stopford and Wells, 1972; Goodnow, 1980; Bauer-shmidt et al., 1985; Root, 1987; Gatignon and Anderson, 1987). These product, firm, and environmental variables could be collectively referred to as "nonbehavioral" determinants.

2.4.1 The Firm Characteristic and Drive for Foreign Expansion

According to Hill (2005) expanding globally allows firms to increase their profitability in ways not available in purely domestic enterprises. The subservience of the motivation for foreign anticipation is anticipated to contribute to the choice of entry mode by firms.

Hill (2005) lists four driving factors for foreign expansion as follows: Realization of location economies, realization of cost economies from experience effects, earning greater returns from the firm core competences, earning greater returns by developing valuable skills abroad and transferring the skill to other foreign operations. Daniels et al (2002) groups the driving forces in to three. These are: sales expansion motives, cutting costs and reducing operating risks.

2.4.1.1 Pursuit of Location Economies

According to theories of international trade such as the theory of comparative advantage, some locations have lower costs on factors of production such as labor, capital and natural resources than others. The external foreign environments, political-legal, social cultural and economic, differs largely across countries. According to Hill (2005) , for a firm that is trying to survive in the global market, “trade barriers and transportation costs permitting, the firm will benefit by basing each value creation where economic, political and cultural conditions including the relative costs are most conducive to the performance of that activity” this is what Hill refers to as pursuing location economies. Location economies are economies that arise from performing a value creation activity in the optimal location for that activity, wherever in the world that would be. Hill urges that locating value creation activities in the optimal location can lower cost of value creation and or enable the firm to differentiate its product offering from those of its competitors. Daniels et al (2002) regards this motive as cost reduction motive using lower-cost locations. They argues that the combination cost of the input factor such as land, labor, raw materials, capital and utilities determines where a product may produced most cheaply. The combination concept is important as one input may have low cost accompanied by high cost.

input which overrides the gains of using the low cost factors. Daniels et al (2002) also note that government has influence on the comparative costs of operations via tax rates, operating regulations, and provision of infrastructure and inputs. Value chain integration is also seen by Daniels et al as form of the cost reduction expansion motive, hence a pursuit of location economies. If a company follows an integration strategy, it need to international because different low cost opportunities exist in different countries (Daniels et al 2002).

2.4.1.2 Pursuit of Cost Economies from Experience Effects

Hill (2005) refers to the experience curve as the systematic reductions in production costs observed to occur over life of the product. The experience curve as derived through empirical studies implies that moving down the experience curve allows the firm to reduce its cost of creating value. This according to Hill this is achieved through learning effects which is cost savings that come from learning by doing. Economies of scale is the reduction in unit cost achieved by producing a large volume of products due to the ability to spread fixed costs over large volumes among others ways of realizing economies of scale. According to Daniels et al (2002), firms can reduce their costs by spreading their fixed costs over larger volumes of production. This is because the production capacity of a company often exceeds the demand of the domestic market.

2.4.1.3 Leveraging on Core Competences

Hill (2005) argues that the optimal entry mode for firms whose primary motive for expansion is to leverage on core competences or to transfer skills derived from core competences depends on some degree on the nature of their core competences. He draws distinction between the firms whose core competences are in technological know-how and those whose core competences are in management know-how. This is the Hill's first generalization on the optimal choice of entry strategy.

Technology Know-how: Hill (2005) cities the need to avoid collaborative forms of entry such as licensing, joint venture and franchising where a firm's core competency is based on control over proprietary technological know-how. A wholly owned subsidiary would be more appropriate according to Hill unless the collaborative arrangements can be structured to reduce the risk of licensee or joint venture partners from expropriating the technology know-how or the technological advantage is deemed to be only transitory. Licensing technology to competitors can also be advantageous as far as it results in global acceptance of the technology deterring competitors from developing their own technology and ensuring a steady flow of revenue through royalties.

Management know-how. The risk of losing control over the management know-how is not great according to Hill (2005). Core competences in management know how are common in the services industry. Hill argues that in for such firms, the more valuable assets, the brand name is well protected by international laws pertaining to trademark.

Firms in the service industry are thus more likely to go for collaborative form of market entry with joint ventures being most suited where control over the entire foreign business is required.

2.4.1. 4 Leveraging on Subsidiary Skills

Hill (2005) urges that for multinationals that have already established a network of subsidiary operations in foreign markets, the development of valuable skills is not restricted to the home country operations. According to Hill, development of valuable skills can just as well occur in foreign subsidiaries. The possibility of leveraging skills developed in foreign subsidiaries is what in Hill's view a motivation for global expansion since opening up foreign operations is likely to lead to valuable skills being developed from the new foreign operations. The skill developed in foreign subsidiaries can then be transferred to other entities within the firm's global network of operations.

2.4.1.5 Risk Reduction Motives

According to Daniels et al (2002), a firm's business risk may be reduced through foreign expansion in the following ways: Firstly by smoothing sales and profits. Since shareholders value stability, reduce the cost of borrowing, managers may minimize fluctuations in sales and profit by expanding abroad where business timing of cycles such as recessions are different. Daniels et al point out that in as much as in advent of globalization business across countries should be aligned; they still differ because of variations in government policy, consumer's sentiments and economic structures.

Secondly through lessening dependence on existing customers and suppliers. Vulnerability to suppliers' shortages can be reduced by increasing the numbers of suppliers. This may not always achieved in the domestic market, according to Daniels et al. Daniels et al (2002) further argues that dependence on one industrial customer may be extremely vulnerable to the customer's fortune or the customers bargaining power and foreign sales expansion offers an alternative for diversifying such a customer base.

Thirdly by preventing competitors' advantages. This entails preventing competitors from gaining unobstructed operating advantage from foreign markets. According to Daniels et al (2002), in oligopolistic markets, once a company decides to enter a market, competitors are prone to follow quickly rather than let the company gain first-mover advantages. This is usually to prevent the competitor from "….garnering a larger market, spreading their research and development costs and making profits that they can reinvest elsewhere" (Daniels et al 2002). Hill notes that the benefits of global expansion are also curtailed by the imperatives of localization whereby a firm needs to customize its product offering, marketing strategy and general business strategy in the host country environment.

2.4.1.6 Pressure of Cost Reductions and Entry Modes

Hill (2005) second generalization on the optimal choice of entry is that the greater the pressure for cost reductions are the more likely a firm will want to pursue some combination of exporting and wholly owned subsidiaries. Substantial location and experience curve economies can usually be realized by locating production activities where factor conditions are most optimal and using wholly owned subsidiaries in vertical integration to optimize on other activities in the value chain.

2.4.2 The Foreign Business Environment and Foreign Entry Mode

According to Driscall's mode choice framework, foreign business environment has an influence on the entry mode choice. The environment factors include socio-cultural environment, the political-legal environment and the economic environment.

