CHALLENGES FACED BY NATION MEDIA GROUP IN ENTERING EAST AFRICAN COMMON MARKET

BY

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DECLARATION

This research project is my original work and has not been presented for examination to any other university.

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This Research Project has been submitted for examination with my approval as the University Supervisor.

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I acknowledge my supervisor and entire staff of the School of Business, University of Nairobi for their tireless effort in shaping me up to earn this opportunity. Special acknowledgements too to my fellow graduates for carrying out all assignments that helped complete this project successfully including the secretarial team and field assistants.
DEDICATION

I dedicate this project to my young son who persevered long hours of my absence as I worked towards its completion. God gave you the patience to be peaceful and as you spurred me on, I knew the results would be there for all to see. Indeed this has come to pass and thank you for your great motivation.
ABSTRACT

This study investigated the challenges faced by Nation Media Group in entering East Africa Common Market. The objective of the study was to determine how the NMG enters into the common East Africa market and also establish the difficulties faced by new entrants on the market. To achieve the objective, a content analysis of major documents at the NMG concerning FDI and expansion was conducted. Interviews from key staff at NMG that are centrally placed in expansion strategy processes were carried out to get an in-depth view of the challenges that NMG and new entrants face.

The study will have useful insight to the corporate world in Kenya and may have generated new information that can be used for expansion strategy. The research also advanced the work of previous scholars and academicians. Based on the research findings the study concluded that indeed challenges exist facing expansion strategists. The study anticipated and encountered limitations in terms of literature material, funds and lack of cooperation from respondents but this was dealt with through extra reading, team discussions and input from colleagues at NMG to make a final report a success.

From the policy perspective the study implied that the NMG should approach the government whenever the expansion strategic plan is put in place for implementation so that the country diplomatic ties are used as a pathway to ease expansion. The study also recommended that, the government should in practice try to involve the private sector in formulating strategic plans in which both parties could present shortcomings and
challenges faced in implementing the strategic plans in particular the expansion into regional markets.
# TABLE OF CONTENTS

Declaration ........................................................................................................................................... i
Acknowledgements ................................................................................................................................. ii
Dedication ................................................................................................................................................ iii
Abstract ...................................................................................................................................................... iv
List of Tables ............................................................................................................................................... ix
List of Figures ........................................................................................................................................... x

## CHAPTER ONE: INTRODUCTION ........................................................................................................ 1

1.1 Background of the Study ....................................................................................................................... 1
  1.1.1 Concept of International Business ..................................................................................................... 2
  1.1.2 Entry Strategies on International Business Market ............................................................................. 3
  1.1.3 Foreign Direct Investment ................................................................................................................. 4
  1.1.4 The Media Industry .......................................................................................................................... 5
  1.1.5 The Nation Media Group ................................................................................................................... 6
1.2 Research Problem .................................................................................................................................... 8
1.3 Research Objective .................................................................................................................................. 10
1.4 Value of the Study ................................................................................................................................... 10

## CHAPTER TWO: LITERATURE REVIEW ............................................................................................. 12

2.1 Introduction ............................................................................................................................................ 12
2.2 International Business ............................................................................................................................ 12
2.3 Entry Strategies for International Business ............................................................................................ 14
  2.3.1 Import Option .................................................................................................................................. 14
  2.3.2 LicencingOption ............................................................................................................................... 15
  2.3.3 Portfolio Investment ............................................................................................................................ 15
  2.3.4 Contracting Option ............................................................................................................................ 16
  2.3.5 Turnkey Projects ............................................................................................................................... 16
  2.3.6 Diversification ................................................................................................................................... 17
2.4 Foreign Direct Investment (FDI) ........................................................................................................... 17
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.4.1 Tariff Barriers to International Business</td>
<td>19</td>
</tr>
<tr>
<td>2.4.2 Non-Tariff barriers to International Business</td>
<td>19</td>
</tr>
<tr>
<td>2.5 Benefits of International Business</td>
<td>20</td>
</tr>
<tr>
<td>2.6 Challenges and Survival Techniques of International Business</td>
<td>21</td>
</tr>
<tr>
<td>CHAPTER THREE: RESEARCH METHODOLOGY</td>
<td>23</td>
</tr>
<tr>
<td>3.1 Introduction</td>
<td>23</td>
</tr>
<tr>
<td>3.2 Research Design</td>
<td>23</td>
</tr>
<tr>
<td>3.3 Data Collection</td>
<td>24</td>
</tr>
<tr>
<td>3.4 Data Analysis</td>
<td>24</td>
</tr>
<tr>
<td>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION</td>
<td>25</td>
</tr>
<tr>
<td>4.1 Introduction</td>
<td>25</td>
</tr>
<tr>
<td>4.2 Respondents’ Demographics</td>
<td>25</td>
</tr>
<tr>
<td>4.3 Communication and Inter-relation at Departments</td>
<td>26</td>
</tr>
<tr>
<td>4.4 Structure and Management Effect on FDI Strategy</td>
<td>27</td>
</tr>
<tr>
<td>4.4.1 Organization Structure</td>
<td>28</td>
</tr>
<tr>
<td>4.4.2 The FDI Effectiveness for NMG</td>
<td>28</td>
</tr>
<tr>
<td>4.4.3 Alternative Strategies for NMG Expansion</td>
<td>29</td>
</tr>
<tr>
<td>4.5 Discussion of the Challenges in Expansion Strategy for NMG</td>
<td>29</td>
</tr>
<tr>
<td>4.6 Suggestions on Overcoming Expansion Strategy Challenges</td>
<td>31</td>
</tr>
<tr>
<td>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</td>
<td>32</td>
</tr>
<tr>
<td>5.1 Introduction</td>
<td>32</td>
</tr>
<tr>
<td>5.2 Summary of Findings and Conclusions</td>
<td>32</td>
</tr>
<tr>
<td>5.3 Limitations of the Study</td>
<td>33</td>
</tr>
<tr>
<td>5.4 Areas of Further Research</td>
<td>34</td>
</tr>
<tr>
<td>5.5 Implication on Policy, Theory and Practice</td>
<td>34</td>
</tr>
<tr>
<td>REFERENCES</td>
<td>36</td>
</tr>
<tr>
<td>APPENDICES</td>
<td>38</td>
</tr>
</tbody>
</table>

