CHALLENGES OF IMPLEMENTING ENTRY STRATEGIES IN EAST AFRICAN MARKET BY ERNST & YOUNG

BY:

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DECLARATION

This research project is my original work and has not been submitted for examination in 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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Most important of all I extend my gratitude to the Almighty God for providing me with strength, good health, knowledge and vitality that helped made this project a reality.

DEDICATION

This work is dedicated to my loving wife Loise and our precious son Ian.

"For all your encouragement, support, prayers and most of all, your sacrificial love when I did not give my all in my role as husband and father as I took time away to study, I will forever be indebted."

All my Love

ABSTRACT

The objective of this study was to determine the challenges of implementing entry strategies in East African Market by Ernst & Young. Like any other organization, Ernst and young encountered several challenges in its expansion strategy to the East African market. The study used a case study design where only one organization was involved. Primary data was collected by use of an interview guide while secondary data was collected from documentations at the organization's premises. The primary data was analyzed using content analysis and presented in prose format.

The study established that the organization evaluated several strategies in its new market entry strategies for market expansion in East African Community. The strategies evaluated included exporting, licensing, joint ventures, foreign direct investment, franchising and forming strategic alliances. However, to enter the East African market, the organization made use of exporting strategy for Rwanda and Burundi, and acquisition for Kenya and Uganda.

The entry into these markets encountered several challenges including limited financial resources to fund the expansion program, limited competent skills that the organization could recruit locally in some of the countries, political instabilities which made it difficult for the organization to set up offices in some countries and harsh regulatory framework which limited the formation of limited liability companies. To counter these challenges, the organization sourced cheaper sources of funds, established its own internet infrastructure in Rwanda and Burundi and recruited and trained employees to build internal capacity. With increased globalization and internationalization of firms, new market entry ensures that an organization expands its market share hence improvement on its revenue and profitability.

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CHAPTER ONE - INTRODUCTION

1.1 Background of the Study

The environment of a business is the aggregation of the pattern of all the external and internal conditions and influences that affect the existence, growth and development of the business. Analysis of business environment is the examination and appraisal of the opportunities and threats provided by the environment as well as the potential strengths and weaknesses the business possesses. Businesses are faced with challenges of social considerations which focus on specific issues that relate to their activities and transactions with employees, customers, shareholders, suppliers. Further, social considerations include protecting the health and safety of the general population, avoiding harm to the natural environment, developing and deploying ethical standards and practices, meeting cultural and social norms, balancing interest of the business with the interests of the society, and being a proactive entity (Rainey, 2008). Political considerations are also of significant relevance as they have direct impact on the functioning and success of the business. Political and regulatory changes are usually manifestations of the social and economic conditions and issues. Equally of primary concern to the businesses, their customers and stakeholders are economic considerations which often focus on the direct effects of the exchange of goods and services, the flow of money and the relationships between the participants (KPN Report, 2007).

A business enterprise who goes for international business has to take a very wide and long view before making any decision, it has to refer to social, political, historical, cultural, geographical, physical, ecological and economic aspects of the another country where it had to business. The global business environment can be defined as the environment in different sovereign countries, with factors exogenous to the home

environment of the organization, influencing decision making on resource use and capabilities. A foreign company operating in that particular country has to abide with its system of law as long as it is operating in that country. The technological environment comprises factors related to the materials and machines used in manufacturing goods and services. Receptivity of organizations to new technology and adoption of new technology by consumers influence decisions made in an organization.

1.1.1 Foreign Market Entry Strategies

The issue of foreign market entry strategy continues to be of great interest to international business academics and practitioners (Malhotra, *et al.*, 2003; Mayrhofer, 2004). The chosen market entry strategy is important as it determines the manner in which multinational enterprises (MNEs) develop and implement marketing programs, coordinate business activities both within and across markets, and ultimately the MNEs' success in foreign markets (Malhotra *et al.*, 2003). From a market entry strategy standpoint, one of the greatest challenges for MNEs investing abroad is overcoming the liability of foreignness (LOF), i.e. the liability associated with foreign operations (Mezias, 2002).

Foreign market entry strategies are inherently difficult. A firm’s managers need to consider the influence of numerous factors both internal and external to the firm in deciding when and how to enter a market with a new product (Lieberman and Montgomery, 1991). Firms face a particularly difficult decision of planning when it is best to enter a market with a new product in response to a market introduction of a pioneering new product by a major competitor. Given that pioneering is no longer an option, is it better for the firm to enter the market quickly with a competitive new product or is it better for the firm to delay market entry for strategic reasons? When

the competitive stakes are high, it is clearly in a firm's best interest for its management to plan carefully such a market entry timing decision by giving careful consideration to a broad array of information including information on the competitor, the competitor's product offering, the market, and the firm's internal resources and product offerings.