2.4.2.1 The Legal Political Environment

This is largely influenced by the political system of the country-the system of the government in the country. According to Sharan (2003) the political environment shapes the legal environment and legal environment in turn shapes the international business. Political systems vary from collectivism to individualism. The political system will also vary from democratic to totalitarianism. Daniels et al (2002) argues that depending on the political system, firms wishing to have specific legislation enacted may lobby public officials in a totalitarian system or lobby the public in a democratic system. Sharan (2003) further argues the strategy of a firm will be different in a country with no restrictive regulations from that in a country with too much of restrictive regulations".

According to (Hill 2005) the legal systems of a country refers to rule, or laws that regulate behavior along with the processes by which the law are enforced and through which redress for grievances is obtained. Hill further observes that every country, being sovereign entity has its own laws which regulate business practices, define the manner in which business transactions are to be executed and set down the rights and obligations of those involved in business transactions. Sharan (2003) and Hill (2005) cite three broad types of legal systems whose prevalence in a country may influence international business. These are: civil law which has detailed rules and regulations to the extent that interpretation by judges is insignificant. Secondly, common law, prevalent in UK and its former colonies which provide ample scope for interpretation of the law by judges which may in turn set precedence for subsequent similar cases. Thirdly, theoretical law, which is based on religious teachings such as Sharia law.

When legal system differs greatly from those at home, a firm may encounter substantial foreign operating problems (Daniels et al 2002). Hill (2005) cites the need for international businesses to be sensitive to particularly to differences in contract laws, since approaching a contract dispute in a state with a civil law system as if it had a common law system may backfire (and vice versa).

Sharan (2003) argues that the influence of the political legal environment impacts international business from two perspective, the home country perspective and host country perspective. He cites the fact that the home country may encourage overseas expansion through such things as incentives for export and eased procedural formalities for overseas operations of domestic firms. The home country according to Sharan (2003) may also offer restrictions for foreign expansions. The restrictions include sanctions and embargoes such as sanctions issued by the US government on its nationals' businesses on the republic of Sudan. On the host country perspectives, Sharan argues that firms expanding abroad are not necessarily in touch with legal environment on the host country especially when the host country has a different environment. He commends proper management of a political risk that arises on the account on the differing political-legal scenario for successful international business.

Political risks can be seen in three categories according to Sharan (2003) and Czinkota (1999). These are, ownership risk which exposes property and life, operating risk which includes interferences of the host government with the operations of the firm and transfer risks which is concerned with the transfer of funds to other countries. Sharan (2003) cites some common forms of political risks as follows: expropriation, currency incompatibility, credit risk, conflict of interest, risk from ethnic religious or civil strife and corruption.

2.4.2.2 The Economic Environment

Decisions on the trade or invest overseas vary from host country to host country depending on the form of economic system and the various economic parameters prevailing such as level of income and inflation, fiscal and monetary policies and the health of industrial and financial sectors (Sharan, 2003).

The two primary forms of economic system are centrally planned economies and the market economies. The nature of economic systems of most countries is such they lay in between these two extremes (Sharan, 2003). Sharon also argues that whenever a firm goes for trading with any other country or when it tries to locate its manufacturing operations there, it takes in to account the existing economic system in the host country and accordingly it shapes its trade and foreign operations policies. Preliminary economic indicators of the host country are taken into account by firms moving abroad for international business. According to Sharan (2003), the economic indicators help to determine: the size of demand for products, level of income measured in GDP or GNP and per capita income indicate, the propensity to consume, the rate of inflation and the purchasing power.

The expected cost of production and net earnings in order to ascertain competitive edge determined by, availability of physical and human resources, development of infrastructures, fiscal, monetary and industrial policies and ability to repatriate earnings back to home country smoothly. Pacek and Thorniley (2004) cites other economic indicators such as current account deficit, budget deficits, interest rates, inflations and official reserves as determinants of the approach to market entry. These indicators may highlight currency weakness or potential changes in economic policy that might affect business.

2.4.2.3 The Socio –Cultural Environment

Culture refers to the specific learned norms of a society based altitudes, values, beliefs and frameworks for processing information and tasks (Daniels et al 2002). The anthropologist Edward Taylor defined culture as “that complex whole which includes knowledge, belief, art, morals, law, custom, and other capabilities acquired by man as a society”. According to Geert Hoftede, an expert in cross cultural differences and management defines culture as “the collective programming of mind which distinguishes the member of human group from another…culture, in this sense include systems of values, and values are among building blocks of culture”. According to Hill (2005), values are the abstract idea about what a group believes to be good, right and desirable. They are shared assumptions of how things ought to be. Hill also refers to norms as the social rules and guidelines that prescribe the appropriate behavior in particular situations.

According to (Daniels et al 2002) values and norms vary from one country to another and they are reflected in different attitudes towards certain products advertising, work and relationships among the people of a given society. If the social cultural environment is similar in both home and host countries, the manager will try to take maximum advantage of the similarity in strategy formulation (Sharan, 2003). He further argues that the socio cultural environment is different from the home country's manager will try to understand the differences and will shape the strategy according to the different environment.

Moon and Shin (2004) identified three cultural variables critically influencing mode choice decisions. Firstly cultural distance, the degree of cultural difference between a foreign host country entered by a local firm and a home country of the firm. Secondly prior experience in host country culture-the degree of the focal firm's cumulated cultural experience in the host country prior to the entry and lastly firm cultural diversity, the degree of the focal firm's exposure to different types of country cultures.

2.4.3 The Decision Maker Context

The success of each foreign market entry is affected by many factors. Firms that want to invest in a foreign market need to consider possible impacts of these factors (Bell 1996). Root (1994), Mockler and Dologite (1997) have given a set of more clear and complete elaboration of factors affecting the decision choice of entry mode. They suggest that an initial concept of an entry mode can be determined by studying host country environmental, market, production, parent firm's home country, parent firm's product and resource commitment factors. However, Kumar and Subramaniam (1997) deemed that the existing literature on the choice of entry modes into international markets is based on the assumption that the mode of entry choice is a function of various exogenous factors, but an alternate view could be that certain factors endogenous to the decision task affect the choice of mode of entry. This view holds that a decision made by a manager depends not only on the relevant external factors but also on characteristics of the decision task, characteristics of the manager, and the manager's expectations about the quality of the information available to reach the decision as managers of multinational corporations may face time and resource constraints when making the decision.

In recent years, an emerging stream of literature (Aharoni, 1966; Johanson and Vahlne, 1977; Reid, 1980; Cavusgil, 1980, 1982) has been highlighting the role that "behavioral" factors play in a wide range of international marketing decisions, such as initial involvement in foreign markets, choice of country markets, and choice of foreign market entry modes which could be called the Behavioral Theory approach. - is on the decision-maker's (or the decision-making unit's) knowledge of foreign markets, and the perceptions, opinions, beliefs and attitudes born out of this knowledge (or lack of it). Market knowledge can be defined as the knowledge relating to the market and the market-influencing factors (Johnson and Vahlne, 1977).

Proponents of the behavioral approach have suggested a generally positive relationship between the decision maker's knowledge of foreign markets and the level and pace of the firm's resource commitments to these foreign markets. Johanson and Vahlne (1977) postulate a direct relationship between market knowledge and “market commitment” (commitment of resources to a particular market). This relationship between market knowledge and resource commitment could be explained through the intervening variables of uncertainty and perceived risk.