Appendix I: University Authorization Letter ...................................... 38
Appendix II: Letter of Acceptance from NMG to collect data

APPENDIX III: Interview Guide
LIST OF TABLES

Table 1: Respondents’ Demographic Data..........................................................26
LIST OF FIGURES

Figure 1: Respondents’ Gender Distribution………………………………………26
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

International business requires a system where, strategy has the input, processes and output units that will be coordinated in a very innovative and creative environment while facing threats both from the internal and external forces. As long term plans for the firm, a strategy will therefore require to have well planned inputs in terms of resources both human and non-human. There is emphasis on the need to have those inputs monitored and focused for the future if a successful second stage of processing is to be achieved. The human resources will have to be trained and fully prepared for the organization culture, values and in particular the vision that is guiding the organization future.

A strategy for international trade then would have to get full executive support with allocation of resources that are future oriented. Implementation of such a strategy will be possible if the inputs are working in harmony and there is motivation to carry on with expectations of a bright future in the competitive environment. The small bits in the input section, which in this case involve planning, will have to be monitored throughout the processing period, which is continuous. The future overlaps with the present and all processes are geared towards production of outputs that can be quickly re-run in the system or make an impact to the environment or market where the organization is identified.

Organizations have regionalized their businesses beyond geographical borders for various reasons. The need to expand products, competition and profit creation for shareholders has been major reasons for the expansion. This calls for strategic thinking in this international marketing
and in particular for the Nation Media Group as they aim to be the leading media house in the East Africa Common market.

### 1.1.1 Concept of International Business

The shrinking distances in the global village has meant that economies are moving away from self-contained entities towards cross-border. In this newfound zone, business is conducted across various time zones, languages, national differences and business systems (Hill, 2011). The international business implies that the volume of goods, services and investment crossing national borders has been expanding faster than world output for the last half a century.

World leaders and international institutions like the World Trade Organisation (WTO) have repeatedly called for reduction or lowering of cross-border barriers to enable international business prosper. However, this has been met by local protests in many countries who blame internationalization for unemployment. This according to UN (2009) has produced many opportunities that allow governments and companies to reduce their costs and make their products in countries where key inputs including labour are cheap. This is taking place both in goods and service sector for example clients from developed countries are moving to the developing countries for specialized markets or services that are cheaper and readily available. Globalization of business is also transforming industries and creating more profits while at the same time exposing firms to competition on the local and international scene.

Friedman (2005) argued that the world is becoming “flat” with the developed world no longer having a favourable advantage to be ahead of the competition from the developing world. All
this is made possible because of differences in countries, the global trade environment, political economy of international trade, the various monetary systems and the general structure of international business operations.

International business operates in a competitive environment and hence the need for managers to have strategy in order to operate effectively. In order for firms to increase profits, they must expand into foreign markets through particular strategies. Such strategies must be tested thoroughly to see the benefits and risks of any strategy chosen (Porter, 1980). Although expanding internationally can help managers boost profitability and rate of growth, not all strategies are suitable all the time.

1.1.2 Entry Strategies on International Business Market

Basically a firm that intends to enter a foreign market has to make three basic decisions which according to Hill (2011) include which markets to enter, when to enter those markets and to what scale. The country’s long-term profit is very important while the political and economic attractiveness stand out as the key to foreign ventures. Any entry strategy will however largely depend on the balancing of benefits, costs and risks associated with doing business in that country. Whatever market is chosen, the long-run profitability will depend on market size, purchasing power and projected future wealth of its consumers. Similarly, the timing of entry is dependent on whether the firm will be a first timer or a late comer in which case, there are advantages and disadvantages for both timings.
According to Hamel and Prahalad (2002), first-movers might capture customers if strong enough but will have to incur the pioneering costs while the late comers might not have the tax concessions or green market but at the same time enjoy less research and pioneer costs. The scale of entry according to Kaplan and Khan (2002) could have a major impact since several businesses could be related to the new company and hence strategic alliances come into focus. The common entry strategies include exporting, turnkey contracts, licensing, franchising, joint ventures and wholly owned subsidiaries all of which are based on either technological expertise or management expertise as the core competency (Julien & Ramegelahy, 2003).

### 1.1.3 Foreign Direct Investment

Hill (2011) has defined Foreign Investment (FDI) as occurring when a firm invests directly in facilities to produce or market a product in a foreign country. This could happen when a citizen, organization or affiliated group takes an interest or shareholding of substantial percentage in a foreign business entity. FDI is normally in two main forms. The first form according to Ram and Zang (2003) is the Greenfield investment in which a completely new operation is established in a foreign country. The second form of FDI involves acquiring or merging with an existing firm in the foreign country. In this case, a minority stake (0 to 49% shareholding) or majority stake (50-100%) is acquired by the firm in the foreign country.

FDI is necessary for most firms since as compared to exporting and licencing, it has fewer limitations when capitalizing on foreign market opportunities. However, FDI is risky because of the problems associated with doing business in a different culture where the “rules of the game” may be different. Hamel and Prahalad (2002) attribute this to first-time costly mistakes.
committed by the new entrant through ignorance. FDI can therefore be both risky and expensive requiring careful strategy planning and effective implementation. There are three basic theory groups when studying FDI and they include those favoring FDI to exporting or licencing, those in which similar firms seek similar locations on entry into a foreign country (Hill, 2011).