1.1.2 Strategy Implementation

According to Mintzberg (1996), implementation means carrying out the predetermined plans. Some strategies are planned and others just emerge from actions and decisions of organizational members. Strategy implementation is concerned with the translation of strategy into organizational action through appropriate structure and design, resource planning and the management of strategic change (Johnson and Scholes, 2002). When considering implementation, questions relating to who should be responsible for carrying out the predetermined strategic plans, what the structures in place are and the changes necessary must be addressed.

Strategic implementation is thus putting strategy into action. The way in which the strategy is implemented can have a significant impact on whether it will be successful or not. In most cases, different people from those who formulated it do the implementation of the strategy. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if the affected parties resist its implementation because they do not understand why the particular strategy was selected (Thompson, 1993). Strategy implementation process might involve changes within the overall culture, structure and management system of the entire organization except when such drastic corporate wide changes are needed, however the

implementation of a strategy is typically conducted by middle level and lower level managers with review by top management. Strategy implementation often involves day to day decisions in resource allocation.

Organizations seem to have challenges while implementing their strategies, however. Research has revealed a number of problems in strategy implementation such as: weak management roles in implementation, a lack of communication, lacking a commitment to the strategy, unawareness or misunderstanding of the strategy, unaligned organizational systems and resources, poor coordination and sharing of responsibilities, inadequate capabilities, competing activities, and uncontrollable environmental factors (Beer and Eisenstat, 2000). The implementation of any strategy faces many challenges ranging from resistant to change to inadequate resources. In the current turbulent economic times, firms in Kenya operate under increasing competitive and ever-changing environment which puts them under pressure to continually review their strategic plans or formulate new ones to suit the existing trends. This study seeks to establish the challenges of implementing entry strategies in East African Market by Ernst & Young.

1.1.3 Broad Industry Issues – Public Accounting & Consulting Industry

The Big Four are the four largest international professional services networks in accountancy and professional services, which handle the vast majority of audits for publicly traded companies as well as many private companies, creating an oligopoly in auditing large companies. The Big Four firms are PwC with it's headquarter in UK, Deloitte Touche Tohmatsu whose headquarter is in USA, Ernst & Young with it's headquarter in USA and KPMG whose headquarter is in Netherlands. This group was once known as the "Big Eight", and was reduced to the "Big Five" by a series of mergers. The Big Five became the Big Four after the demise of Arthur Andersen in

2002, following its involvement in the Enron scandal. The Enron collapse and ensuing investigation prompted scrutiny of their financial reporting, which was audited by Arthur Andersen, which eventually was indicted for obstruction of justice for shredding documents related to the audit in the 2001 Enron scandal. The resulting conviction, since overturned, still effectively meant the end for Arthur Andersen. Most of its country practices around the world have been sold to members of what is now the Big Four, notably Ernst & Young globally, Deloitte & Touche in the UK, Canada, Spain and Brazil, and PricewaterhouseCoopers (PwC) in China and Hong Kong.

The Big 4 are sometimes referred to as the "Final Four" due to the widely held perception that competition regulators are unlikely to allow further concentration of the accounting industry and that other firms will never be able to compete with the Big 4 for top-end work, as there is a market perception that they are not credible as auditors or advisors to the largest corporations. 2002 saw the passage of the Sarbanes–Oxley Act into law, providing strict compliance rules to both businesses and their auditors. In 2010 Deloitte with its 1.8% growth was able to beat PricewaterhouseCoopers with its 1.5% growth to gain first place and become the largest accounting firm in the industry. In 2011, PwC re-gained the first place with 10% revenue growth.

1.1.4 Ernst & Young

Ernst & Young roots go back to the 19th century with founders Arthur Young and Alwin C Ernst. Both Arthur Young and A.C Ernst were innovators and appreciated the importance of quality in their work. Ernst pioneered the idea that accounting information could be used to make business decisions and make a difference to

clients' organizations. He inspired his people to deliver better service to clients. Young also positioned himself as a business advisor as much as an accountant. Both firms were also quick to enter the global marketplace. As early as 1924, they allied with prominent British firms: Young with Broads Paterson & Co and Ernst with Whinney Smith & Whinney. These alliances were the first of many for both firms, which opened offices around the world to service their international clients. In 1989, they were brought together when the firms they started combined to create Ernst & Young. The new organization quickly positioned itself on the leading edge of rapid globalization, new business technologies and continuous business change.