International business managers have to often make decisions in an unfamiliar environment characterized by paucity of reliable information (Mascarenhas, 1982). Lack of information and knowledge about a particular market creates uncertainty and heightens the risk perceived by decision-makers in a given situation (Aharoni, 1966; Johanson and Vahlne, 1977). Under such circumstances, decision-makers (who are seen as being risk-averse) become cautious about committing substantial resources to the foreign market. On the other hand, familiarity of the foreign market reduces uncertainty, breeds self confidence in decision-makers, and consequently makes them more aggressive in their resource commitments (Cavusgil, 1982).

Johanson and Vahlne (1977) make one further point by identifying two types of knowledge - objective (which could be taught), and experiential (which could be acquired only through actual operational experience in the foreign market). The authors insist that it is experiential market knowledge which is critical in facilitating resource commitments. This, in fact, forms the basis for explaining the widely observed phenomenon of "incremental internationalization", i.e., a gradual, step-by-step increase of a firm's involvement in a foreign market. It has been argued that firms increase their resource commitments in an individual foreign market not in large spectacular strides but in small incremental doses corresponding to each incremental increase in the firm's experiential knowledge (Cavusgil, 1982).

In addition to influencing the pattern of resource commitment, lack of market knowledge could lead to other kinds of behavior on the part of firms. Knowledge-deficient firms may try to acquire experiential knowledge by teaming up with individuals and organizations outside the firm that possess such knowhow. This means they will show a greater tendency to employ entry modes such as licensing, franchising, agent exports, and joint ventures.

In his study of foreign investment decisions in U.S. multinational corporations, Davidson (1982) empirically demonstrated how market uncertainty, caused by deficient market knowledge, can influence choice of entry modes by firms. In markets highly similar to the United States (i.e., markets about which U.S. firms can be expected to be very knowledgeable) such as Canada, United Kingdom, and Australia firms resorted to licensing and joint ventures to very little extent, preferring wholly owned subsidiaries instead. However, the usage rate of licensing and joint ventures rose dramatically for entries into countries that were less similar to the U.S. Similarly, in their study of foreign investment practices of America MNCs, Kogut and Singh (1988) found that cultural distance between U.S. and host country increased the probability of choosing joint venture over an Acquisation or a Greenfield wholly owned subsidiary. Davidson (1982) also found licensing and joint ventures to be more strongly associated with firms that were inexperienced in a particular foreign market (that is, firms with little or no experiential market knowledge), compared to more experienced firms.

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter covers the research method used in the study. It presents the research design used, the population of interest studied, and the techniques used in data collection and analysis.

3.2 Research Design

The research design for the study was a descriptive survey targeting Kenyan firms listed at Nairobi Stock Exchange and had ventured in to the foreign markets. An empirical study was conducted for Kenyan firms listed at NSE and have ventured in to the foreign market. Primary data relating to the foreign entry strategy formulation process was collected and analyzed to establish factors affecting the entry strategies choices. Analysis was done to establish the significance of each of the resulting foreign entry strategies determinants among the Kenyan Firms listed at the NSE.

3.3 Population

The population of the study was limited to those firms listed at the NSE and had ventured in to the international markets. The use of the listed companies at the NSE was selected because these firms are publicly listed and therefore they are expected to disclose information and make it available for public information and scrutiny. The study covered 22 Kenyan firms listed at the NSE and had ventured in to the foreign markets.

3.4 Sampling Design

The study used convenience sampling technique to select Kenyan firms that have ventured into the foreign markets and are listed at NSE. This technique was used because it was not possible to get a sampling frame for the firms that are Kenyan, listed at NSE and have ventured in to the foreign markets. A total of 22 firms were covered in the study.

3.5 Data Collection

Primary data was collected using a semi structured questionnaire. The questionnaire contained both closed and open questions. The questionnaire was divided into three sections: Respondents were asked questions covering issues pertaining three concerns of the study as follows:

Firstly, the firm characteristics, foreign expansion drive and institutional capacity: This was to capture issues regarding firm nature, size, structure, industry, drive for expansion and core competences and challenges. Secondly, foreign business environment: This was to capture issues regarding the socio-cultural environment, the political-legal environment and the economic environment. Thirdly, the decision making context: This was to capture the context in which the choice of the entry strategy is made with regard to individual abilities, authority and perception of uncertainty of information available and the stage of decision making.

The targeted respondents for this research were senior managers such as Chief Executive Officers, General Managers, Strategy Managers, Business Development Managers and Finance Managers. Senior managers were selected because they are involved in key decision making in their organizations and entry into foreign markets is considered a key decision.

The respondents were anticipated to prefer self administered survey method. A drop and pick approach was adopted. This was supplemented by follow ups through emails, telephone and face to face.

3.6 Data Analysis

Descriptive statistics was used in data analysis. Aggregates, percentages, and frequency distributions were established to determine the factors affecting choice of entry strategy and their significance. Response to the five point Likert scale question was recorded to accept or reject variables to gauge overall significance of the various factors. Correlations were computed of the various variables contributing to the choices of foreign entry strategy to investigate the trends.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and findings of the study based on the data that was collected from the respondent of the study. The analysis focused on the determinants and their significance on the foreign entry strategies adopted by Kenyan firms in selecting and entering international markets. The study targeted Kenyan firms that are listed at the NSE and have ventured in to the international markets.

The questionnaires were administered to senior and middle level management of Kenyans firms listed at the Nairobi Stock Exchange and has ventured in to the foreign market. The responses were reviewed and verified for consistency and completeness. A five Likert Scale was used to gauge the perception of the respondents on the factors hypothesized to determine the choice of foreign entry strategies.

4.1.1 Response Rate

The study was designed as a census survey of all firms listed at the NSE and has ventured in to the international market. The respondents were chief executives, general managers, business development managers and strategy managers. The findings below in table 4.1 show the actual number of respondents who responded in the study against the targeted population.