1.1.4 The Media Industry

With the dismantling of foreign exchange controls in 1994 and the import licensing taxes, the domestic market received a great boost that acted as an incentive for media players to expand and compete fairly in the liberalized period (GoK, 2007). This development led to a vibrant and dynamic media market with major economic empowerment. The mainstream media that include Daily Nation, East Africa Standard, Kenya Times, The Star, The People and The Citizen compete for a very elusive customer in the Kenya readership. The Daily Nation leads among the English readership while Taifa Leo leads for the readership of Kiswahili language. In terms of circulation, the Daily Nation leads with a circulation of 300,000 per day compared to East Africa Standard at 150,000 and the rest of the competition at a combined figure of 30,000 daily. Some newspapers have been linked to political powerbases thereby getting a head-start in terms of operational expenses and increasing the competitive stakes.

The print media also has competitive weekly or monthly productions including, Parents magazine, The East African by Nation Media Group, Drum, Law Monthly and Consumer Digest. The Nation Media Group (NMG) was started in 1960 by the Aga Khan through the launch of three dailies including the Daily Nation, Sunday Nation and Taifa Leo. The main objective of NMG was to produce a paper that was edited by indigenous Africans and that covered African
news and events in the best way as viewed by the local people. This was therefore a direct competition to the existing main newspaper at the time, the East Africa Standard (EAS). The EAS was perceived as a white man’s paper and hence the Nation was very well received. The Kiswahili print was however not so well received since the language was not widely taught in Kenyan education curriculum as compared to their counterparts in Tanzania.

With the liberalization of the political system and the repeal of Section 2A of the Kenya Constitution in 1992, the print media opened up to enterprising individuals and groups giving government-supported newspapers a stiff competition. This led rise of new players on the market that created a lot of competition for example the Citizen, The people and The Star.

The competition among independent newsprint was therefore intensified and has continued to grow in the wake of new technology and marketing systems. The daily print industry in Kenya has had a long history of experience in delivering to the citizen news and events while competing for their attention in terms of advertisements. The increasing global competition has meant that readership must be carefully wooed and all stops are pulled to lock them into particular newspapers. Regional collaborations led by the NMG appear to be the best way of sustaining market sales and survival among other strategies as will be studied in this proposed research.

1.1.5 The Nation Media Group

The Nation Media Group was started in 1960 by the Aga Khan through the launch of three dailies including the Daily Nation, Sunday Nation and Taifa Leo. The Aga Khan is the highest shareholder in the NMG with a controlling interest of 51%. The main objective of NMG was to produce a paper that was edited by African and that covered African news and events in the best
way Africans viewed them. NMG began with the publication a weekly paper (Taifa) turning it into a daily paper later on (Taifa Leo). This was therefore a direct competition to the existing main newspapers at the time, the East Africa Standard. The EAS was perceived as a white man’s paper and hence Nation was very well received. The Kiswahili print was however not so well received since the language was used formally as opposed to the informal Kiswahili that most Kenyans are used to when compared to their counterparts in Tanzania.

In order to cater for the English speaking readers, the company introduced the Sunday Nation in March 1960 and later started a daily (Daily Nation) in the same year. The NMG has since been quoted in the Nairobi Stock Exchange (NSE) from 1970. Its presence is felt in the East Africa region.

The regional spread shows that NMG has Monitor Publications Ltd in Uganda in which The Monitor was started in 1992 and has grown from a basement operation to a multi-media consortium with offices spread across Kampala city. Besides the daily and Sunday Monitor papers, Monitor Publications Ltd. runs an FM radio station, 93.3 KFM. Daily Monitor and Sunday Monitor are now the leading independent national newspapers in Uganda while KFM attained market leadership in Uganda’s crowded FM market. In Tanzania, NMG has controlling shareholding in Mwananchi Communications Limited (MCL), which publishes Kiswahili papers Mwananchi daily and MwanaSpoti a weekly all-sports newspaper. In September 2004, MCL launched an English daily, The Citizen, which has taken competition by storm. The MCL has managed in its short history to develop into a major player in the media scene in Tanzania committed to editorial independence and journalistic excellence (www.nationmedia.co.ke).
Although the Nation Media Group (NMG) has had a newspaper division since 1960 its broadcasting division, comprising NTV and Easy FM were launched only in 1999. In 2003, licenses and frequencies were allocated to the Group and television and radio services were rolled out to most of the major towns around Kenya. NTV Uganda began its broadcasts in 2011.

The Nation Group runs its own transport company, the Nation Carriers Limited that has a well-maintained fleet to distribute its products all over Kenya. The facility provides all transport needs for the other divisions of the company and enables the regular repair and servicing of the company’s vehicles. Nation Courier, a subsidiary of Nation Carriers. Nation Courier now has international links after signing up with TNT Worldwide Express to deliver mail and packages outside Kenya and this will even make it regional.

Nation Marketing and Publishing Ltd. (NM&P) distributes various international titles such as the Economist, Times, Newsweek and Fortune magazines. It also produces a local free sheet, The Weekly Advertiser that continues to grow with increasing editorial specials. However, the oldest division of NMG is the newspaper division with The Nation taking its place on the newsstands on October 3, 1960 (www.nationmedia.co.ke).

1.2 Research Problem

The business environment is very competitive and more so in media industry thereby requiring thinking in line of strategic planning. The industry can therefore be said to be thriving with several competitive approaches by the players in order to stay on the lucrative market. This
means that every player must be wary of new entrants, new technology and new global systems on the market in order to face the challenges and remain afloat. The implementation of a given strategy is dependent on its inception, development and minimization of uncertainties in the environment and this makes it risky for any organization venturing away from its localized site.

Organizations the world over experience competition in various business environments they operate in. As a result of the competition, many organizations explore markets outside their domestic market to seek growth opportunities. NMG started its operations in 1960 and has since spread to Uganda and subsequently Tanzania to take the existing advantages on the regional market. The Tanzania market has a lot of potential as compared to Uganda but both represent internationalization that calls for careful assessment of strategic objectives, strategic emphasis, leadership style and clear rules and policies for survival in the foreign field.