Ernst & Young have one strong global leadership team that sets one single global strategy and agenda. To ensure efficient and effectiveness, they have organized legal entities into 29 similarly sized business units in terms of both people and revenues. These business units, almost all of which are purposely not single countries, are grouped into four geographic Areas: Americas, Asia-Pacific, Europe, Middle East, India, Africa and Japan. Each business unit's leadership team works directly with their Area and global leaders to ensure flawless execution. This structure is streamlined – it allows E&Y to make decisions quickly, and ensures that executes their strategy and provides high-quality service wherever in the world their clients do business. Ernst & Young's Entrepreneur of The Year awards is the world's most prestigious business awards for entrepreneurs. The award encourages entrepreneurial activity among those with potential and recognises the contribution of people who inspire others with their vision, leadership and achievement. In Kenya Ernst & Young is situated in Kenya Re Towers, Upper Hill Nairobi.

1.2 Research Problem

Strategy implementation is one of the biggest challenges in modern day strategic management in an organization. Johnson, Scholes and Whittington (2005) noted that it requires managers to develop appropriate strategies to specific circumstances of an organization. However, these circumstances change over time and it requires some clarity on the issues that are more important and critical than others and an ability to reconcile the conflicting pressures from the business environment, an organization's strategic capability and the expectations of stakeholders. The apathy to strategy implementation can be ascribed to several reasons, among them: greater likelihood of failures in implementing strategies; higher complexity in the process of strategy implementation; strategy implementation being considered to be less glamorous than formulation; and practical difficulties in research involving middle-level managers for instance (Alexander, 1991). Strategy implementation is the most important stage in strategic management process because of it involves changing of the status quo which may bring about resistance if not well managed.

Ernst & Young have one strong global leadership team that sets one single global strategy and agenda. To ensure efficient and effectiveness, they have organized legal entities into 29 similarly sized business units in terms of both people and revenues. The Kenyan subsidiary has embarked on expanding its operations into East Africa starting with Uganda and Tanzania. The expansion program has been faced with various challenges following the different operating environment and governance in the East African Countries. In addition, the Company has been faced with another challenge of having to maintain the international standards of the group to ensure standardized service delivery to its clientele.

Several scholars have studied on challenges facing organizations in implementing strategies. Ochanda (2005) did on the challenges of strategy implementation at Kenya Industrial Estates Limited; Karuri (2006) investigated on challenges of strategy implementation in DFIs: a case study of ICDC; Ateng (2007) studied on challenges of strategy implementation at the ministry of finance in Kenya; Kibui (2009) did a study on challenges of strategy implementation at the Kenya national audit office; Achiya (2010) studied on challenges of strategy implementation at the ministry of cooperative development and marketing. From the above studies, there is no known study that has been done on challenges of implementing entry strategies in East African Market by Ernst & Young. Therefore this sought seeks to fill the research gap by answering the following question: what are the challenges of implementing entry strategies in East African Market by Ernst & Young?

1.3 Research Objectives

The objective of the study was to determine the challenges of implementing entry strategies in East African Market by Ernst & Young.

1.4 Value of the Study

The study would benefit the management of Ernst & Young and other organizations in understanding the environmental challenges they would encounter when going international and be able to strategize on better ways to counter the challenges so as to be successful in their expansion strategies.

The government and policy makers at various levels of management would gain value added information on international business environment and its challenges. The study would be useful to the government in policymaking regarding international

business. The policies designed would serve as guidelines in assisting the management in knowing what the procedures and policies to follow when deciding to expand into a new market.

To the academicians, the study would provide useful basis upon which further studies on international business environment can be researched. Specifically, the study would make theoretical, practical and methodological contributions. The findings would contribute to professional extension of existing knowledge in international business environment by helping to understand the challenges faced when firms expands to new markets.

CHAPTER TWO - LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. This chapter reviews literature with respect to the research objective on the challenges of implementing entry strategies in East African Market by Ernst & Young.

2.2 Foreign Market Entry Strategies

There are various reasons that companies choose to enter a new market. According to Kotler and Keller (2006) there are five reasons as to why companies choose to enter a new market including: discovery that a foreign market presents higher profit opportunities than the domestic market; need for a larger customer base to achieve economies of scale; reducing the dependency on any one market; counterattack against companies that have entered the home market; and customers that go abroad and therefore need international servicing.

Entering new markets, despite the huge potential that it provides, does involve big risks. Many companies therefore do not enter a new market until they for various reasons are triggered do so. The trigger might be an external request to sell abroad or that the company feels that it can't survive without entering new markets (Kotler and Keller, 2006). With the risks included in the internationalization process, the strategy to enter a new market is crucial. Douglas and Craig, as quoted by Ellis (2000), argue that market entry decisions are among the most critical made by a firm relative to international markets: "What country to enter constitutes a commitment that lays a foundation for the future expansion and it also signals the company's intentions to

competitors". This indicates that a strategic move to enter a new market should be carefully planned and researched.