Table 4.1 Response Rate

	Frequency	%
Actual response	15	**68**
Missing response	7	**32**
Target population	22	**100**

4.1.2 Demographic Information

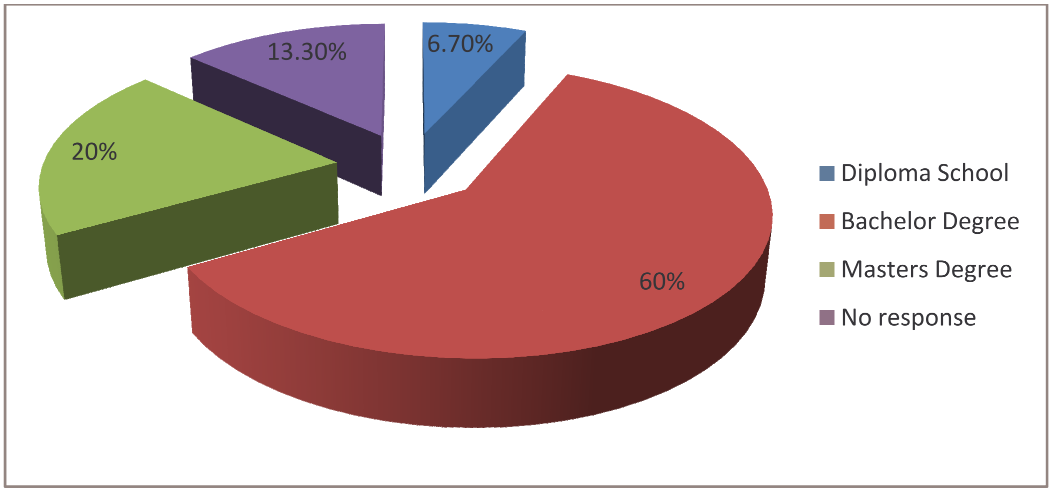
In order to capture the general information of the respondents, issues such as number of employees, duration the firm has been in the international business, development of the existing product, age bracket ,level of education, were addressed in the first section of the questionnaire. This was important because it enhanced reliability and gave the basic understanding of the respondents.

The study established that majority of the firms' 55% had been in the international business for over 5 years, and all of them had been in business for over 10 years. The Study indicated that majority 46.7% of the employees involved in making the choice of entry mode in the firm had worked in the firms and gained experience as their age bracket ranged from 41-50, 40% indicated that they were in their dynamic age and this was represented by 31-40 while 13.3% ranged between the ages of 18-25.

4.1.3 Level of Education

This section of the study sought to establish the highest schooling level that the employees of the firms had attained. The following figure 4.5 shows the findings.

Figure 4.1 Level of Education



From the figure above, the study indicated that majority of the employees 60% at the firms had attained their bachelor's degree, 20% had attained their master's degree, and 6.7% had acquired their education up to the diploma level. A further 13.3 % did not respond.

4.2 Effects of Firm Characteristic and Drive for Foreign Expansion on the Choice of Foreign Entry Strategies

This was to determine the extent to which firm's specific factors affect on the choice of foreign entry strategy. A scale of 1-5 was used. The scores "No Effect" and "Small Effect" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq$ Small Effect ≤ 2.5). The scores of 'Moderate Effect' were equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq$ Moderate Effect ≤ 3.5). The score of "Large Effect" and "Very Large Effect" represented a large effect on the choice of foreign entry strategy. This was equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq$ Large Effect ≤ 5.0).

Table 4.2 Firms Specific Factors on the Choice of Foreign Entry Strategies

Description	Mean	SD
Foreign market advantage	3.8667	.63994
Your firm resources	3.5333	.51640
Location advantages of foreign market	3.5333	.83381
Ownership advantages of the firm	3.2667	.96115
Firm's need to leverage on core competences	3.2667	.96115
Firm's experience in international	3.2000	1.08233
Firm's corporate	3.1333	1.59762
Firm's need pursuit for risk reduction motives	2.9333	.88372
Products diversification and differentiation	2.8000	.94112
Size of your firm affects your choice of entry strategy	2.7333	.70373
firm's pursuit of location economies	2.5333	.91548
Firm's pursuit of experience effects	2.4667	1.24595
Firm's cultural diversity	2.4000	1.45406

The table above presents the means and the standard deviations of the responses of the research respondents to the effects of firm's specific factors on choice of entry strategy The study shows that majority of the respondents indicated that foreign market advantage has a large effect on the choice of entry strategy; this was represented by a mean score of 3.8667. Further majority of the respondents revealed that firm resources, location advantages of foreign market, firm's ownership advantage and need to leverage on core competence have a moderate effect on the choice of entry strategy; this was represented with a mean score of 3.5333, 3.5333, 3.2667, and 3.2667 respectively. However, the respondents indicated that Firm's cultural diversity and firm's pursuit of experience effects has a small effect on the choice of entry strategy; this was represented with a mean score of 2.4000 and 2.4667 respectively on the continuous Likert scale.

4.2.1 Motivations for Foreign Expansion in to Foreign Countries

The respondents ranked pursuit of risk reduction motives (e.g. customer/supplier diversification and profit curve smoothing as the most important motivation for foreign expansion in to foreign countries, followed by pursuit of location economies (larger market and cheaper factors of production), developing core competences (technological advantage, goodwill and corporate image), taking advantage of core competencies (technological advantage, goodwill and corporate image) and lastly pursuit of experience effects (e.g. economies of scale was the least important.

4.2.2 Aspects of the Firm in Order of their Importance

The study sought to establish how the respondents ranked the aspects of their firm in order of their importance. They ranked firms motivating factor for foreign expansion as the most important, followed by experience in international business, firm size, stage in the product life cycle and the least important been cultural diversity.

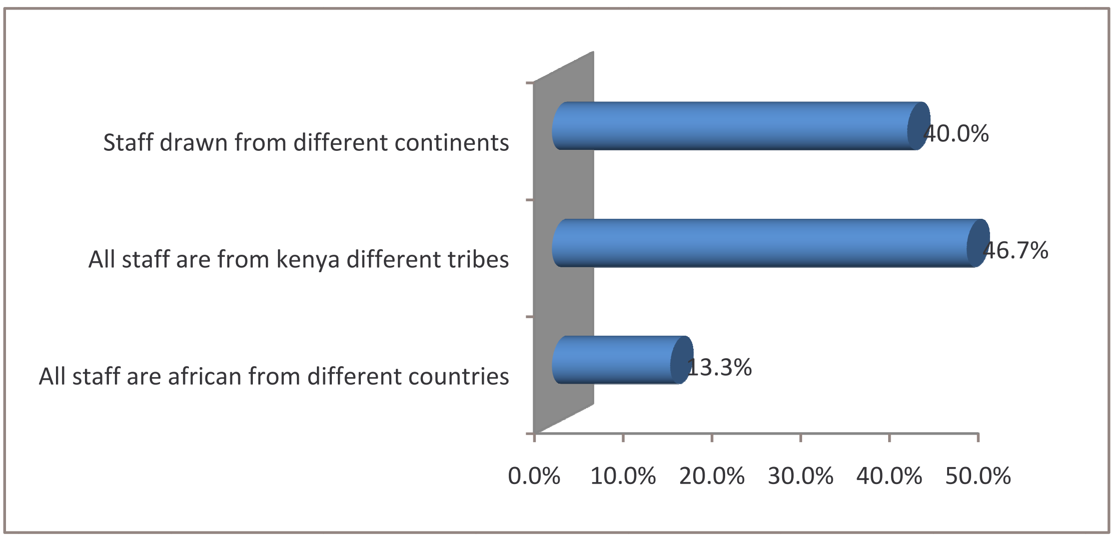
4.2.4 Products Diversification and Differentiation

This section of the study sought to establish the extent to which the firms products diversification and differentiation affects the choice of entry strategy. The study established that majority of the firms' 33.3% indicated that product diversification and differentiation had moderate affect. In addition 26.7% said that product differentiation had a large effect on the entry strategy while 6.7% indicated that there were no effects.