The industry players have common problems facing them including the imitation of products by competitors, talent retention, politics and environmental challenges. Low readability and lack of interest in media products is another challenge with particular focus on the youth (GoK, 2007). The new Kenya Constitution 2010 has also opened ways and means of more competition across all markets and hence it is upon the media players to have in place, very competitive strategies to remain on the market profitably and more so on the international front.

Several strategy implementation studies have been carried on the media industry. Kimata (2003) investigated NMG’s diversification strategy concluding that leadership and high competition were drivers of that diversification. Ekirapa (2008) and Kisaka (2007) looked at financial performance and entry strategies of NMG on the Kenya media front concluding that financial strength as well tactical forecasting were the key features in NMG’s success. Thuo (2002)
studied media competition and survival strategies in the print section and concluded that readership was affected by the upsurge in internet based media. The studies had their concentrated focus on local competition and other aspects of strategy locally giving a gap to be explored on NMG regional expansion. This is the basis for carrying out the project. To have a successful field study, the question for guidance was; what are the challenges facing NMG’s entry into the lucrative competitive East African market?

1.3 Research Objective

The objective of the study was to determine the challenges faced by NMG in making an entry onto the East Africa common market. The study sought to explore challenges posed by new entrants in the regional market focusing on NMG experiences.

1.4 Value of the Study

This research sought to investigate the factors that affect the entry onto the regional market by NMG. The research findings can therefore be of importance to various parties of interest who act as stakeholders in this study. First, the NMG stands to benefit by identifying the challenges exposed by the study to formulate and strengthen their strategy planning for expansion onto the East Africa common market. Second, the government of Kenya and its policy planners will have a basis for guiding and formulating guidelines for trade and industry players involved in FDI both inbound and outbound. Third, in the media industry bustling with stiff competition, the players will benefit by having a glimpse of the challenges facing FDI new entrants thereby giving them a chance to plan for implementable strategies. Finally, this study adds a rich input
to the database of other studies dealing with FDI as well as the theoretical background of international business studies and expansion strategies.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

International business as a key ingredient in the present world has been facilitated by various political, economic, technological and cultural integration. This chapter will be examining the general aspects of international business, various entry strategies and particularly focus on the FDI strategy and its challenges.

2.2 International Business

International business is sprung from the mercantilism theory of the 16th and 17th centuries in which there was a simultaneous advocacy for encouraging exports while discouraging imports. The theory of mercantilism was discarded but silently remains a drive in one way or another of international trade. According to Porter (1990), free trade refers to a situation where a government does not attempt to influence through quotas or duties what its citizens can buy or can produce and sell from and to another country. This is in line with what Smith (1776) classic book, “Invisible hand” advocated to mean that only market forces and not the government should control any market.

Smith’s work was later complimented by two classic theories: theory of comparative advantage (Ricardo, 1967) and theory of production factor proportions (Heckscher-Ohlin, 1933). All the three theories demonstrate that it is beneficial for a country to engage in trade even for products and services it is able to produce by itself. The benefits of international trade are immense since
they allow a country to specialize in manufacture and export of products that can be produced more efficiently in that country while importing products that can be produced more efficiently in other countries. Although countries have tried to put up import controls that benefit particular groups of businesses and their employees, experience shows that such measures in the long run hurts the economy and the very people they are meant to protect.

According to Sachs and Warner (1995), such limitations of imports and exports are often in the interest of domestic producers more than domestic consumers and are a hindrance to international trade. To improve on the theory of the three gurus, Krugman (2008) who is a Nobel Prize winner came up with a new trade theory in which countries specialize in the production and export of particular products not because of factors advantage but simply because the world market can only support a limited number of firms. This seems to apply in many cases to the modern world both locally and across borders. However, governments still have to step in to balance import and export moves to support certain export-oriented industries. Porter (1990) called this balance as strategic trade policy.

Many international businesses have instituted formal worldwide strategic planning in order to identify business opportunities and threats. Once these are identified, formal structures in which managers carry out a SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis for their companies. It can then formulate clear objectives and goals to tactically achieve what has been planned. From this, it is clear that any business activity, which can be performed in one country, can be performed internationally if the firm chooses to work in another country (Johnson & Scholes, 2003).
2.3 Entry Strategies for International Business

According to Porter (1985), the internationalization strategies include; import, export, portfolio investment, licencing, contracting, turnkey projects, sole direct foreign investment, joint ventures, international services, diversification and acquisitions. In all cases, there has to be good planning and very clear aggressive implementation in order to survive competition. There are various factors that determine the internationalization of business locations worldwide and these are critical in any region. These include Gross National Product (GNP), the rate of GNP growth and the political environment of the market as well as the culture of the new people. Not all these entry strategies however are easy to execute due to barriers that exist to stop unfair competition and protect local businesses on all markets. The barriers could be both tariff-related or non-tariff related.

2.3.1 Import Option

This strategy denotes that a local player who maybe independent business person buys from another foreign firm while the exporting option involves a local firm sending its goods or services abroad but not the managerial services (Kaplan & Norton, 2002).

Daniels et al (2011) identified three kinds of import strategy options. First is the option of looking for a product around the world to sell where it is in scarcity or unavailable depending on superiority or simply lack of it on that local market. Second is that option in which a firm gets products more cheaply from a foreign source to sell to the local market. Finally, the importer can use a foreign source as part of their global supply chain.
2.3.2 Licencing Option

The licencing option allows a foreign company an opportunity to utilize its trademarks, patents and processes or knowledge although it is difficult to assess the actual share of profits by each partner (Hamel & Prahalad, 1994).