There are several ways in which a firm can enter a new market. The term used for this is market entry mode or foreign market entry (FME) mode. Each method provides for different degrees of commitment, risk, control and profit potential, it is very important that companies seeking to expand to a new market understand the differences. Agarwal and Ramaswami (1992) noted that the entry mode decision is a critical strategic decision since the initial entry mode choice can be difficult to change without considerable loss of time and money. In order to lay the foundation for success in a new market the assumption is that the best entry mode is one that aligns the entrant's strengths and weaknesses with the local market's environment as well as with the firm's structural and strategic decisions" (Brown, Dev and Zhou, 2003).

2.2.1 Exporting Strategy

According to Kotler and Keller (2006), exporting is the normal way to get involved with a new market. Ellis (2000) identifies four ways that this exchange may be initiated including seller-initiated; buyer-initiated; broker-initiated; and initiated as a result of a trade-fair or chance encounter. Once the relationship is initiated the company may choose to engage in either indirect or direct exporting.

Direct exports, as the name implies, involve direct marketing and selling to the client without use of intermediaries. In a reasonably accessible market such as Kenya, direct exporting of products or services may be a viable option especially for African origin companies (Kotler and Keller, 2006). But in less familiar markets, with different legal and regulatory environments, business practices, customs and preferences, direct exporting may not be an option. A local partner, for example, may be better able to

manage these complexities and serve your potential clients better. Indirect exporting is frequently used to enter new markets where businesses selling products enter into an agreement with an agent, distributor or a trading house for the purpose of selling (or marketing and selling) the products in the target market. Due diligence is critical when selecting an agent or distributor for indirect exporting.

2.2.2 Licensing Strategy

Licensing is a contractual transaction where the firm, the licensor, offers some proprietary assets, such as technical innovation, manufacturing process, trademark, patent, trade secret and brand or corporate image, to a foreign company, the licensee, in exchange for royalty fees.

The advantage of licensing is that it allows the licensor to enter a new market at little risk. In addition, the licensee can gain production expertise or a well-known product or brand name. But licensing also has its disadvantages in that some control is lost, and that a potential competitor may have appeared when the license terminates. Profits have also been given up if the licensee is very successful (Kotler and Keller, 2006). Some of the most common ways to use licensing include management contracts, contract manufacturing and franchising. In a management contract, a company charges a fee to manage a foreign business; in contract manufacturing local manufacturers are hired to produce a product; in franchising the complete brand concept and operating system is offered to the franchisee and in return for this the franchisee invests in setting up the franchise and pays certain fees (Doole & Lowe, 2004)

2.2.3 Joint Venture Strategy

In a joint venture the company partners with a foreign company or investor in a new company where ownership and control is shared which may be either out of necessity or desire. The company may be limited in terms of funds, know-how or resources to engage in the venture alone or the host country may have rules and regulations that require a joint venture to be formed if the market should be entered (Walter, Peters and Dess, 1994).

The disadvantages of a joint venture include disagreements between the owners and difficulties for a multinational company to carry certain policies on a worldwide basis. A closely related investment form is the formation of an alliance, but whereas a joint venture means that a new legal entity is formed, an alliance does not (Kotler and Keller, 2006).

2.2.4 Foreign Direct Investment Strategy

According to UNCTAD (2007) foreign direct investment is defined as investment involving long-term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of foreign direct investor. This can happen either by buying part or full interest in a local company or by building its own facilities. If the ownership is complete this is referred to as sole venture or wholly owned subsidiary.

Establishing a subsidiary abroad comes along with high investments in new properties, marketing and human resources (Bradley, 2005). Differences in language, culture taste, logistics and laws need to be analyzed in order to start and conduct successful business on foreign market especially when FDI is chosen as an entry

strategy (Verwaal and Donkers, 2002). The set up of foreign subsidiaries demand huge investments. First, the necessary knowledge about a country, culture, national politics, law and local customer preference has to be gained. This process of information takes time and money, the hours for a manager to analyze potential markets represents valuable and costly working hours.

In this case external consultants are entrusted with collection of data the cost move from manager salaries to consultant fees. Second, the gained information about the potential market has to be used when establishing sales subsidiaries and investing in different areas like the local bureau and new employees (Lu and Beamish, 2006). However, there is limited control over international operations as the firm is present on the market the protection proprietary assets is complicated. Not only patent infringement but also other standard and other regulation on foreign market can develop into non tariff trade barriers which are hard to control for exporters (Bradley, 2005).

2.2.5 Strategic Alliance Strategy

Kotabe *et al.,* (2005) defined strategic alliance as partnership between businesses with the purpose of achieving common goals while minimizing leverage and benefiting from those facets of their operations that complement each other. It comes in all shapes and sizes and can be based on a simple licensing agreement between partners, or it may consist of a thick web of ties. They are based on cooperation between companies. A strategic alliance is a contractual, temporary relationship between companies remaining independent, aimed at reducing the uncertainty around the realization of the partners' strategic objectives (for which the partners are mutually dependent) by means of coordinating or jointly executing one or several of the

companies' activities. Each of the partners is able to exert considerable influence upon the management or policy of the alliance. The partners are financially involved and share the costs, profits and risks of the strategic alliance (Douma, 1997).