4.2.5 Firm's Cultural Diversity in Kenya

The study shows that most respondents (46.7%) indicated that all staffs are from Kenyan different tribes best estimates the firms cultural diversity while 40% indicated that staff drawn from different continents best estimates the firms cultural diversity. Further, 13.3% indicated that all staffs are African from different countries best estimates the firms cultural diversity. None of the respondents indicated that all staffs are from Kenya one tribe is their firms' cultural diversity.

Figure 4.2 Firm's Cultural Diversity in Kenya



4.3 Effects of the Foreign Business Environment on the Choice of Foreign Entry Strategies

This was to determine the effects of the foreign business environment on the choice foreign entry strategy. A scale of 1-5 was used. The scores "No Effect" and "Small

Effect” were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale (1 ≤ Small Effect ≤ 2.5). The scores of ‘Moderate Effect’ were equivalent to 2.6 to 3.5 on the Likert scale (2.6 ≤ Moderate Effect ≤ 3.5). The score of “Large Effect” and “Very Large Effect” represented a large effect of the foreign business environment on the choice foreign entry strategy. This was equivalent to 3.6 to 5.0 on the Likert Scale (3.6 ≤ Large Effect ≤ 5.0).

Table 4.3 Effects of the Foreign Business Environment on the Choice of Foreign Entry Strategy

Description	Mean	SD
Legal framework for trade	3.8000	.56061
Political factors such as political risk, stability and predictability	3.8000	.67612
Prospects of economic growth	3.6667	.61721
political economic policies	3.6667	.61721
recent economic performance indicators	3.4667	.63994
Trade and investment regulations in Kenya	3.2667	.79881
Socio-cultural factors	2.9333	1.27988

The table above presents the means and the standard deviations of the responses of the research respondents to the effects of foreign business environment factors on choice of entry strategy. The Legal framework for trade, political factors such as political risk and stability of the host country and political economic policies were considered to have major effect on the choice of entry strategy. Recent economic performance and trade and investment regulations in Kenya were found to have moderate effect. The socio-cultural factors were noted to have the least effects on the entry strategy choices in to the foreign markets.

The respondents ranked the following aspects of host country from the most important to the least important. They indicated legal framework for trade and investment and political-economic policies as the most important, followed by future economic prospects, factors within Kenya e.g. government taxation and infrastructural incentives and lastly the social cultural issues. The respondents ranked the following social cultural aspects of host country in order of their importance for consideration in their choice of entry strategy. Norms and values were considered as the most important followed by material culture, languages and finally religion.

4.4 Decision Maker Context Effects on the Choice of Foreign Entry Strategies

This was to determine the effects of various factors for decision making on the entry into foreign country. A scale of 1-5 was used. The scores "No Effect" and "Small Effect" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq$ Small Effect ≤ 2.5). The scores of 'Moderate Effect' were equivalent to 2.6 to 3.5 on the Likert scale ($2.6 \leq$ Moderate Effect ≤ 3.5). The score of "Large Effect" and "Very Large Effect" were represented by mean score equivalent to 3.6 to 5.0 on the Likert Scale ($3.6 \leq$ Large Effect ≤ 5.0).

Table 4.4 Decision Making Context Effects on the Choice of Foreign Entry Strategies

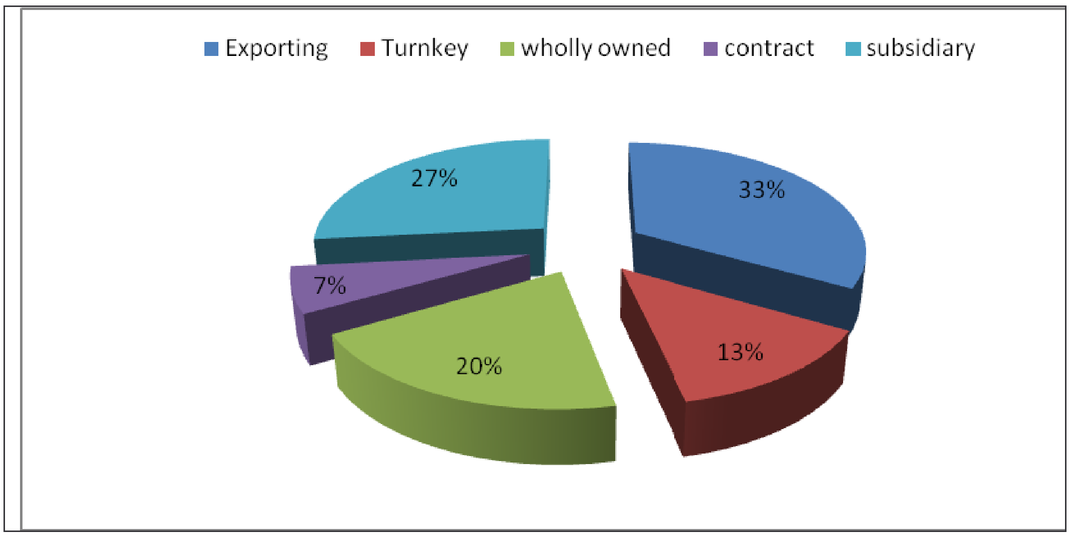
Description	Mean	SD
Ranges best estimates your attitude on foreign market for decision making on entry into foreign country	3.4000	.50709
Range best estimates your personal opinion on the quality of information available for decision making on entry into foreign country	3.2667	1.03280
Ranges best estimates your personal perception on foreign market for decision making	2.9333	.79881

The table above presents the means and the standard deviations of the responses of the research respondents to the effects of personal decision making context on the choices of entry strategy. Majority of the respondents indicated that a moderate effect best estimates their personal attitude on foreign market and opinions on the quality of information for decision making on entry into foreign country. This was represented by a mean score of 3.40 and 3.2667 and respectively on the Likert scale. The respondents also indicated that their personal perception on foreign market has least effect on the choice of the entry; this was represented by a lower mean score of 2.9333 on the Likert scale.

4.5 Preferred Foreign Entry Strategies

The study shows that the optimal choice of entry mode varied amongst the respondents. For firms in service and financial industries preferred a joint venture or a wholly owned subsidiary. Those in manufacturing preferred exporting before either getting in to a joint venture or setting up a wholly owned plant in the foreign market. Overall the three most preferred choices were exporting, subsidiary and wholly owned.

Figure 4.3 Preferred Foreign Entry Strategies



The study shows that 33% of the respondents indicated that exporting would be the best choice of foreign market strategy for their firm's entry into foreign country while 27% indicated that they would choose subsidiary as their foreign market strategy. Further, 20% of the respondents indicated that they would choose wholly owned market strategy as their entry into foreign market while 7% indicated that they would go for contract.

