MARKET ENTRY STRATEGIES USED BY MULTINATIONAL CORPORATIONS TO ENTER INTO KENYAN MARKET

BY

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DECLARATION

This research project is my original work and has not been presented for an award of any degree in any university.

SIGN …………………………………….. DATE…………………………………

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

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DEDICATION

I dedicate this research project to my father, mother, brother and sisters for always being there for me.

ABSTRACT

In the current global market, many companies even the well-established multinational companies are finding it hard to expand to foreign markets. A firm's choice of mode of entry into a foreign market is one of the most important decisions made by international managers. The entry mode chosen affects the amount of control the firm will have on its business activities abroad. A firm can set up an entry to a foreign market in only two ways, it export its products to a foreign market or it can transfer its resources such as technology, capital, know-how, brand name to a foreign market in which those resources can be sold directly to customers or combined with resource in the host country to manufacture product for that market. Entering new markets, despite the huge potential that it provides, does involve big risks. Foreign market entry mode is an institutional arrangement that makes possible the entry of a firm's products, service, know-how, management and other resources into a foreign market. The study recommends that the multinationals Corporations (MNCs) should critically analyze the various strategies at their disposal in entering a new market before making decisions on how to enter the selected market. The study also recommends that MNCs should consider the advantages and disadvantages the different strategies before selecting on a given strategy. They need to assess the options available for their market entry and be able to select the strategy with more advantages and one that will ensure successful market entry and acceptability by the local market regulators. The study recommends that further research should be done on the foreign market entry strategies adopted by Multinational corporations including other banks in the Kenyan market to allow for generalization of foreign market entry strategies adopted by MNCs in Kenya since each employs a different market entry strategy. Descriptive research technique was used in the study which enables description of the phenomena being studied this is due to the large number of multinationals in the country. Simple random sampling technique was used in the study to pick the sample for study. The collected data was coded and analyzed using descriptive statistic and Statistical Package for Social Sciences (SPSS). Majority of the multinational firms operating in Kenya have been in Kenya for over 15 years that has been attributed to ties with former colonial master. The good working relations with the western countries have seen the entry of the foreign countries into Kenya looking for markets for their goods and services. Majority of the multinational firms in Kenya are attributable to the fact that a majority of the firms have operations in other countries. It is therefore recommended that examination into more market entry strategies be done as the strategies are very important for the success of the multinational in the local market.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS AND ACRONYMS

MNC	-	Multinational Corporations
MNE	-	Multinational Enterprises
SPSS	-	Statistical Package for Social Sciences
FDI	-	Foreign Direct Investment

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The saturation of affluent companies in developed markets has greatly reduced their profit margins. This has led to the need for multinational companies to expand their operations beyond geographical borders and increase interest in emerging markets. The movement to emerging economies appears reasonable, as the sum of emerging populations, are estimated on to be average 80% of the population worldwide, which brings more opportunities to the multinationals in increasing their wealth.

Multinationals have solely been competing for the top tier of the market pyramid which is small and has been shrinking. Challenges faced by multinationals in entering emerging markets include: rise in corporate interest in these emerging markets, frequent unavailability of convertible currency resulting in barter and counter trade hence placing a burden on international managers to market products received in return to other consumers; Lack of protection some of the countries afford to intellectual property rights resulting in illegal copying, Lack of good quality products as many producers place emphasis on product performance neglecting style and product presentation.

In the recent years, the world business environment has changed dramatically through the globalization of economies and liberalization of markets, resulting in a new, furious business setting for firms (Ishimwe, 2013; Kagabo, 2012; Mutio, 2013). Advancement in political and economic changes, technological revolution and advancement in communications, transportation and information technology has resulted in the removal of trade barriers that have shaped the world as a global village

(Ambetsa, 2009; Ndwiga, 2012). Globalization is the result of the behavior and expansion strategy of multinational corporations (MNCs) (Syvrud, 2013).

1.1.1 Concept of the Study

In the recent years, the world business environment has changed dramatically through the globalization of economies and liberalization of markets, resulting in a new, furious business setting for firms. Political and economic changes since the late 1980s along with the technological revolution and advancement in communications, transportation and information technology has resulted in the removal of trade barriers that have shaped the world as a global village for business. It has been argued that globalization is the result of the behavior and expansion strategy of multinational corporations (MNCs).

The importance of the foreign market entry strategy decision has been well documented. The entry mode chosen has a major impact on the level of control the Multinational enterprise has over the venture .Some entry modes, such as exporting and licensing, are associated with low levels of control over operations and marketing, but are also associated with lower levels of risk. In contrast, other entry modes such as joint ventures and full ownership of facilities involve more control, but entail additional risk. Since reversing an inappropriate entry strategy choice can be difficult, it is important that well thought out decisions be made.

1.1.2 International Business and Multinational Corporations

International business is any commercial transaction that crosses the borders of two countries (Obatu, 2012). It comprises a large and growing portion of the world's total business. International business is any commercial transaction that crosses the border of two or more countries (Ngendo, 2012). International business comprises a large and growing portion of the world’s total business. Today, global events and competition affects almost all companies, large and small, regardless of industry. This is the result of selling output to and security supplies and resources from foreign countries, as well as competing against products and services from abroad (Ssebugwawo, 2010). Thus most manager need to approach their operating strategies from international stand point, companies operating internationally have more diverse and complex operating environments than those that conduct business at home. International business has been going through the most fundamental and far reaching process of change of the post war period (Kutkut, 2013).