Soares (2007) identifies four potential benefits that international business may realize from strategic alliances, these are: Ease of market entry where entering into a strategic alliance with an international firm, will enable a firm achieve the benefit of rapid entry while keeping the cost down. Choosing a strategic partnership as the entry mode may overcome the remaining obstacles, which could include entrenched competition and hostile government regulations; Risk sharing is another common rationale for undertaking a cooperative arrangement when a market has just opened up, or when there is much uncertainty and instability in a particular market. Competitive nature of business makes it difficult for business entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a firm's risks; Shared knowledge and expertise whereby forming a strategic alliance can allow ready access to knowledge and expertise in an area that a company lacks. The expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources. A learning organization is a growing organization.

2.2.6 Franchising Strategy

A franchise is an ongoing business relationship where one party ('the franchisor') grants to another ('the franchisee') the right to distribute goods or services using the franchisor's brand and system in exchange for a fee. More sophisticated franchise arrangements specify a precise business format under which the franchisee is expected to carry on business and ensuring a common customer experience

throughout the network. McDonalds is an obvious example (Mockler, 1999). According to Brickley and Dark (1987) Franchising is seen as a means of obtaining scarce capital as the franchisee is generally required to make a substantial investment in the business. Franchisees share risk with the franchisor. Franchising is also identified as a way of addressing the agency problem, specifically, the issue of monitoring managers. Franchisees with substantial investments are more motivated to maximize revenues through administrative efficiency and protection of the franchise brand while minimizing operational costs.

Retail franchising allows firms to achieve the expanded reach and efficiencies associated with internationalization more rapidly and effectively than the firms could accomplish on their own. Dana, Etemad and Wright (2001) developed an Interdependence Paradigm to explain these franchise marketing networks using examples of firms in South Korea and the Philippines. In their paradigm, franchising involves a network of franchisees under the guidance of a parent firm, the franchisor. Franchisors that are well established can achieve greater efficiencies by incorporating smaller franchisees from emerging markets into international franchise networks.

2.3 Strategy Implementation

Johnson and Scholes (2002), view strategy as the direction and scope of an organization over the long-term, which achieves advantage for the organization through its configuration of resources within a changing environment, and fulfill stakeholders' expectations. Research emphasizing strategy implementation is classified by Bourgeois and Brodwin (1984) as part of a first wave of studies proposing structural views as important facilitators for strategy implementation success (Drazin and Howard, 1984). Beyond the preoccupation of many authors with

firm structure, a second wave of investigations advocated interpersonal processes and issues as crucial to any strategy implementation effort (Noble and Mokwa, 1999). Conflicting empirical results founded upon contrasting theoretical premises indicate that strategy implementation is a complex phenomenon. In response, generalizations have been advanced in the form of encouraging: early involvement in the strategy process by firm members (Hambrick and Cannella, 1989); fluid processes for adaptation and adjustment (Drazin and Howard, 1984); and, leadership style and structure (Bourgeois and Brodwin, 1984).

It is not surprising therefore that strategy implementation is a topic of great interest to both managers and strategy researchers. Indeed, Noble and Mokwa (1999) affirm that an integrative view encompassing both structural and interpersonal views can enhance our understanding of the factors leading to implementation success. Despite the recent interest in strategy implementation research, there is a significant need for more detailed and comprehensive models related to strategy implementation (Noble, 1999). This study aims to rectify this broadness of approach by creating a detailed and comprehensive conceptual model related to strategy implementation. This is done by grounding the work in the roots already established by previous researchers in the area (Noble, 1999; Noble and Mokwa, 1999).

It is clearly apparent that a current challenge for management lies in implementing strategy rather than formulating it, in creating and sustaining a climate within the firm that motivates employees in their implementation role (Dobni, 2003). Not all firms implement their strategies in the same manner; nevertheless, research investigating the differing styles of implementation is scarce. Nutt (1995) utilises Jungian theory (Jung, 1923) for his framework of implementation style, however, this is very much an analysis of the psychological style of individuals within the firm. More recently,

Parsa (1999) utilised Bourgeois and Brodwin's (1984) classification of strategy implementation types. Also, implementation appears much more closely tied to the daily activities of mid-level managers (Floyd and Wooldridge, 2000), despite comparably little research attention being entrusted to the factors that induce mid-level managers' implementation success (Currie, 1999).