4.6 Challenges Faced in Selecting and Entering Foreign Markets

The respondents regarded government policies such on legal requirements, licensing and taxation as major challenges in selecting and entering foreign markets. Further the study found that other challenges encountered are political interferences, lack of financial resources, levels of corruption in the host country, political instability, unfriendly trade policies, and poor infrastructure, lack of foreign market information and level of competition in the international market.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMEDATIONS

5.1 Introduction

The objectives of the study were to determine the determinants of the foreign entry strategies and their significance on the optimal choice of foreign entry strategy for Kenyan firms into the foreign markets, to determine the different entry strategies adopted by the Kenyan firms in venturing in to the foreign markets and the reasons for these strategies, and to determine the challenges faced by the Kenyan firms in selecting and entering the foreign markets. This chapter summarizes the finding of the study and present discussion, conclusions and recommendations of the study. It provides an interpretation of the results by comparing them to the theoretical background presented in chapter two. Limitations of the study and suggestions for further research are also highlighted.

5.2 Summary of Findings

The study confirms that the decision on foreign entry strategies among Kenyan firms listed at the Nairobi Stock Exchange venturing in to the foreign market is a function of various parameters some of which are in the foreign business environment, firm characteristic specific factors and others in the very context in which the decision is being made.

The study shows that majority of the respondents indicated that foreign business environmental has greatest effect on the foreign entry strategy. The Legal framework for trade, political factors such as political risk and stability of the host country, prospects for economic growth and political economic policies were considered to have significant effects on the entry strategy in to the foreign market. The firm characteristics specific factors considered to have large effects on the choice of foreign entry strategy are foreign market advantage, firm resources and location advantages of the foreign market. Firm ownership advantages and need to leverage of the core competences were also regarded to have moderate effects on foreign entry strategy.

On the decision making context, majority of the respondents indicated that their personal opinions on the quality of information, attitude on foreign market and personal perception on foreign market to have considerable effects on entry strategy in to the foreign markets.

The respondents regarded government policies such as legal requirements, licensing and taxation as major challenges in selecting and entering foreign markets. Also considered to be significant challenges are political interferences, lack of financial resources, levels of corruption in the host country, political instability, unfriendly trade policies, poor infrastructure, lack of foreign market information and level of competition in the international market.

The study shows that the optimal choice of entry mode varied amongst the respondents. For firms in service and financial industries preferred a joint venture or a wholly owned subsidiary. Those in manufacturing preferred exporting before either getting in to a joint venture or setting up a wholly owned plant in the foreign market. Overall the three most preferred choices were exporting, joint venture and wholly owned subsidiary.

The overall study findings were found to support and to be inconsistent with most past studies on foreign market entry modes such as ownership advantage theory (Hymer 1960, 1976; Kindleberger 1969), location specific advantage theory (Franko 1971; Stopford and Wells 1972), internalization theory (McManus 1972).

The finding also support the Dunning's (1980, 1988) 'eclectic paradigm' that denoted the choice of entry mode decision is influenced by three types of factors: ownership-specific factors of a firm, location-specific factors of a market and internalization advantages of integrating transactions within the firm.

5.3 Conclusion

From the findings of this study and the ensuing discussion, it can be concluded that the choice of Kenyan firms' entry strategies in to the international markets is a function of various parameters some of which are in the foreign business environment, others in firm characteristics specific factors and motives for foreign markets, and in the very context in which the decision is made. On the foreign business environment the legal framework for trade, political factors such as political risk and stability of the host country, prospect for economic growth and economic policies were considered to have large effects on the entry mode choices. The firm's characteristics factors considered to have large effects are the firm's foreign market advantage, firm's resources, firm's ownership advantage and the need to leverage on the firm's core competences in the foreign markets. On the personal decision making context, the study has shown that quality of information for the decision making, personal attitude, opinion and perceptions on the foreign markets best estimates the choice of entry strategies in to the international markets.

5.4 Limitations of the Study

The study only considered those firms that are listed at the NSE and have ventured in to the foreign market, there were only 22 companies and therefore the population of the study was relatively small. Secondly owing to the limited time, scarcity and occasional absence of the targeted respondents', the actual data collected consisted of 15 respondents which constituted only 68% of the targeted population. Thirdly only one method for data collection (questionnaire) was utilized for this study, other methods such as interviews that allow more probing on the respondents answers were not used.

5.5 Suggestions for Further Research

The study was limited to firms listed at the Nairobi Stock Exchange and have ventured in to the international markets, further research involving firms not listed at the NSE but have ventured in to the foreign market is recommended. The study also did not consider how the chosen entry strategies impact on short term and long term success in the foreign markets and therefore more research is recommended in this area.

5.6 Recommendation for Policy and Practice

The findings from this study have important implications on the firms' choice of foreign entry strategies in to the International markets. The results reinforce the need for the management to undertake proper evaluation of foreign business environment, firms' specific factors and the decision making context in their choice of entry strategies in to the foreign markets. The importance of understanding how the foreign market entry mode can affect the firms' performance becomes more critical and can be mostly appreciated by management when it is seen as one of the most important sources for creating a sustainable competitive advantage. Executives in Kenya should therefore embrace modern management practices and become more proactive and strategic in their approach to the foreign markets. It is therefore important for managers to comprehensively appreciate foreign market entry mode as an important source of competitive advantage. Wrong choice of entry strategy may greatly impact on business performance and therefore leaders should develop policies that will guide their organizations in making choices of entry modes in to the international markets.

REFERENCES

Agarwal, S., and Ramaswami, S. N. (1992). *Choice of Foreign Market Entry Mode.* Impact of Ownership, Location and Internalisation Factors. Journal of International Business Studies, 23, 1-27.

Aharoni, Y. (1966). *The Foreign Investment Decision Process*. Cambridge, Mass: Harvard University Press.

Anderson, E., and Coughlan, A. T. (1987). *International Marketing Entry and Expansion via Independent or Integrated Channels of Distribution*. Journal of Marketing, 51, 71-82.

Anderson, E., and Gatignon, H. (1986). *Modes of Foreign Market Entry.* A transaction Cost Analysis and Propositions. Journal of International Business Studies, 17, 1-26.

Anderson, E., and Weitz, B. (1986). Make or Buy Decisions. *A Framework for Analysing Vertical Integration Issues in Marketing.* Sloan Management Review, 27, 3-19.

Baek, H. Y., and Kwok, C. C. Y. (2002). *Foreign Exchange Rates and the Corporate Choice of Foreign Entry Mode.* International Review of Economics and Finance, 11, 1-21.

Balasubramanyan, V. N., Salisu, M., and Sapsford, D. (1996). *Foreign Direct Investment and Growth in EP and IS Countries*. Economic Journal, 106, 92-105.

Bauerschmidt, A., Sullivan, D., and Gillespie, K. (1985). *Common Factors Underlying Barriers to Export.* Studies in the US Paper Industry. Journal of International Business Studies, 16, 111-123.

Behrman, J. N. (1972). *The Role of International Companies in Latin America.* Autos and Petrochemicals. Lexington, MA: Lexington Books.

Buckley, P. J., and Pearce, R. D. (1979). *Overseas Production and Exporting by the World's Leading Enterprises.* Journal of International Business Studies, 10(1): 9-20.

Casson, M. (1985). *Multinational Monopolies and International Cartels.* The Economic Theory of the Multinational Enterprise. London: Macmillan.