The implication of this change pose a significant challenge both to the industry and the government throughout the world and promise to alter not only the nature and structure of competition but also the balance of economic power (Magunga, 2010). Increase in globalization has also contributed to companies re-examining the manner in which they do business internationally forcing companies to adopt global strategies for survival (Mugeni, 2013). Thus, there is a rapid growth of strategic alliance between firms in various parts of the world in a desperate attempt to gain the economies of scale in production, distribution and marketing. At the center of the international business are the multinational corporations

There is no formal definition of a multinational corporation, although various definitions have been proposed using different criteria (Ishimwe, 2013; Kagabo, 2012; Magunga, 2010; Mutio, 2013). Among these notions and definitions, include examination of different metrics. Multinational firm is one that is structured so that business is conducted or ownership is held across a number of countries, or one that is organized into global product divisions (Avulyte, 2014). The specific ratio of foreign business activities or assets to total firm activities or assets is another criteria used in the definition of the multinational corporations (Cheptegei, 2012). In this context, a multinational firm is one in which a certain percentage of the earnings, assets, sales, or personnel of a firm come from or are deployed in foreign locations (Mutambah, 2012).

Another definition is based on the perspective of the corporation in relations to the scope of its activities. This definition holds that if the management of a corporation has the perception and the attitude that the parameters of its sphere of operations and markets are multinational, then the firm is indeed a multinational corporation (Mwende, 2013). The definition of the multinational has also been examined in context of company resources. In this context, a multinational corporation means an enterprise that allocates company resources without regard to national frontiers, but is nationally based in terms of ownership and top management (Cherop, 2011). In essence, they are international corporations with production locations in more than one country. The distribution of ownership, global products, and mixed nationalities of management are other determining characteristics (Wagitu, 2011).

1.1.3 Foreign Market Entry Strategies

There is need for foreign business to determine the mode of foreign entry that best suit its objectives and strategic fit in the foreign business environment(Ngendo, 2012; Njui, 2013; Nyaga, 2014; Nyakango, 2013). The entry mode chosen has a major impact on the level of control the Multinational enterprise has over the venture (Varmah, 2012). Huge amounts of funds are involved in international business and the choice of a particular entry mode is very significant on the business across borders. It can also be defined as the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries (Wanjiru, 2013). The current interest by business firms in international markets can be attributed in part to shifts in demand and supply characteristics in markets throughout the world as well as the ever-changing competitive environment (Mumelo, 2012). The process of finding new markets therefore has prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home countries (Folea, Nurul, & Ajayi, 2008). Selection of foreign markets and entry modes therefore lies at the heart of any business or any organization that aspires to operate internationally (Njui, 2013).

Firms may pursue internationalization due to a variety of reasons. Some of the motives may be proactive while others could be reactive (Mokeira, 2013; Muchiri, 2012; Mugeni, 2013). A good example of a reactive motive is the need to serve a key customer who has expanded abroad (Munyao, 2013). On the other hand proactive motive would be to tap foreign market opportunities or acquire new knowledge. Most firms enter regional markets sequentially beginning in markets with which they are more familiar. They also introduce their largest and strongest lines of business into these markets first, followed by their other lines of business once the first lines are successful(Wagitu, 2011). They also usually invest in the same area as their original location.

1.2 Research Problem

In the modern times, the business environment is dynamic, complex and in continual change. The choice of foreign market entry mode greatly influences the entrant's future decisions and performance in foreign markets (Gathirua, 2013). They firms also need devise entry strategies that will preposition them to take advantage of the opportunities in the economy in a manner that is sustainable (Lepa, 2012). For an international firm to enter to the foreign market is a function of various parameters some of which are firm specific others are influenced by the foreign business environment, while others are influenced by the very context in which the decision is being made (Ngendo, 2012). Entry mode are very challenging to international business managers, wrong decision on entry mode choice can be very costly to the organizations in terms of time and resources (Ndwiga, 2012). Research shows that a firm's foreign market entry strategy is directly related to the firm's performance. An appropriate strategy can be an important source of competitive advantage in a new market and on the other hand can be competitive liability leading to a competitive disadvantage (Mutio, 2013; Ndwiga, 2012). Most multinational corporations would prefer to remain domestic but several factors push them into entering foreign markets. Some of these factors are; higher profit opportunities in international market, need for a large customer base to achieve economies of scale, reduce dependency on any one market, counter attacking global competitors in their home markets and Global customers who need international service (Cheptegei, 2012; Kagethe, 2012; Kavata, 2013; Kiandiko, 2010).

Organizations require massive resources of time, energy and personnel on the national level. Adding an international component greatly intensifies the amounts of resources needed; this commitment is staggering and is generally avoided by many domestic businesses (Avulyte, 2014). Organizations must consider many factors before going international; among other things, it must evaluate its personnel, assets, international experience and the suitability of its products. These factors should be reviewed in terms of the overall short-term and long-term strategic goals and objectives of the firm (Ishimwe, 2013). Organizations have to review all these factors in order to use the appropriate entry strategy to enter a foreign market(Kiandiko, 2010). Kenya is the largest economy in Eastern Africa and among the biggest in Africa, and this study wishes to explore the different market entry strategies adopted by the multinational corporations and the challenges associated by those strategies.

1.3 Research Question

The following research questions will guide the study

i. What foreign market entry strategies do multinational corporations adopt to enter Kenya market? This will give the best market entry strategy that leads to the success of the business.

1.4 Research Objectives

The general objective of the study is to examine the market entry strategies used by multinational corporations' entry into Kenya.

1.5 Value of the Study

This study is valuable to different stakeholders. The study will contribute to the existing literature on the strategies that multinational corporations use to enter the Kenyan market. The study will further shed knowledge on the reasons multinational corporations leave their national markets and enter foreign markets. In this context, the study will be useful to firms considering entering Kenyan market. The study will help them have a better understanding and appreciation of the prospects of development strategies, and the formulation and implementation of ideal competitive strategies to distinguish a company from the others.