Implementing strategies successfully is about matching the planned and the realizing strategies, which together aim at reaching the organizational vision. The components of strategy implementation – communication, interpretation, adoption and action – are not necessarily successive and they cannot be detached from one another. Lingle and Schiemann (1994) found that there are six areas of vital importance to long term successful strategy implementation. These areas are: market, people, finance, operation, adaptability, and environment. However the following implementation problems can be derived from the above mentioned areas: uncontrollable factors in the external environment had an adverse impact on implementation and major problems surfaced which had not been identified earlier. McGrath et al. (1994) indicated that the political turbulence may well be the single most important issue facing any implementation process. Consequently, the following problem may occur: advocates and supporters of the strategic decision left the organization during implementation.

2.4 Challenges of Strategy Implementation

According to Alexander (1985), the ten most frequently occurring strategy implementation problems include underestimating the time needed for implementation and major problems surfacing that had not been anticipated, in addition uncontrollable factors in the external environment had an adverse impact.

Based on empirical work with 93 firms he observed that senior executives were over optimistic in the planning phase and it is noteworthy that the first two issues which occurred most frequently in Alexander's study are planning issues. He also found the effectiveness of coordination of activities and distractions from competing activities inhibited implementation, in addition key tasks were not defined in enough detail. With regard to people, the capabilities of employees involved were often not sufficient, leadership and direction and “training and instruction given to lower level employees were not adequate” (Alexander, 1985, p. 92). Although the least frequent in this study in many cases the information systems used to monitor implementation were not adequate.

Reed and Buckley (1988) discuss problems associated with strategy implementation identifying four key areas for discussion. They acknowledge the challenge and the need for a clear fit between strategy and structure and claim the debate about which comes first is irrelevant providing there is congruence in the context of the operating environment. They warn that, although budgeting systems are a powerful tool for communication, they have limited use in the implementation of strategies as they are dominated by monetary based measures and due to their size and the game playing associated budget setting “it is possible for the planning intent of any resource redistribution to be ignored” (Reed and Buckley, 1988, p. 68). Another problem is when management style is not appropriate for the strategy being implemented, they cite the example of the “entrepreneurial risk taker may be an ideal candidate for a strategy involving growth, but may be wholly inappropriate for retrenchment” (Reed and Buckley, 1988, p. 68).

Al Ghamdi (1998) replicated the work of Alexander (1985) in the UK and found for 92 percent of firms implementation took more time that originally expected, that

major problems surfaced in 88 percent of companies, again showing planning weaknesses. He found the effectiveness of coordination of activities as a problem in 75 percent and distractions from competing activities in 83 percent cases. In addition key tasks were not defined in enough detail and information systems were inadequate in 71 percent of respondents. What is interesting is that there is congruence between these findings, which implies that lessons have still not been learned; as Al Ghamdi states, “the drama still continues” (Al Ghamdi, 1998, p. 322).

More recent articles confirm notable barriers to successful strategy implementation about which there appears to be a degree of accord including Beer and Eisenstat's (2000, p. 37) who assert that six silent killers of strategy implementation comprise: a top-down/laissez-faire senior management style; unclear strategic intentions and conflicting priorities; an ineffective senior management team; poor vertical communication; weak co-ordination across functions, businesses or borders; and inadequate down-the-line leadership skills development (Beer and Eisenstat, 2000). It is recognized that such change requires a shared vision and consensus (Beer et al., 1990) and “failures of strategy implementation are inevitable” if competence, coordination and commitment are lacking (Eisenstat, 1993).

Corboy and O'Corrbui (1999), meanwhile, identify the deadly sins of strategy implementation which involve: a lack of understanding of how the strategy should be implemented; customers and staff not fully appreciating the strategy; unclear individual responsibilities in the change process; difficulties and obstacles not acknowledged, recognized or acted upon; and ignoring the day-to-day business imperatives. Overall though, it is increasingly acknowledged that the traditionally recognized problems of inappropriate organizational structure and lack of top

management backing are not the main inhibiting factors to effective strategy implementation (Aaltonen and Ikåvalko, 2002).

Rather, the major challenges to be overcome appear to be more cultural and behavioral in nature, including the impact of poor communication and diminished feelings of ownership and commitment (Aaltonen and Ikåvalko, 2002). Aaltonen and Ikåvalko recognise the role of middle managers, arguing they are the "key actors" "who have a pivotal role in strategic communication" (Aaltonen and Ikåvalko, 2002) meanwhile Bartlett and Goshal (1996) talk about middle managers as threatened silent resistors whose role needs to change more towards that of a "coach", building capabilities, providing support and guidance through the encouragement of entrepreneurial attributes.

In addition to the above, another inhibitor to successful strategy implementation that has been receiving a considerable amount of attention is the impact of an organization's existing management controls (Langfield-Smith, 1997) and particularly its budgeting systems (Marginson, 2002). Although it is increasingly suggested that budgets suffer from being bureaucratic and protracted, and that they focus on cost minimization rather than value maximization (Brander, Brown and Atkinson, 2001), they still represent the main integrative control mechanism in many, if not most, business organizations (Otley, 2001).