Licencing option may be exclusive or non-inclusive. Similarly, the licensing option often has an economic motive, such as the desire for faster start-up, lower costs or access to additional resources. Examples of licensing involve patents, copyrights, trademarks or brand names, franchises and methods or systems procedures. For all the options in licensing, the major motives determine the payment considerations (Daniel et al, 2011).

2.3.3 Portfolio Investment

The portfolio investment according to Porter (1986) involves an investor buying stocks in a foreign corporation in a foreign country with the risk that if the shares or stocks collapse, there is no recourse from the foreign government to compensate or do anything for the investors.

The common form of portfolio investment involves stocks in a company or loans to a company (or country) in the form of bonds, bills, or notes purchased by the investor. They are important for most companies with extensive international operations and with exception of stock; they are used primarily for short-term financial gains with companies moving funds from one country to another. In essence, portfolio investments involve non-controlling interest of a foreign operation (Martens & Zywertz, 2006).
2.3.4 Contracting Option

The option of contracting involves the local firm contracting large or small projects to a foreign firm to take advantage of the foreign firm’s expansive capabilities (Porter, 1986). The contracts are then handed over to the local firm for management of life cycle.

Foreign management contract are normally applicable when the foreign company can manage better than the owners can. According to Hamel and Prahalad (2003), an organization may pay for managerial assistance when it believes another company can manage its operations more efficiently than it can most likely because of industry-specific capabilities.

2.3.5 Turnkey Projects

In turnkey, the managerial process is run by the foreign investor for some time before turning it to the local firm. This could involve the actual production or major processes where the local staff is directed for some time before taking over from the foreign investors (Hall, 2011).

In most cases, turnkey operations are performed by industrial-equipment construction, and consulting companies. This is often true for governmental agencies for example dam construction, and building of roads that involve superhighways. To avoid problems of payment, many companies involved in turnkey projects perform feasibility study as part of their contract (Kaplan & Norton, 2002).
2.3.6 Diversification

Diversification is a form of entry strategy where a company takes its products and services into new zones creating synergy. This could be vertical or horizontal diversification, which according to Thompson et al (2007) can involve both forward and backward diversification. Acquisition is another internationalization strategy where a firm buys a controlling interest or 100% of its business portfolio. Acquisitions are driven by the need to exploit competencies in a new market and rationalize on resources and processes of the firm. It is observed that environmental matters can lead to acquisitions (Johnson & Scholes, 2003). Both vertical and horizontal acquisitions have dominated the entry strategies in most cases but with problems arising due to inabilities for new integration and in particular, merging of financial systems if the two firms operate different systems.

2.4 Foreign Direct Investment (FDI)

The strategy of FDI is common entry strategy in which a firm completely owns and operates a business in a foreign county with local managers running day-to-day processes but ultimate financial and leadership control remains in the hands of the foreigners (Porter, 1985). FDI represents a large part of the increasing and all-encompassing trend towards globalization. Hamel (2011) defines foreign direct investment (FDI) as a category of international investment where a resident in one economy (the direct investor) obtains a lasting interest in an enterprise resident in another economy (the direct investment enterprise). The FDI could be an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a
direct investment enterprise – that is, a subsidiary, associate or branch – operating in a country other than the country or countries of residence of the foreign direct investor or investors.

The first theory guiding FDI include the theory of absolute advantage (Smith, 1776) in which the country that produces the largest amount of a product for a given amount of resources has the absolute advantage in that product. This is intuitive when each country has an absolute advantage in different products, since if countries specialize they can both have more. The second theory is that of comparative advantage (Ricardo, 1817) which explains why it can be beneficial for two countries to trade, even when one country might be able to produce more of both products. With the two theories in practice, countries are able to experience benefits of specialization, lower prices, economies of scale and increased competition.

However, there are limitations of comparative advantage which tend to reduce the FDI ventures and these include government interference, direct capital and technology flow directly between countries (rather than indirectly through goods and services), difficulty of handling modern factors of production across the countries, terms of trade are determined in part by administered pricing in oligopolistic markets (rather than by supply and demand), comparative advantage shifts over time and the additional issues like the effect of uncertainty and information costs, the role of differentiated products in imperfectly competitive markets and later on, economies of scale. This is because it takes a relative advantage in costs, not just an absolute advantage to create a comparative advantage.

Kaplan and Norton (2002) notes that motivations for venturing into FDI include; finding new markets, extracting raw materials (i.e. oil, mining, plantation, and forest), seeking under-priced
factors of production (i.e. labor), gaining access to technology or managerial expertise and entering politically safe markets. Hamel (2011) noted that to successfully invest abroad, a firm must have a sustainable competitive advantage (one that is firm specific, transferable, and powerful enough to overcome the potential disadvantages of operating abroad).

2.4.1 Tariff Barriers to International Business

The increasing internationalization of business requires that countries come up with blocks to control business in their regions and have some form of joint management of inflows and outflows of the players. Mostly, there are blocks such as the free trade zones with abolished tariffs or restrictions lifted for members ensuring that outsiders have to pay highly as compared to members. Barriers in the international business include price-based constraints like tariffs and subsidies, quantity limits like quotas and embargoes and the buyers/sellers tariffs like the OPEC. Other barriers include financial limits, limits on FDI entry and operations and trade barriers on trade.

Quotas and embargos are used to restrict international trade and based on market share that allows for control of exports and imports (Hamel & Prahalad, 1994). Similarly, there are cartels that tilt the business game forcing consumers or producers to go for a particular good or service at the price fixed by the cartel. The cartels control the market environment but they are difficult to contain.

2.4.2 Non-Tariff barriers to International Business

Porter and Kramer (2006) point that non-tariff barriers (NTBs) to international trade are government regulations and practices, which are manifested in the bureaucratic delays and the
processes or procedures of regulating foreign trade. These are to be found in the foreign exchange markets, border crossing points and travel restrictions or guidelines.