The government agencies whose interested lies in upgrading the country's economy by increasing the revenues earned through global trading and creation of investor confidence can use the finding and recommendations of this study to act on the challenges facing firms intending to enter at the foreign market. The findings of this study would also be valuable to Government of Kenya policy makers. This is in regards to firms seeking entry into Kenyan market. Through the findings of this study, the policy makers would gain knowledge on how to draft policies to govern foreign firms' admission into Kenya.

The research study will enable practitioners and academicians in both public and private to have a wider knowledge on the concept of foreign entry strategies. The study will also contribute to the existing body of knowledge in the area of international business in carrying out of similar studies as a point reference for related research topics. In this context, through the findings of this study, future researchers and academicians would be able to find source of literature to guide their future research works besides providing areas for further research that they can research on. This would help suggest topics that future researchers can research on to further the existing knowledge on market entry strategies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter outlines market entry strategy as planned method of delivering goods or services to a target market and distributing them there. A market entry strategy can differ from country to country and from regional market to regional market (Ndwiga, 2012). There is need to have researched the options and developed a preferred market entry approach before embarking on overseas marketing programme (Cheptegei, 2012; Ishimwe, 2013). A market entry strategy is important because it provides a strategic roadmap. It enables a company to organize their thought process and it serves as a communication plan (Mutambah, 2012). It allows objectively examining the costs and benefits of each approach.

2.2 Theoretical Foundation of the Study

As outlined by Albaum et al (2005), to understand the patterns of international trade, it is necessary to examine a number of trade theories since the underlying influences that govern trade among countries are complex and many. The theories explained in this research attempts to enlighten on the facts about trade with emphasis with the current situation in the 21st century. The theories presented here are as follows; the classical theory of international trade, the factor proportion theory and the product life-cycle theory.

2.2.1 The Classical Theory of International Trade

According to Albaum et al (2005) the classical theory of international trade a country's exports and imports are determined not by its character in isolation but in relation to those of its trading partners. The concept of economic advantage states that countries tend to specialize in those products in which they have advantage namely lower cost of production. In addition, there are international differences in costs that must be considered namely: absolute differences, comparative differences and equal differences.

2.2.2 The Factor Proportion Theory

The factor proportion theory states that international differences in supply conditions for example factor productivities and endowments, explain much of international trade. The factor proportion theory argues that relative price levels differ among countries because they have different relative endowments of factors of production and that different commodities require that the factor inputs be used with differing intensities in their production. The principal explanation of the pattern of international trade lies in the uneven distribution of world resources among nations mixed with the fact that products require different proportions of the factors of production (Albaum et al 2005).

2.2.3 The Product Life-Cycle Theory

The product life cycle theory is the most useful in explaining international trade patterns since the theories of economic advantage and factor endowments have evolved starting in the 1960s.This is mainly attributed to rapid technological progress and the development of multinational enterprises. According to Albaum et al (2005), this theory of international trade has been found to be a useful model for explaining not only trade patterns of manufacturers but also multinational expansions of sales and productions subsidiaries and for this reason has been useful in explaining certain types of foreign direct investment. The product life-cycle concept states that “many manufactured goods undergo a trade cycle whereby during the process the innovator country of a new product is initially an exporter and then loses its competitive advantage to its trading partners and may eventually become an importer of the product some years later" and for this theory international business is necessary.

2.3 Foreign Market Entry Strategies

In a world of intense competition, innovative firms have an opportunity to redefine competitive rules to their own advantage (Wanjiru, 2013). One of the ways through which this can happen is by entering new markets. Entering a new market involves a big risk since firms cannot be certain on the outcome, but it may also be dangerous for a firm to stay away from a new market (Syvrud, 2013). The entry strategy is especially important, as it will restrict the number of strategic and tactic alternatives open to the firm in future. Entry strategies are crucial to the survival of new firms as they ensure that the firms are moving on the correct track right from the start without deviating from their goals (Cheptegei, 2012; Kagabo, 2012). The chosen market entry strategy is important as it determines the manner in which multinational enterprises (MNEs) develop and implement marketing program, coordinate business activities both within and across markets, and ultimately the MNEs success in foreign markets (Kagethe, 2012; Lepa, 2012; Muthama, 2013). A firm's managers need to consider the influence of numerous factors both internal and external to the firm in deciding when and how to enter a market with a new product (Mukokho, 2010). For a given foreign market a firm can use different modes for different products, depending on competitive advantages that may be gained (Nyakango, 2013). Before moving into the new market careful selection of the foreign markets is important for success, a good market is one which matches the firm, that is, a market whose circumstances or environment fits the resources of the firm (Etemesi, 2009).

Entering another economy requires the transfer of financial resources, management skills and technology to another market. There are several ways of gaining market entry for multinational firms, which are exporting, franchising, licensing, joint venture and foreign direct investment amongst others.

2.3.1 Foreign Direct Investment

Foreign direct investment provides greatest control of production by the foreign company but requires the greatest use of resources. The objective of a resident in one economy (the direct investor) obtaining a lasting interest in an enterprise (Ambetsa, 2009). Foreign direct investment implies the development of a lasting interest in the establishment of a continuing relationship of the direct investor with the enterprise including influencing the management of the firm to a certain degree (Mugeni, 2013) . Foreign direct investment allows the direct investor and the direct investment enterprise to experience certain economic benefits from the relationship (Magunga, 2010). On one hand, the direct investor is able to engage in new ventures or expand into other economies by sharing capital, management expertise and technology to the direct investment enterprise. FDI is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labour, land, plant and equipment (Obatu, 2012).

The direct investment enterprise benefits from capital infusion, technological transfer and management skill acquisition necessary for growth. The ultimate form of foreign involvement is direct ownership of foreign-based assembly or manufacturing facilities (Varmah, 2012). The foreign company can buy part or full interest in a local company or build its own facilities. If the market appears large enough, foreign production facilities offer distinct advantages (Munyao, 2013). First the firm secures cost economies in the form of cheaper labour or raw materials, foreign- governments investments incentives, and freight savings (Folea et al., 2008). Secondly, the firm would strengthen its image in the host country because of job creation. Thirdly, the firm may develop a deeper relationship with the government, customers, local suppliers, and distributors, enabling it to adapt its products better to the local environment.