CHAPTER THREE - RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. This identifies the research design, data collection and analysis.

3.2 Research Design

The researcher applied a case study design. According to Yin (2003) a case study design should be considered when: the focus of the study is to answer "how" and "why" questions; you cannot manipulate the behavior of those involved in the study; you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or the boundaries are not clear between the phenomenon and context.

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3.3 Data Collection

The study made use of primary and secondary data. Primary data was collected through face to face interview with the researcher while secondary data was collected through review of the contents of various relevant publications and reports at Ernst & Young, Financial Statements and other relevant materials.

An interview guide was modeled on the challenges of implementing entry strategies in East African Market by Ernst & Young. The respondents comprised of six senior managers due to their role they play in strategy implementation in Ernst & Young.

The interview guide was modeled on known foreign market entry strategies and concepts deemed applicable in managing entry into foreign markets in such organizations was utilized (Dawson 1994). The researcher believed that this would make it possible to obtain data required to meet the objective of the study.

3.4 Data Analysis

The data obtained from the interview guide was analyzed using content analysis. Nachmias and Nachmias (1996) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages.

Kothari (2004) explains content analysis as the analysis of the contents of documentary and verbal material, and describes it as a qualitative analysis concerning the general import of message of the existing documents and measure pervasiveness. The researcher analyzed the information provided by the interviewees against known new market entry strategies and models to describe and determine how Ernst & Young has entered into other East African Countries.

CHAPTER FOUR - DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and methodology. The study findings and discussions are presented on the challenges of implementing entry strategies in East African Market by Ernst & Young. The study targeted a total of 6 senior managers out of which, 5 managers responded by scheduling an interview with the researcher thus giving a response rate of 83%. This response rate was excellent and representative and conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This response rate was due to extra efforts were made via personal calls and visits to book appointments with the interviewees and informing them of the importance of this research.

The chapter specifically covers the response rate, general information, strategy evaluation at Ernst and Young, Entry strategies considered and those chosen, effectiveness of the strategies, challenges and how the organization dealt with the challenges and discussions of findings.

4.2 General Information

The study sought to collect some background information about the respondents that were interviewed. The interviewees were requested to indicate the departments that they worked in the organization. From the interviews conducted, the interviewees worked in various departments including: advisory, tax, audit and consultancy. Some

of the interviewees had worked in other departments prior to joining the departments they were working at the time of this study.

The study further wanted to establish the length of period that the respondents had worked with the organization so as to assess their understanding of issues of the organization. From the interviews conducted, the interviewees had worked with the organization for varying period of time ranging from five years to fifteen years. The interviewees had joined the organization at different times. Some had joined the organization straight from campus while others had joined the organization from other organizations.

The study further sought to establish from the respondents the motivations to Ernst and Young that made it think of expanding business to the East African market. From the interviews, the interviewees indicated that there were various reasons for the organization expanding across the East African market. These included the need to unlocking the client value by exploiting opportunities in the East African region; growth of business to expand the revenue base, The organization's regional/global clients were demanding the organization's local presence to understand the local issues for effective/efficient resolutions; competitive pressure from established locations meant that the organization had to be proactive in scanning for new markets; The East Africa Protocol offered a solid case for Ernst and Young venturing into East Africa as the human capital mobility augured well with the organization's People and Diversity Culture and to benefit from "first-mover advantage" which promises better margins in new markets.

The organization operated in a global environment with its staff drawn from different cultural background. With the East African Protocol, human capital mobility was

activated which meant that the organization could now hire and train employees from those countries to deliver its services as opposed to having employees travel out of the country to offer the services.

The study further sought to establish whether the organization had evaluated the entry strategy to use in entering the East African market. From the interviews, the study established that the organization did evaluate the entry strategies by considering the various strategies at their disposal. In addition, in order to come up with a suitable strategy, the market expansion committee evaluated the advantages and disadvantages of those strategies proposed. The strategies differed from one country to another because of the different market dynamics across the East African market. Evaluation of entry strategy involved setting up a committee that studied each county unique issues, including the key external environmental factors, Political/Legal, Study of Existing Players and Levels of Competition, Availability of Qualified Staffing, Cost of Doing Business, Investment Incentives among others.

4.3 Strategies Considered by the Organization

The study sought to establish the strategies considered by the organization in expanding its business across East African market. From the interviews conducted, the interviewees indicated that the organization considered several strategies in its expansion plans. The committee evaluated among others the following new market entry strategies. Exporting strategy where the organization offers services from the nearest/most efficient/most effective office which was Kenya. In this strategy, the committee evaluated the minimization of administration costs against the cost of setting up independent offices in the designated countries.