Scarcity of foreign funds can have a very negative impact on business dealings and hence the need for internationalization strategy managers to study the country or regional political and financial system before making any entry attempts on that market. As observed by Thuo (2002), foreign investment controls create competitive tendencies that may favour local firms that compete with foreign owned forms within that country. This could mean the overall loss of FDI ventures due to foreign investment controls.

Ekirapa (2007) and Kisaka (2007) had a common observation that human resources and access to channel distributions played a crucial role in the successful penetration onto any international market arguing that management must assess the availability of good infrastructure and well-qualified staff. The combination of which can determine the success or failure of the international venture. Closely associated with these two factors are industry or international standards which according to Yabs (2006), various countries will have different standards in the fields of products and quality but international standards for both should be fairly uniform even though different testing bodies exist in all countries.

2.5 Benefits of International Business

Although there is always hostility towards the new entrants, international business has many positive contributions including the advantages of gaining transaction efficiencies and the camaraderie arising from person interactions. The sharing of revenue is in particular an
inevitable advantage however little the share might be. It is inescapable that resources of the host country like land, electricity and some form of labour will be utilized. The host country also gains from the supply chain that is formed when the foreign firm enters its market. This in one way or another improves the labour situation of the host country and gains are distributed to the population of both host and foreign country people (Hamel & Prahalad, 1994).

Projects of the host country can always be improved in such internationalization process since there are large capital inflows between nations. The inflows include exports and import sales to the local firms in the supply chain. This will improve the country’s balance of payments (BOP) since foreign exchange is involved. The company subsidiaries might also have country variations of the international products they produce making the competition healthy on the local market and hence benefiting the locals.

2.6 Challenges and Survival Techniques of International Business

Generally, there are three forms of challenges that most firms venturing onto the international market face. These include exchange risk, political risks and increased agency coststhat are inevitable under whatever country a firm operates. According to Kaplan and Norton (2001), these challenges require careful strategizing, as they are not avoidable by large or small firms entering the international market. Several scholars have come up with practical means of avoiding the challenges in order to survive.

Yabs (2006) points out those firms on the international scene should carefully devise strategies of survival on the market to cope with uncertainties by analyzing the entire economy and specific
sectors concerning their business. There should be consultation between the entry firm and local firms who are more familiar with the environment.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

Chapter threesets out the methodology used in the study. The chapter is arranged to start with research design as defined by scholars followed by the method of data collection and finally the analysis of that led to presentation in next chapter.

3.2 Research Design

A Research Design is a presentation of the plan, structure, or strategy of investigation, which seeks to obtain or answer various research questions. Kothari (2004) defines research design as a detailed plan for how the research will be conducted. This study used the descriptive case study design for examining behaviour of the population of interest.

The choice of this design was informed by the need to allow a better understanding of the conceptions and values of the study topic (Kothari, 2004). The study variables in this case include challenges facing the NMG in its entry to the East Africa common market. Stratification was applied in sampling the senior staff involved in the study to include various categories of management levels. The exercise took place at the NMG headquarters in Nairobi where strategic planners are based.
3.3 Data Collection

Both primary and secondary data was utilized to produce qualitative information. Some quantitative data was also necessary for comparison. The main instrument of data collection was through interview guide and some record checklists with a selected team of managers and staff involved in implementation of entry strategies at the NMG. Personal interview had the potential of yielding the highest quantity and quality of data compared to the other modes. According to Cooper and Schindler (2006), personal interviews also tend to be the most flexible. In each section of the NMG department visited, employees of various sections were interviewed on a one-to-one basis.

3.4 Data Analysis

Before processing the responses, the completed interview guides were edited for completeness and consistency. Qualitative data collected was analyzed by descriptive statistics, and presented through tables, charts and in prose. Content analysis was then used to explain study objective in qualitative data to quantify this presence in an objective manner.

Content Analysis is a research technique for the objective, systematic, and quantitative description of manifest content of communications (Kothari, 2006). The procedure for content analysis involved getting the reports and records at the NMG departments and thoroughly reading through to familiarize and extract meaning to the reasoning behind every document collected.
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The main objective of the study was to determine challenges the NMG faces in the implementation of entry strategy for penetration onto the East Africa common market. The study focused on NMG departments at the Nation house dealing directly with regional expansion strategy issues. Staff from different sections in NMG departments were involved in responding to the interview schedule from which content analysis was carried out. Annual reports and strategic plan documents were also utilized to produce the final project report.

4.2 Respondents’ Demographics

The study focused on the employees of NMG in the departments related to expansion strategy, commonly referred to as the FDI divisions. The major sections at the NMG visited include marketing, broadcasting, finance and advertising. The sections hold senior staff with different ranks and professional backgrounds. A summary of their demographics is given in Figure 1 and Table 1. Accordingly, both female and male are employed in all the sectors of the NMG and that most of them are well trained academically to understand the issues involving strategy and international business expansion. The study respondents therefore had enough experience to participate in the international business implementation study.
Figure 1: Respondents Gender Information

![Gender Pie Chart]

Table 1: Respondents’ Academic Background

<table>
<thead>
<tr>
<th>Highest Academic Level</th>
<th>Percentage Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>PhD</td>
<td>1</td>
</tr>
<tr>
<td>Masters Degree</td>
<td>11</td>
</tr>
<tr>
<td>Bachelor’s Degree</td>
<td>72</td>
</tr>
<tr>
<td>Professional Certification e.g. CPA(K)</td>
<td>16</td>
</tr>
</tbody>
</table>

4.3 Communication and Inter-relation at Departments

The NMG develops various strategic plans for its departments. This has to be in line with yet more strategic plans that are developed in tandem with the general strategic blue print for the entire NMG. In this case, all strategic plans have been tailored to fit into NMG’s main stream strategy whose vision is to become the leading media player in the region both in the near and distant future
In order to fully participate in strategic planning exercise for international business expansion, respondents showed that particular staff from their sections were taken for strategic meetings from where action plans for each section were formulated to focus on international expansion. After such meetings took place, the head staff for each department would then communicate through memos and departmental meetings the proceedings of those strategic meetings. Departmental staff are given an opportunity to list down the key result areas (KRAs) in an annual work plan to be monitored through the HR appraisal system with a strict monitoring and evaluation team for the NMG.