Fourthly, the firm may retain full control over its investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives (Mutambah, 2012). Fifthly, the firm would assure itself access to the market in case the host country starts insisting that locally purchased goods have domestic content. The main disadvantage of direct investment is that the firm exposes a large investment to risks such as blocked or devalued currencies, worsening markets, or expropriation (Sylvester, 2010). The firm will find it expensive to reduce or close down its operations, because the host country might require substantial severance pay to the employees (Varmah, 2012). The firm may also risk double taxation from both host and home countries.

2.3.2 Franchising

Franchising and joint venture involves moderate degree of control as well as a moderate infusion of resources. International firms may choose to do business in a variety of ways. Franchising is a market entry strategy as well as a hybrid manner of organizing the business by establishing a relationship of agency with the franchisees (Nyaga, 2014). Franchising involves the convergence of a parent company and several small businesses. The parent company sells to the smaller businesses the right to distribute its products or use its trade name and processes (Cherop, 2011). The agency relationship established between the parent company and the franchisee is governed by a contract. The franchise contract defines the conditions of the agency and the duration of the relationship. A successful franchise requires control over something that others are willing to pay for, such as a name, set of products, or a way of doing things, and the availability of willing and able franchisees (Mbindyo, 2013). Finding franchisees and maintaining control over their assets in foreign countries can be difficult; to be successful at international franchising firms need to ensure they can accomplish both of these (Rugut, 2012).

2.3.3 Exporting

Exporting strategy is the strategy of producing products or services in one country (home country) and selling and distributing them to customers located in other countries (Syvrud, 2013). This trade mode is the first natural step for foreign expansion in international business. Exporting refers to the process of marketing and distributing products to a foreign market (Kariuki, 2007). This activity involves the interaction between the exporter, importer, transport provider and the government of the foreign country (Folea et al., 2008). The goods distributed are not produced in the foreign market so that there is no need to establish a physical structure in the new market (Mutio, 2013). Costs involved covers marketing activities of the company. This market entry strategy is ideal for business firms with limited knowledge and experience on international operations.

Exporting is often the first international choice for firms, and many firms rely substantially on exports throughout their history. Exports are seen as relatively simple because the firm is relying on domestic production, can use a variety of intermediaries to assist in the process, and expects its foreign customers to deal with the marketing and sales issues (Cheptegei, 2012). Many firms begin by exporting reactively; then become proactive when they realize the potential benefits of addressing a market that is much larger than the domestic one. Effective exporting requires attention to detail if the process is to be successful; for example, the exporter needs to decide if and when to use different intermediaries, select an appropriate transportation method, preparing export documentation, prepare the product, arrange acceptable payment terms, and so on (Kutkut, 2013).

Most importantly, the exporter usually leaves marketing and sales to the foreign customers and these may not receive the same attention as if the firm itself under-took these activities (Kioko, 2013). Larger exporters often undertake their own marketing and establish sales subsidiaries in important foreign markets. Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices would be indirect exporting, direct exporting, licensing, joint ventures and direct investments (Kagethe, 2012). The normal way to get involved in foreign market is through export. Occasional exporting is a passive level of involvement in which the company exports from time to time, either on its own initiative or in response to unsolicited orders from abroad. Active exporting takes place when the company makes a commitment to expand into a particular market (Lepa, 2012).

Companies typically start with indirect exporting- that is they work through independent intermediaries (Cherop, 2011). Domestic-based export merchants buy the manufacturer’s products and then sell them abroad. Domestic-based export agents seek and negotiate foreign purchases and are paid a commission. Cooperative organizations carry on exporting activities on behalf of several producers and are partly under their administrative control (Sylvester, 2010). Export-management companies agree to manage a company's export activities for a fee. Indirect export is a low cost entry strategy and has two advantages (Gathirua, 2013). First, it involves low investment; the firm does not have to develop an export department, an overseas sales force, or a set of foreign contacts. Second, it involves less risk; because international-marketing intermediaries bring know-how and services to the relationship, the seller will normally make fewer mistakes. Companies eventually may decide to handle their own exports. The investments and risk are somewhat greater, but so is the potential return (Munyao, 2013)

A company can carry on direct exporting in several ways: domestic-based department or division: Might evolve into a self-contained export department operating as a profit center (Ssebugwawo, 2010). Overseas sales Branches or subsidiary: The sales branch handles sales and distributions and might handle warehousing and promotion as well. It often serves as a display and customer service center. Traveling export sales representatives: Home- based sales representatives are sent abroad to solicit for business (Kagethe, 2012). Foreign-based distributors or agents: These distributors and agents might be given exclusive rights to represent the company in that country or limited rights only.

Piggybacking is an exporting arrangement that involves taking advantage of the channels of distribution in the global market instead of targeting a particular market (Kiandiko, 2010). A company that successfully used this strategy is F&P Gruppo, an Italian rice firm that owns the Gallo brand. The company entered Poland through its subsidiary in Argentina because the Argentinean air force was sending empty air freighters to Poland that comes back with imports (Varmah, 2012). Food companies took advantage of the cheaper way of exporting products. Another manner of piggybacking is the joining of two companies to take advantage of a channel of distribution. This is applied by IBM and Minolta with the latter taking advantage of the established distribution channels of IBM and the former welcoming a firm to share the cost of distribution.