Cannice, M. V. (2004). *Foreign Operating Mode and Performance.* An analysis of Thirty Five Silicon Valley High Tech Manufacturers' Venture in the Asia / Pacific Rim, University of San Francisco.

Cavusgil, S. T., Gary K., and John, R. R. (2008). *International Business. Strategy, Management, and the New Realities*. Pearson International Edition.

Cooper, D., and Schinder, P. (2003). *Business Research Methods***.** Tata McGraw-Hill, 8th Edition.

Daniels, J. D., Radenbaugh, L. H., and Sullivan, D. P. (2002). *Globalization and Business.* Prentice-Hall of India.

Dunning, J. (1980). *Toward an Eclectic Theory of International Production*. Some Empirical Tests. Journal of International Business Studies, 11, 9-31.

Dunning, J. (1988). *The Eclectic Paradigm of International Production.* A Restatement and Some Possible Extensions. Journal of International Business Studies, 19, 1-31.

Erramilli, M. K., and Rao, C. P. (1990). *Choice of Foreign Market Entry Modes by Service Firms.* Role of Market Knowledge. Management International Review, 30, 135-150.

Erramilli, M. K., and Rao, C. P. (1993). *Service Firms' International Market Entry Mode Choice.* A Modified Transaction Cost Analysis Approach. Journal of Marketing, 57, 19-38.

Hill, Charles, W. L. (2005). *International Business*. Competing in the Global Market Place. Tata McGrawal Hill.

Hymer, S. H. (1976). *The International Operations of National Firms*. A study of Direct Foreign Investment. Unpublished 1960 PhD Thesis, Cambridge Mass: MIT Press.

Johnson, G., Scholes K., and Whittington, R. (2008). *Exploring Corporate Strategy*. 8th Edition Prentice-Hall.

Kieti, J. (2006). *Determinants of Foreign Entry Strategies.* A Case of Kenyan Firms Venturing in to Southern Sudan. Unpublished MBA Project, University of Nairobi.

Kindleberger, C. P. (1969**).** *American Business Abroad.* New Haven, CT: Yale University Press.

Kumar, V., and Subramaniam, V. (1997). *A Contingency Framework for the Mode of Entry Decision.* Journal of World Business, Vol. 32 No.1, pp.53-72.

Pacek, N., and Thornily, D. (2004). *Emerging Markets, Lessons for Business Success and Outlook of Different Markets.* The Economist.

Pearce, J.A., and Robinson, B.R. (1997). *Strategic Management*: Formulation, Implementation and control. 6th Edition, McGraw-Hill Inc.

Porter, M.E. (1990). *Competitive Advantage:* Creating and Sustaining Superior Performance. The Free Press, New York.

Porter, M.E. (1990). *The competitive Advantage of nations*. The Free Press New York.

Peng, M. W. (2009). *Global Strategic Management*. 2nd Edition.

Root, F. R. (1987). *Entry Strategies for International Markets.* Lexington/Mass.: Lexington Books.

Root, F. R. (1977). *Entry Strategies for Foreign Markets.* From Domestic to International Business. New York: American Management Association, 1977.

Sanjeev, A., and Sridhar, N. R. (1992). *Journal of International Business Studies,* Vol 23 No, pp. 1-27.

Sharan, V. (2003). *International Business Concepts***.** Enviroment and Strategy. Pearson Education.

Stopford, J. M., and Louis T. W., Jr. (1972). *Managing the Multinational Enterprise.* New York: Basic Books.

Tao, G. (2004). *Contingency Framework of Foreign Entry Mode Decisions Locating and Reinforcing*. Weakest Link, Louis University, John Cook School of Business, Boeing Institute of International Business.

Theo, E., and Kang, J. W. (2002). *Trade, Foreign Direct Investmen or Acquisation.* Optimal Entry Modes for Multinational, University of Washington.

Quinn, J.B. (1980). *Strategies for change. Logical Incrementalism*. Richard D. Irwin Inc.

Yabs, J. (2007). *International Business Operations in Kenya.* A Strategic Management Approach. Lelax Global Publishers.

Young, S., Hamill, J., Wheeler, C., and Davies, J. R. (1989). *International Market Entry and Development***.** Hemel, Hempstead: Harvester Wheatsheaf.

Zhao, X., and Decker, R. (2004). *Choice of Foreign Market Entry Mode*. Cognitions from Empirical and Theoretical Studies, Discussion Paper No. 512, Department of Business Administration and Economics, University of Bielefeld.

APPENDICES

Appendix 1: Introduction Letter

University of Nairobi,

School of Business

P.O.Box 30197

Nairobi

20th September, 2010

To whom it may concern:

Dear Sir / Madam,

RE: MBA Research Project questionnaire

I am postgraduate student undertaking a Master of Business Administration (MBA) at the School of Business, University of Nairobi. I am undertaking a research on determinants of foreign entry strategies adopted by Kenyan firms in selecting and entering international markets. The purpose of this letter is to request you to respond to the attached questionnaire. The information collected shall be treated with strict confidence and at no time will your name or that of your organization be referred to in the report. The result of the report will be used solely for academic purposes and a copy of the report can be availed to the interviewed organization(s) on request.

Thanking you.

Peter Mwangi Waichari

MBA Student, University of Nairobi

Appendix 2: Questionnaire

Name of the organization____

Questionnaire A: The effects of firm characteristic specific factors on the choice of foreign entry strategy

1. Which of the following ranges best estimates the **number of persons employed** by your firm?

☐ 1-10 ☐ 11-20 ☐ 21-100 ☐ 101-500 ☐ 501 and above

2. Which of the following ranges best estimate the **number of years your firm** has been in the international business?

☐ Less than 1 ☐ 1-2 ☐ 3-5 ☐ 6-10 ☐ Above 10

3. Which of the following best estimates the **stage of development of your firms existing products** in Kenya?

☐ New Products ☐ Maturing Product ☐ Standardized Products ☐ Declining products

4. Which of the following best estimates your **firm's cultural diversity** in Kenya?

☐ All staff are from one Kenya one tribe ☐ All staff are from Kenya different tribes

☐ All staff are African from different countries ☐ Staff drawn from different continents

5. To what extent do the following firm characteristic specific factors determine your choice of entry strategy?

Key:

5 Very Large effect

4 Large effect

3 Moderate effect

2 Small effect

1 No effect

	Factors	5	4	3	2	1
a	Firm's pursuit of location economies (e.g. availability of cheap raw materials and labor)					
b	Firm's pursuit of experience effects (e.g. economic of scale and spreading the out fixed overhead costs)					
c	Firm's need of leverage on core competences (e.g. taking advantage of corporate image, goodwill and technological advantage)					
d	Firm's pursuit for risk reduction motives such as profit smoothing, diversifying customers and supplier base					
e	Firm's experience in international business					
f	Firm's size of your firm					
g	Firm's product's stage of development					
h	Firm's cultural diversity					
i	Firm's location advantage of foreign market advantage					
j	Firm's ownership advantage of your firm					
k	Firm's resources					
l	Firm's foreign market advantage					
m	Firm's corporate policy					