It was also evident that most staff felt that the language used in the formulation of vision, mission and department objectives seemed generic but was well articulated for the understanding of staff at NMG. More so, some respondents claimed that they interpreted the vision and mission statement to understand clearly the objectives of NMG as a plan through which the fruits of regional expansion were visible to most of them.

4.4 Structure and Management Effect on FDI Strategy

The aim of the study was to determine challenges the NMG faces in the implementation of its regional expansion strategy especially through FDI. By systematically interviewing staff and reading through important documents of the various departments at NMG, the study came out with several observations as highlighted in the next sections.
4.4.1 Organization Structure

From the documents and interview schedule with strategic managers at NMG, it was evident that structure was a well-executed design with assignment of authority and responsibility from managers to junior executives at its core. The study noted that most departmental structures were creative and that, staff were enabled the ease of doing business. From the observations, the structures in various departments eliminated barriers of entry to clients, inspired innovation and unleashed the talent of the department staff to expend duty with enthusiasm.

NMG internal structures seemed effectively leveraged to help the organization achieve competitive advantage in a continuously evolving media industry. It was also noted that the various internal structures structure provided core support to the organization strategy. Top level managers in the organization were directly linked to each other. For strategy to be implemented, managers were observed to have fully bought into the structure supporting one another through clear communication and articulation of regional expansion issues for NMG.

4.4.2 The FDI Effectiveness for NMG

It was evident from the respondents that FDI was key in the expansion strategy. Respondents noted that FDI strategy has improved foreign currency reserves for the NMG. At the same time, majority of the respondents indicated that through FDI, the NMG had access to a wider global and better platform in the world economy specifically the East Africa region. Through FDI, respondents at NMG added that diversification of portfolio and risk had been made possible while technology diffusion and knowledge transfer had become a reality.
Another group of respondents indicated that access to diversified manpower and the clear competitive advantage by NMG was a benefit that has transformed the media house into an economic giant. In general, the respondents observed that through FDI, the NMG experienced strong cash flow position, wider market and lucrative competition both at home and in the bigger East African Region

4.4.3 Alternative Strategies for NMG Expansion

Apart from the FDI, respondents indicated that the NMG had other strategies for regional expansion. It was noted that NMG had diversified its investments by venturing into Rwanda and Southern Sudan Markets. This was to add to the already established collaborations in Tanzania and Uganda using local firms in the two neighbouring countries. The NMG had also launched business lines that are not directly related to advertising for example the Nation Hela which was a money transfer service using NMG logistics.

The study observed that most of the alternative expansion plans were tending towards ventures in large scale printing as a service to the environment and a venture into banking/ money transfer. Another area of rapid expansion into the regional market was given by respondents as courier services. In general, respondents noted that a key component of overall NMG expansion strategy was to hedge risk by investing in sectors outside the media industry.

4.5 Discussion of the Challenges in Expansion Strategy for NMG

The NMG has faced many challenges in its quest to fully expand into the regional East Africa common market. One of the most cited challenge was inflation which was said to have eroded
purchasing power and therefore shrunk advertising spend in traditional media. Another notable challenge noted from the NMG annual reports and supported by most respondents was hostile foreign governments in some instances that have impeded recruitment of key talent or setting up in key locations. Yet another challenge of concern was the influential politicians who had received unflattering coverage before NMG entry and were now attempting to influence editorial policy of the new force of NMG.

Respondents also noted the slowdown of revenue streams as a result of electioneering inspired violence in the region. Expansion strategy into the regional market also felt the effects of the global financial meltdown cutting down revenue streams from sectors like tourism thus heavily affecting the media industry which relies heavily on advertisements spurred by tourism among other key stakeholders. Another challenge was the unfavorable regulatory policies by governments in the various countries of the East African region. It was also noted that instability in the horn of Africa and fluctuations in foreign exchange rates had been major challenges. In addition to these, underdeveloped infrastructure in some countries had hindered transportation of NMG products leading to increased costs and low revenues.

Other common challenges that respondents noted were, lack of skilled labour in the markets beyond Kenya, weaker currency in the other markets, hostility from the governments because of editorial independence that NMG has been used-to in Kenya and the cultural shock that Kenyans perceived to be too aggressive.
4.6 Suggestions on Overcoming Expansion Strategy Challenges

Noting that NMG will be a large player in the country and region in the next decades and in particular with Kenya’s Vision 2030 strategy, respondents suggested that incorporating the nationals of the host country in running the organization via employment was key to overcoming the challenges. In their view, constant consultation with the host government who become part of any serious or drastic decisions made should be given a priority.

Respondents observed that the NMG together with other stakeholders through the Media Oversight Association (MOA) have successfully lobbied government to drop unfavorable regulation with respect to content both in Kenya and the neighbouring countries where NMG is expanding. Similarly, the NMG has expanded its product offering in order to limit risk arising from factors such as hostile economic environment.

The NMG has also applied measures like seconding expatriate staff to its subsidiaries to infuse best practices and also reduce the skill gaps experienced in those markets. Another measure has involved offering of capital in form of loans to the subsidiary companies to help them compete effectively in their respective markets.
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Chapter 5 gives a summary of the entire research highlighting the conclusions, recommendations and suggestions for further research. The recommendations and suggestions are based on the findings in the previous chapter and the study objective.

5.2 Summary of Findings and Conclusions

The study objective was to determine challenges the NMG faces in the implementation of its regional expansion strategy on the common East Africa market. Accordingly, the study viewed documents and used interviews from the NMG department based at Nation house. The four main sections were marketing, broadcasting, finance and advertising. The initial analysis showed that there is expansion strategy implementation process that is taken seriously by all staff and departments of the NMG. The staff are involved in the implementation of expansion strategic objectives as a duty.