2.3.4 Licensing

Licensing is the process of permitting a local company to use the property of the licensor in exchange for a fee (Mbindyo, 2013). Licensing offers the least level of control because it also involves the least utilization of resources. The property refers to intangible things such as patents, trademarks as well as production techniques (Lepa, 2012). This arrangement involves the infusion of little resources enabling the licensor to obtain a high return on investment. However, there is a risk of revenue loss because the licensee produces and markets products and collects revenue (Mwende, 2013). Licenses arrangements are ideal where the companies feel that production in a foreign country is desirable but they do not want to undertake this production themselves. In this situation, the firm can grant a license to a foreign firm to undertake the production (Mwazumbo, 2010). The licensing agreement gives access to foreign markets through foreign production without the necessity of investing in the foreign location (Kariuki, 2007). This is particularly attractive for a company that does not have the financial or managerial capacity to invest and undertake foreign production.

Licensing also refers to the market entry of business firms with a distinct legally protected asset that constitutes their distinction in the market. Distinct protected assets covers brand name, technology, product design and manufacturing or service process. Licensing is not an exclusive strategy in global marketing. Licensing is a simple way to become involved in international marketing. The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade, secret, or other item of value for a fee or royalty (Muchiri, 2012). The licensor gains as this is as well a low cost entry strategy; the licensee gains production expertise or a well-known product or brand name. Licensing has potential disadvantages. The licensor has control offer the licensee than it does over its own production and sales facilities (Sylvester, 2010). Furthermore, if the licensee is very successful, the licensing firm might have given up profits; and when the contract ends, the company might find that it has created a competitor. To avoid this, the licensor usually supplies some proprietary ingredients or components needed in the product; but the best strategy is for the licensor to lead in innovation so that licensee will be dependent on the licensor (Varmah, 2012).

2.3.5 Contracts

Contracts are used frequently by firms that provide specialized services, such as management, technical knowledge, engineering, information technology, education, and so on, in a foreign location for a specified time period and fee (Muchiri, 2012). Contracts are attractive for firms that have talents not being fully utilized at home and in demand in foreign locations. They are relatively short-term, allowing for flexibility, and the fee is usually fixed so that revenues are known in advance (Munyao, 2013). The major drawback is their short-term nature, which means that the contracting firm needs to develop new business constantly and negotiate new contracts (Sylvester, 2010). This negotiation is time consuming, costly, and requires skill at cross-cultural negotiations. Revenues are likely to be uneven and the firm must be able to weather periods when no new contracts materialize (Kaberia, 2013).

2.3.6 Turnkey Operations

Turnkey project is an export of technology, management expertise and some cases capital equipment. The contractor agrees to design and erect a plant, supply the process technology, provide the necessary supplies of raw materials other production inputs and train the operating personnel (Muthama, 2013). The exporter of a turnkey project may be a contractor that specializes in designing and erecting plants. Turnkey contracts are a specific kind of contract where a firm constructs a facility, starts operations, trains local personnel, then transfers the facility (turns over the keys) to the foreign owner (Sylvester, 2010). These contracts are usually for very large infrastructure projects, such as dams, railways, and airports, and involve substantial financing; thus international financial institutions such as the World Bank often finance them. Companies that specialize in these projects can be very profitable, but they require specialized expertise. Further, the investment in obtaining these projects is very high, so only a relatively small number of large firms are involved in these projects, and often they involve a syndicate or collaboration of firms (Gathirua, 2013).

2.3.7 Joint Ventures

Joint venture refers to the management arrangement that involves the partnership of a foreign company and a local company based on the sharing of capital, technological resources and other benefits. Joint ventures involve shared ownership in a subsidiary company. Foreign investors may join with local investors to create a joint venture company in which they share ownership and control (Kagethe, 2012). A joint venture allows a firm to take an investment position in a foreign location without taking on the complete responsibility for the foreign investment. Joint ventures can take many forms (Cheptegei, 2012). For example, there can be two partners or more, partners can share equally or have varying stakes, partners can come from the private sector or the public, partners can be silent or active, partners can be local or international (Mwende, 2013). The decisions on what to share, how much to share, with whom to share, and how long to share are all important to the success of a joint venture (Muchiri, 2012). Joint ventures have been likened to marriages, with the suggestion that the choice of partner is critically important.

There are several reasons for engaging in joint ventures. A joint venture may be necessary or desirable for economic or political reasons (Ambetsa, 2009). The foreign firms might lack the financial, physical, or managerial resources to undertake the venture alone; or the foreign government might require joint ownership as a condition for entry (Munyao, 2013). Even corporate giants need joint ventures to crack the toughest markets. Joint ownership has certain drawbacks. The partners might disagree over investment, marketing, or other policies. One partner might want to reinvest earnings for growth, and the other partner might want to declare more dividends (Sylvester, 2010). Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis.

The foreign company benefits from the relationship by gaining entry into the market and taking advantage of the expertise of the local company on the political and economic environment while the local company benefits from enjoying the infusion of capital and technological innovations into its operations (Ishimwe, 2013). The extent of control of the foreign and local firms in the joint venture depends upon the agreement and the legal limitations (Rugut, 2012). Many joint ventures fail because partners have not agreed on their objectives and find it difficult to work out conflicts. Joint ventures provide an effective international entry when partners are complementary, but firms need to be thorough in their preparation for a joint venture.

2.3.8 Wholly Owned Subsidiaries

Wholly-owned subsidiaries involve the establishment of businesses in foreign locations which are owned entirely by the investing firm. This entry choice puts the investor parent in full control of operations but also requires the ability to provide the needed capital and management, and to take on all of the risk (Kaberia, 2013). Where control is important and the firm is capable of the investment, it is often the preferred choice. Other firms feel the need for local input from local partners, or specialized input from international partners, and opt for joint ventures or strategic alliances, even where they are financially capable of 100 percent ownership (Sylvester, 2010).