6 **Rank the motivations for foreign expansion in to foreign countries** in the order of their importance for consideration in your choice of entry strategy (Place a mark of 1 for the most important, 2 for second most important and so on)

	Factors	Ranking
1	Pursuit of location economies (larger market and cheaper factors of production)	
2	Pursuit of experience effects (e.g. economies of scale)	
3	Pursuit of risk reduction motives (e.g. customer/ supplier diversification and profit curve smoothing)	

4	Taking advantage of core competences (technological advantage, goodwill and corporate image)	
5	Developing core competences (e.g. technological advantage, goodwill and corporate image)	

7 **Rank the following characteristics of your firm in order of their importance** for consideration in your choice of entry strategy entry (Place a mark of 1 for the most important, 2 for second most important and so on)

	Factors	**Ranking**
1	Location advantage	
2	Ownership advantage	
3	Firm resources advantage	
4	International market advantage	

8 **Rank the following aspects of your firm in order of their importance** for consideration in your choice of entry strategy entry (Place a mark of 1 for the most important, 2 for second most important and so on)

	Factors	**Ranking**
1	Firms motivating factor for foreign expansion	
2	Firm size	
3	Stage in the product life cycle	
4	Experience in international business	
5	Cultural diversity	

9 In your opinion which of the following foreign market strategies will be the best choice for your firms entry into foreign country

☐ Exporting ☐ Turnkey ☐ Licensing ☐ Franchising ☐ Joint venture
☐ wholly owned ☐ Contract ☐ Subsidiary ☐ Others Specify_____

Please give reason for the above answer______________________________________

Section B: The effect of the foreign business environment on the choice of foreign entry strategy

10 To what extent do the following business environmental factors affects your choice of entry strategy?

Key:

5 Very Large effect

4 Large effect

3 Moderate effect

2 Small effect

1 No effect

	Factors	**5**	**4**	**3**	**2**	**1**
a	The legal framework for trade and investment					
b	The political factors such as political risk, stability, and predictability					
c	The socio-cultural factors such as social institutions, religion, material culture, norms and values					
d	The prospects of economic growth					
e	The recent economic performance indicators such as GDP/GNP per capita income over the last 2 years					
f	The political economic policies of the host country					
g	The trade and investment incentives in Kenya					
h	The foreign trade and investment regulations in Kenya					
i	The **political economic policies** of the host					

11 **Rank the following socio-cultural aspects of host country** in order of their importance for consideration in your choice of entry strategy (Place a mark of 1 for the most important, 2 for second most important and so on)

	Factors	Ranking
1	Material culture	
2	Religion	
3	Norm and values	
4	Language	
5	Aesthetics	

12 **Rank the following aspects of host country** in order of their importance for consideration in your choice of entry strategy entry (Place a mark of 1 for the most important, 2 for second most important and so on)

	Factors	Ranking
1	The legal framework for trade and investment	
2	The political – economic policies	
3	The future economic prospects	
4	Factors within Kenya e.g. Government taxation and infrastructural incentives	
5	Social cultural issues	

13 What are the challenges faced in selecting and entering foreign markets entry mode? Rank the challenges from the most significant to the less significant (Place a mark of 1 for the most significant, 2 for second most significant and so on)

	Challenges	Ranking
a)		
b)		
c)		
d)		
e)		
f)		
g)		

Section C: The decision making context

14 Which of the following ranges **best estimates the number of persons** involved in decision of entry into foreign country?

☐ 1 ☐ 2-5 ☐ 6-10 ☐ 11-20 ☐ 21 and above

15 To what extent do the following personal decision making context factors affects your choice of entry strategy?

Key:

5 Very Large effect

4 Large effect

3 Moderate effect

2 Small effect

1 No effect

	Factor	**5**	**4**	**3**	**2**	**1**
a	Your personal opinion on the quality of information available for decision making on entry into foreign country?					
b	Your personal perception on the foreign market for decision making on entry into foreign country?					
c	Your altitude on foreign market for decision making on entry into foreign country?					

16 Which of the following ranges best describe **your stage of decision making** on your firms entry in foreign market?

☐ Information Gathering ☐ Generating alternatives ☐ Selection of alternatives ☐ Alternatives already selected

17 Which of the following ranges best estimates your firms target timing of entry into foreign market?

Ventured in 1-3 years	Ventured in 3-6 years	Ventured in 6-9 years	Over 10 years	Not yet ventured
☐	☐	☐	☐	☐

18 Kindly fill in your name--☐-skip this question

19 Kindly fill in your designation in the organization---------------------------☐ skip this question

20 Which of the following best estimate your age bracket?

☐ 18-25 ☐ 26-30 ☐ 31-40 ☐ 41-50 ☐ above 50 ☐ skip this question

21 Which of the following ranges best estimate your highest schooling level?

Primary School	High school	Diploma and professional school	Bachelor degree	Master Degree	Skip this question
☐	☐	☐	☐	☐	☐

Appendix 3: Firms Listed at the NSE

Agriculture
1. Rea Vipingo Ltd.
2. Sasini Tea and Coffee Ltd.
3. Kakuzi Ltd.
Commercial and Services
1. Access Kenya Group
2. Marshalls E.A. Ltd.
3. Car and General Ltd.
4. Hutchings Biemer Ltd. **Suspended**
5. Kenya Airways Ltd.
6. CMC Holdings Ltd.
7. Uchumi Supermarkets Ltd. **Suspended**
8. Nation Media Group Ltd.
9. TPS (Serena) Ltd.
10. Scan Group Ltd.
11. Standard Group Ltd.
12. Safaricom Ltd.
Finance and Investment
1. Barclays Bank of Kenya Ltd.
2. CFC Stanbic Bank Ltd.
3. Housing Finance Ltd.
4. Centum Investment Ltd.
5. Kenya Commercial Bank Ltd.
6. National Bank of Kenya Ltd.
7. Pan Africa Insurance Holdings Co. Ltd
8. Diamond Trust Bank of Kenya Ltd.
9. Jubilee Insurance Co. Ltd

10. Standard Chartered Bank Ltd.
11. NIC Bank Ltd.
12. Equity Bank Ltd.
13. Olympia Capital Holdings Ltd
14. The Co-operative Bank of Kenya Ltd.
15. Kenya Re-Insurance Ltd.
Industrial and Allied
1. Athi River Mining Ltd.
2. BOC Kenya Ltd.
3. British American Tobacco Kenya Ltd.
4. Carbacid Investments Ltd.
5. E.A. Cables Ltd.
6. E.A. Breweries Ltd.
7. Sameer Africa Ltd.
8. Kenya Oil Ltd.
9. Mumias Sugar Company Ltd.
10. Unga Group Ltd.
11. Bamburi Cement Ltd.
12. Crown Berger (K) Ltd.
13. E.A Portland Cement Co. Ltd.
14. Kenya Power and Lighting Co. Ltd.
15. Total Kenya Ltd.
16. Eveready East Africa Ltd.
17. Kengen Ltd.

Source: Nairobi Stock Exchange, July 2010.