It was also established that the strategy communication was appropriately carried out through the meetings and written memos for the various departments. Since the drivers of that expansion strategy are the leaders and management, respondents observed that those same leaders and management get more rewards and hence are motivated to implement the expansion strategic
objectives regardless of the hardships experienced by actors in meeting tight conditions of FDI expansion strategy. The culture shock and language variations in the region were thought to be a major hindrance in the expansion exercise.

Another major finding was that currency differences and Kenya’s economic strength were not very welcome in the other countries since there were feelings of Kenyan firms having an advantage in the purchasing and negotiations power. It was observed that Kenyan’s monetary system was very liberal and followed clear rules as opposed to the countries neighbouring her. The culture and general structure of firm workers differed very much when compared to those of the neighbouring countries.

5.3 Limitations of the Study

As study based on historical data and interviews, it was always going to be difficult to make a conclusion from the findings which might be usable to the future. The fact that data has been fully used and archived means that policy makers and academicians will always use projections in making any decisions for the future.

This is due to the fact that managers fully involved in all the stages of expansion strategic planning as well as implementation could only make comments on what had already taken place as a success or failure. The nature of work at the NMG departments necessitated the use of partial interviews in which the staff were interviewed and left with the interview guide to help them give more in-depth information. However, that meant the information was subject to manipulation by the staff and hence much bias. Finally, most respondents in the private
sector always have the fear of job loss due at the back of their mind and hence carry out any exercise involving research with some pessimism. That implies that some information might have been withheld for fear of the unknown.

5.4 Areas of Further Research
There is need to have a further study in the expansion strategy to establish the relationships among the factors that challenge expansion strategy implementation. Similarly, the periods in which expansion strategy has been discussed need to be established in order to enable policy makers have clarity on how to overcome some challenges for example expansion during natural disaster times, electioneering periods and conflict times. Another area of recommended study is the use of multiple stakeholders instead of using only the NMG staff to make recommendations on the regional expansion strategy. This implies that other scholars could combine various media houses instead of just focusing on the NMG.

5.5 Implication on Policy, Theory and Practice
The study findings and conclusions have led to several implications in terms of policy, theory and practice. First, the government in their policy to help its business people in their quest for regional expansion could use the identified problems to make good negotiations at intergovernmental level for expansion of NMG and other Kenyan firms.

Second, it implies that the NMG should approach the government whenever the expansion strategic plan is put in place for implementation so that the country diplomatic ties are used as a pathway to ease expansion. Finally, the government should in practice try to involve the private
sector in formulating strategic plans in which both parties could present shortcomings and challenges faced in implementing the strategic plans in particular the expansion into regional markets.

The scholarly studies done in the area of international business strategy could use the results of this study to observe the strategy issues concerning regional expansion through study of market entry theories. This is necessitated by the field finding that showed various entry strategies have their own advantages and disadvantages.
REFERENCES


APPENDICES

Appendix I: University Authorization Letter

Dear Sir/Madam,

I am a post graduate student pursuing Master of Business Administration (MBA), International Business in the School of Business at The University of Nairobi. I am in the process of conducting a study project that is a partial requirement for the fulfillment of the Masters degree. The title of my study is ‘Challenges faced by Nation Media Group in Entering East African Common Market.’

The interview attached asks your views on the challenges faced by Nation Media Group in entering. Based on your experience and knowledge, please indicate the most appropriate response. Your participation is very important in this study and will enhance our knowledge of the perception of the daily newspapers in Nairobi.

My supervisor and I wish to assure you that all the information given to us shall be treated with strict confidence and used for academic purpose only and in no circumstances will your identity be revealed in the report without your prior permission. A copy of the final paper will be easily available to you upon request.

Thank you very much for your participation.
Josephine Cherotich,
D61/75483/2009,
MBA Student,
University of Nairobi.

Dr. John Yabs,
Supervisor,
School of Business,
University of Nairobi.
Appendix II: Letter of Acceptance from NMG to collect data

Nation Media Group Limited

Nation Centre, Kimathi Street, P.O Box 49010 G.P.O
Nairobi 00100 Kenya
Telephone 32088000/1/2/3 337710/221222/211448
Telefax 214565/213946/333892/219882
Email: customercare@ke.nationmedia.com
Website: http://www.nationmedia.com

30th August, 2012

Dear Sir/Madam

RE: MASTERS OF BUSINESS ADMINISTRATION DATA COLLECTION

Kindly allow Josephine Cherotich bearer of ID number 22734861 to collect data by way of an interview for her Master of Business Administration project from your Department.

Your co-operation will be highly appreciated.

Yours Faithfully,

Sonia Gakuru
Advertising Secretary
APPENDIX III: Interview Guide

Dear respondent. I am a candidate at the University of Nairobi seeking to carry out a study on challenges faced by NMG in their expansion onto international market. Participate freely and give your objective opinions.

1) Name of the section where you work

2) How does the section relate to other sections?

3) Position/Designation of respondent

4) How is your strategic plan time frame communicated to you?

5) How do you think the department structure affects implementation of strategy?

6) Does management positively or negatively affect your participation in FDI strategy planning?
7) What exactly are the attractive features that make FDI lucrative for NMG?

8) Do you have alternative expansion strategies in NMG planning?

9) How successful do you think NMG has been in its quest for investment on the East Africa common market?

10) What have been the most pressing challenges in implementing NMG’s FDI strategy in terms of culture, currency, economy, political environment, labour, language, marketing and transportation?

11) Explain the success of counter measures applied by NMG when facing risks in their FDI venture

12) Where do you think NMG will be regarding international business expansion in the next 15 years that coincide with Kenya’s vision2030 strategy?

13) Is expansion strategy a plus or minus in the media industry and particularly NMG?

I thank you for your participation