2.3.9 Strategic Alliances

Strategic alliances are cooperative arrangements between two or more companies to cooperate for strategic purposes (Folea et al., 2008). The partners are in an alliance; seek to add to their competencies by combining their resources with those of other firms with a commitment to reach an agreed goal. Generally, partners tend to be of comparable strengths and resources but this is not always the case. Strategic alliances tend to be contractual rather than equity arrangement. Licenses and joint ventures are forms of strategic alliances, but are often differentiated from them (Mutio, 2013). Strategic alliances can involve no joint ownership or specific license agreement, but rather two companies working together to develop a synergy. Joint advertising programs are a form of strategic alliance, as are joint research and development programs (Sylvester, 2010). Strategic alliances seem to make some firms vulnerable to loss of competitive advantage, especially where small firms ally with larger firms. In spite of this, many smaller firms find strategic alliances allow them to enter the international arena when they could not do so alone (Kagabo, 2012).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter examined the research design of the study, the target population, sampling and sample size, measuring instruments, validity and reliability of the questionnaire and the data processing procedures.

3.2 Research Design

According to Ada (2009) the research design refers to the explanation of the method adopted in the carrying out of the research and is thus a plan or structure of any aspect of the research procedure. Descriptive research technique was used in the study. According to Simiyu (2013) a descriptive study enables the current description of the phenomena being studied. On the other hand, Chepkangor (2012) argues that descriptive case studies are used to describe an event/process in its natural ambit and the main objectives is to answer how, who and what questions. Due to the large number of multinationals in the country, the survey descriptive research technique was adopted. According to Ada (2009) the survey research design refers to the process of eliciting data or information from a large population through use of questionnaires. Questionnaires were used to describe existing phenomena by asking individuals about the perception, attitudes and behavior or values (Kipkenei, 2012).

3.3 Population of the Study

Cherotich (2012) defines population as entire group of individuals, events or objects having common observable characteristics. In the context of this study, the researcher targeted the multinational firms in the banking sector, multinational in auditing services and multinational beverage companies.

3.4 Sampling

This subsection has examined the determination of the sample size used for the study and the sampling technique used.

Sample size was determined using the Yamane's simplified formula that is

$$n = \frac{N}{1+N(e^2)}$$

Where

n is the sample size

N is the population =420

E is the tolerable error =10%

= 80 respondents

The simple random sampling technique was used for the study. According to Ibrahim (2012) a simple random sample of size n consists of n individuals from the population chosen in such a way that every set of n individuals has an equal chance to be the sample actually selected.

3.5 Data Collection

Primary data was collected through a drop and pick method. In this method, the questionnaires were first distributed to respondents with a view of collecting them later. The advantage associated with this method is that it's convenient to both the researcher and the respondents since the respondents fills the questionnaires at their convenient time.

3.6 Data Analysis

The collected data was coded and analyzed using descriptive statistic and SPSS on its relative measures .The Statistical Package for Social Sciences (SPSS) version 21 was used for the analysis. Graphical data presentation was also available, that is pie charts, bar graphs, and tables.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings and the interpretations of the research findings dependent on the specific research objectives.

4.2 Response Rate

The target sample size for the study was 80 respondents. The researcher was able to collect back 75 questionnaires out of the 80 questionnaires issued. This represented a 93.75% response rate. There were several reasons for the unreturned questionnaires including staff that had proceeded for leave, staff not at their work places at the time of questionnaire collections, respondents who had misplaced the questionnaire and respondents who were not willing to participate in the study. The collected questionnaires were further analyzed to remove inconsistencies in the responses and eliminate partially filled questionnaires. Out of the 75 questionnaires that were collected, a further 3 questionnaires were eliminated due to various reasons; two questionnaires due to inconsistent responses and one questionnaire due to incomplete questionnaires. Sixty-nine questionnaires were thus analyzed representing 86.25% of the sample size. The analyzed questionnaires are deemed representative of the population under study.

4.3 Respondent's Characteristics

The study checked on the respondent's gender as part of the respondent's characteristics. Table 4.1 shows that 72.5% of the respondents were male while 27.5% of the respondents were female. The high number of the male respondents is attributable to the fact that women are often tied with bringing up a family and are therefore less likely to work away from their home countries (Cheptegei, 2012).

Table 4.1: Respondent's Gender

	Frequency	Percentage
Male	50	72.5
Female	19	27.5
Total	**69**	**100.0**

4.4 Characteristics of Multinational Firms in Kenya

The characteristics of the multinational firms in Kenya will be examined through the number of years operational in Kenya, the size of the firm in term of employees, and the industry of the multinational. A majority of the firms have been operational in Kenya for over 15 years. In this context, Table 4.2 indicates that 55.1% of the multinational firms have been operational in Kenya for over 15 years. On the other hand, 5.8%, 11.6% and 27.5% of the firms have been operational in Kenya for less than five years, 6-10 years, and 11-15 years respectively. The high number of multinational firms that have operated in Kenya is attributable to the fact that Kenya got independence five decades ago (Mugeni, 2013). The firms associated with the former colonial master which had established themselves continued operating in the country even after independence. Kenya has also enjoyed a good working relationship with the former colonial master (United Kingdom), the United States and the western countries in general.

Table 4.2: Firm Operational Years in Kenya

	Frequency	Percentage
0-5 Years	4	5.8
6-10 Years	8	11.6
11-15 Years	19	27.5
Over 15 Years	38	55.1
Total	**69**	**100.0**

In the context of the number of employees, Table 4.3 indicates that a majority of the firms that is 49.3% have more than 150 employees compared to 5.8%, 11.6%, and 33.3% that have less than 50 employees, 51-100 employees, and 101-150 employees respectively. The high number of employees in the multinational firms is because a majority of these firms have operations in more than two countries and may have presence in all the continents.

Table 4.3: Firm Size in Terms of Employees

	Frequency	Percentage
0-50 Employees	4	5.8
51-100 Employees	8	11.6
101-150 Employees	23	33.3
Over 150 Employees	34	49.3
Total	**69**	**100.0**

In the context of the industry type among the multinational firms, 49.3% were in the manufacturing sector, 15.9% in commercial services, 11.6% in professional services, 17.4% in financial services and 5.8% in hospitality services.

Table 4.4: Multinational Firms' in Kenya

	Frequency	Percentage
Hospitality	4	5.8
Financial Services	12	17.4
Professional Services	8	11.6
Commercial Services	11	15.9
Manufacturing Companies	34	49.3
Total	**69**	**100.0**

4.5 Factors Influencing Decision to Enter Kenyan Markets

There are several factors influencing multinational firms to enter Kenyan Markets including availability of labour, near the source of supply, availability of raw materials, availability of technology, and availability of lower labour costs (Ishimwe, 2013). Other factors include; lower production costs, government inducements and favourable costs (Rugut, 2012). The availability of labour and lower labour costs are the major attractions of the multinationals wishing to invest in Kenya as indicated by 76.8% and 71% of the respondents. Kenya has a highly skilled work force due to the numerous institutions of the higher learning and the competitiveness of the workforce in general. In the Kenyan workforce, workers may have multi qualifications that include a university degree and professional courses such as Certified Public Accountants (CPA). On the other hand, the relatively high level of unemployment makes hiring of such labour relatively cheap. Technology and cost levels have also influenced decision to invest in Kenya as indicated by 65.2% of the respondents.

Table 4.5: Factors Influencing Decision to Enter Kenya

To what extent have the following factors influenced entry into Kenyan Market		No extent	Less Extent	Moderate extent	Great extent	Very great extent
Availability of Labour	Frequency	4	0	4	8	53
	Percentage	5.8	0	5.8	11.6	76.8
Source of Supply	Frequency	17	0	4	4	44
	Percentage	24.6	0	5.8	5.8	63.8
Availability of Raw Materials	Frequency	16	8	11	11	23
	Percentage	23.2	11.6	15.9	15.9	33.3
Availability of Technology	Frequency	0	8	4	12	45
	Percentage	0	11.6	5.8	17.4	65.2
Availability of Lower Labour Costs	Frequency	4	4	4	8	49
	Percentage	5.8	5.8	5.8	11.6	71
Lower Production Costs	Frequency	4	12	8	11	34
	Percentage	5.8	17.4	11.6	15.9	49.3
Lower Transport Costs	Frequency	0	8	12	26	23
	Percentage	0	11.6	17.4	37.7	33.3
Government Inducements	Frequency	4	4	8	19	34
	Percentage	5.8	5.8	11.6	27.5	49.3
Favourable Cost Levels	Frequency	0	4	4	16	45
	Percentage	0	5.8	5.8	23.2	65.2

4.6 Factors Making Kenya Competitive For Multinationals

The competitiveness of the Kenyan market as the destination for the multinationals was evaluated on several aspects including political/legal environment, economic development, market trends, technology changes, and the population demographic trends. The technology changes, market trends, and political factors played a critical role in making Kenya competitive for foreign markets. This is as indicated by 65.2%, 49.3% and 40.6% respectively. The political environment plays a critical role in the context that investors would like to invest in politically stable countries to prevent disruption of business and destruction of properties during political contests

(Cheptegei, 2012). On the other hand, market trends are critical in making the country competitive. Countries where they are picking up new trends and tastes present an opportunity for growth for both local and foreign businesses (Mukokho, 2010).

Table 4.6: Factors Making Kenya Competitive for Multinationals

To what extent have the following factors considered when entering into Kenyan Market		**No extent**	**Less Extent**	**Moderate extent**	**Great extent**	**Very great extent**
Political/Legal Factors	Frequency	0	11	11	19	28
	Percentage	0	15.9	15.9	27.5	40.6
Economic Development	Frequency	0	11	11	23	24
	Percentage	0	15.9	15.9	33.3	34.8
Competition	Frequency	0	11	34	16	8
	Percentage	0	15.9	49.3	23.2	11.6
Market Trends	Frequency	4	12	4	15	34
	Percentage	5.8	17.4	5.8	21.7	49.3
Technology Changes	Frequency	4	8	4	8	45
	Percentage	5.8	11.6	5.8	11.6	65.2
Social/Cultural Trends	Frequency	12	8	22	15	12
	Percentage	17.4	11.6	31.9	21.7	17.4
Population/Demographic	Frequency	8	8	22	19	12
	Percentage	11.6	11.6	31.9	27.5	17.4

4.7 Market Entry Strategies into Kenya

Several market entry strategies can be used to enter into Kenya for foreign companies including exporting, joint venture, licensing, foreign direct investment, turnkey, franchise and wholly owned subsidiaries (Muthama, 2013; Mutio, 2013; Mwazumbo, 2010). There is a high prevalence for exporting, joint venture and licensing as a market entry strategy into the country as indicated by 65.2% of the respondents who indicated that to a great extent that was the market entry strategy used. The preference of exporting as a market entry strategy is due to the low logistics that are involved.

Table 4.7: Market Entry Strategies into Kenya

To what extent have the following market entry strategies being used to enter Kenya		No extent	Less Extent	Moderate extent	Great extent	Very great extent
Exporting	Frequency	0	4	8	12	45
	Percentage	0	5.8	11.6	17.4	65.2
Joint Venture	Frequency	4	4	12	4	45
	Percentage	5.8	5.8	17.4	5.8	65.2
Licencing	Frequency	0	4	8	12	45
	Percentage	0	5.8	11.6	17.4	65.2
Foreign Direct Investment	Frequency	0	4	8	34	23
	Percentage	0	5.8	11.6	49.3	33.3
Turnkey	Frequency	8	8	19	22	12
	Percentage	11.6	11.6	27.5	31.9	17.4
Franchise	Frequency	4	4	15	15	31
	Percentage	5.8	5.8	21.7	21.7	44.9
Wholly Owned Subsidiaries	Frequency	4	4	4	34	23
	Percentage	5.8	5.8	5.8	49.3	33.3

4.8 Discussion of the Findings

From the study the findings shows that, the multinational firms' operations as, 49.3% were in the manufacturing sector, 15.9% in commercial services, 11.6% in professional services, 17.4% in financial services and 5.8% in hospitality services. From table 4.5 it could be seen that availability of labour and lower labour costs are the major attractions of the multinationals wishing to invest in Kenya as indicated by 76.8% and 71% of the respondents. Factors that make Kenya competitive for multinationals as indicated by table 4.6 are technology changes, market trends, and political factors all of which played a critical role in making Kenya competitive for foreign markets. This is as indicated by 65.2%, 49.3% and 40.6% of the respondents respectively.

From the findings of table 4.7 it could also be seen that there is a high prevalence for exporting, joint venture and licensing as a market entry strategy into the country as indicated by 65.2% of the respondents who indicated that to a great extent that was the market entry strategy used.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter presented summary of key research data findings, conclusion drawn from the findings highlighted and recommendation made there-of. The conclusions and recommendations are drawn in quest of addressing the research objective which is to investigate the market entry strategies used by multinational corporations to enter into Kenya market.

5.2 Conclusions

Majority of the multinational firms operating in Kenya have been in Kenya for over 15 years that has been attributed to ties with former colonial master. Most of the companies date the colonial era. The good working relations with the western countries have seen the entry of the foreign countries into Kenya looking for markets for their goods and services. Majority of the multinational firms in Kenya have over 150 employees, which is attributable to the fact that a majority of the firms have operations in other countries. Several factors influence the decision to enter the Kenyan market including the availability of labour and raw materials, technology and lower labour costs amongst others. Availability of labour and lower labour costs are the major attractions of multinationals wishing to invest in Kenya. Among the factors making Kenya competitive include technology changes, market trends and political factors as indicated by 65.2%, 49.3% and 40.6% respectively.

Among the market entry strategies into Kenya include exporting, joint venture, licensing, foreign direct investment, turnkey, franchise and wholly owned subsidiaries. Exporting and licensing were the major forms of market entry strategies used to enter Kenya as cited by 65.2% of the respondents.

5.3 Recommendations

The study recommends examination of more market entry strategies into the Kenyan market for the exploration of the market opportunities in the country.

Multinationals Corporations (MNCs) should critically analyze the various strategies at their disposal in entering a new market before making decisions on how to enter the selected market. Market entry strategy plays a very important role in determining the successfulness of the multinational corporations on the local market.

5.4 Suggestions for Further Reading

Among the suggestions for further reading for future scholars include

The success of each market entry strategy into the Kenyan market.

The market entry strategy differentiation among different industries.

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APPENDICES

Appendix A: Introduction Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 30/9/2014

TO WHOM IT MAY CONCERN

The bearer of this letter MARTIN M MAINA

Registration No. D61/75248/2009

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

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

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

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix B: Questionnaire

MARKET ENTRY STRATEGIES USED BY MULTINATIONAL CORPORATIONS TO ENTER INTO KENYAN MARKET

Instructions: Please complete the following questionnaire appropriately.

Confidentiality: The responses you provide will be strictly confidential. No reference will be made to any individual(s) in the report of the study.

Please tick or answer appropriately for each of the Question provided

1) What is your gender?

   Male ( ) Female ( )

2) How long have your firm been operational in Kenya?

0-5 Years	( )
6-10 Years	( )
11-15 Years	( )
Over 15 Years	( )

3) What is the size of your firm in terms of number of employees?

0-50 Employees	( )
51-100 Employees	( )
101-150 Employees	( )
Over 150 Employees	( )

4) How best would best describe your industry?

Hospitality (e.g. Hotels)	( )
Financial Services	( )
Professional Services (e.g. Audit Firms)	( )
Commercial Services	( )
Manufacturing Companies	( )

5) Who participates in the planning, formulation and implementation of expansion strategies?

Directors	( )
Top Managers	( )
Operational Managers	( )
All Staff	( )

6) To what extent do the given factors influence the firms' decisions to enter the Kenyan market? (Use the given scale)

1. To no Extent 2.To a less Extent 3. To a moderate Extent 4. To a great extent 5. To a very great extent

	1.	2.	3.	4.	5.
Desire to be near source of supply					
Availability of labour					
Availability of raw materials					
Availability of capital/technology					
Lower labour costs					
Lower other production costs					
Lower transport costs					
Financial (and other) inducements by government					
More favourable cost levels					

7) How often does your company review its marketing entry strategies?

Monthly	( )
Quarterly	( )
Semi Annually	( )
Annually	( )
Bi annually	( )
Never at all	( )

8) How best would you describe the international environment?

Stable	( )
Fairly Stable	( )
Unstable	( )
Fairly Turbulent	( )
Competitive	( )

9) To what extent are the following factors considered when entering new markets?

1. To no extent 2. To a less extent 3. To a moderate extent 4. To a great extent 5. To a very great extent

	1.	2.	3.	4.	5.
Political/Legal factors					
Economic Development					
Competition					
Market Trends					
Technology Changes					
Social/ Cultural Trends					
Population/Demographic Shifts					

10) To what extent are the following market entry strategies been used when entering Kenyan market? (Please rank in order of importance)

1. To a little extent; 2.To a moderate extent; 3.Indifferent; 4.To a great extent; 5.To a very great extent

	1.	2.	3.	4.	5.
Exporting					
Joint Ventures					
Licensing					
Foreign Direct Investment					
Turnkey Operations					
Franchises					
Wholly Owned Subsidiaries					