The committee also evaluated licensing strategy where the organization could have licensed a local firm to act on its behalf in the new market. The organization however feared of losing its business to the licensee in future should the company still want to capture these markets. Foreign Direct Investment where the organization applies either green field or Merger and acquisition of existing firms. The committee also evaluated franchising strategy where the organization could franchise its services names across East African member states.

4.4 Strategies Applied by Ernst and Young in Entering the East African Market

The study sought to establish the new market entry strategies adopted by the organization in entering the East African market. From the interviews conducted, the interviewees indicated that the organization made use of different strategies in different countries. These included exporting strategy for the Rwandan market where the organization chose to offer the services from the nearest/most efficient/most effective office for initial operations. As opposed to setting up a new office in Rwanda and Burundi, the organization decided to use export strategy where it delivers services to clients in Rwanda and Burundi from the nearest office. This was however a tentative strategy as the organization still organized to employ foreign direct investment. For the Rwanda market, after four years of exporting strategy, Ernst & Young opened office in Kigali through green field Foreign Direct investment as a subsidiary limited liability company in 2004. For Burundi, the organization attempted to open office in Bujumbura as a subsidiary limited liability company in 2007 but failed due to political instability. To date, Ernst & Young uses exporting strategy to reach out to Burundi market as the political and business environment remains unstable/ turbulent.

For the Kenyan market, Ernst & Young entered in early 1980s through acquisition of Pannel Bellhouse Mwangi & Company. The acquisition strategy worked well as existing firm had strong foundations in the Kenyan Market. After acquiring Pannel Bellhouse Mwangi & Company, Ernst & Young opened branch network in Nakuru and Mombasa towns to make it readily accessible by customers.

For the Ugandan market, Ernst & Young entered in early 1990s through acquisition of Muhaise-Bikalemesa & Associates, a strong local indigenous professional firm. This ensured that the company received good reception and ready acceptability on the local market. This also availed some customers already serviced by the acquired firm hence reducing the chances of failure. For the Tanzanian market, Ernst & Young entered in early 2000s through acquisition of Massawe & Associates, a leading local indigenous professional firm.

4.5 Reasons for Choosing on the Strategies above to enter the East African Market

The study sought to establish from the interviewees the reasons for choosing to use the different strategies discussed above in entering the different markets in East Africa. From the interviews, the study noted that there were several reasons for adopting the identified strategies. These included: different countries in East Africa having different political and legal considerations which made it difficult to use a single strategy across all countries. For example, the Burundi market has been characterized by high political instability which made it difficult to open an office thus forcing the organization to continue using the export strategy from the nearest offices.

The interviewees indicated that another reason for adopting the different strategies included the increased level of competitiveness and level of professional services growth in each country which meant that no single strategy would work for all countries thus need to consider each country separately. As time passed, several firms entered the market thereby increasing the level of competition for customer thereby leading to reduced turnovers of the company. Another reason for adopting these strategy was the availability and cost of qualified/competent resources which also affected the strategy to be used. In some countries, the organization encountered shortage of competent and well trained human capital thus making it difficult to use local human capital. In such cases, export strategy was considered adequate.

The study further sought to establish the effectiveness of the strategies adopted by the organization in entering the East African market. From the research findings, the interviewees indicated that the Exporting strategy proved ineffective and very expensive and was abandoned in favour of foreign direct investment. This was majorly attributed to high costs of working permits, per diems and upkeep of the staff as they travelled in those countries to deliver the services.

4.6 Environmental Challenges Experienced in Expanding to the East African Market

The study sought to find out if there were environmental challenges that the organization faced in its quest to expand to the East African market. From the study findings, the interviewees indicated that the organization faced several environmental challenges in its market expansion strategies. One of the challenges included political/Legal instability in countries like Rwanda and Burundi where there were no laws for partnership businesses and audit firms were registered as limited liability companies' thus huge exposure to EY. In Tanzania, the business laws required the

role of country managing partner to be a Tanzanian citizen. Each country political and legal systems appeared significantly different thus a single entry strategy could not work out.

Another challenge according to the interviewees included the economic conditions of the East African Countries which were at different levels of economic development thus different costing and pricing strategies, mobility of foreign currencies. This meant that organization had to be cautious in its entry strategies and pricing of its services to ensure successful entry into the different countries.

Another challenge that the organization faced in its expansion strategy included the social-cultural differences. Availability of qualified and competent manpower in the fields of Accounting and Finance orientation was a challenge as some countries historically did not do accounting of business. A good example included Rwanda, Tanzania and Burundi where accounting and finance were not emphasized in the curricula. Family business and public sector which dominated the three countries meant there was no need, historically to train accountants. Social-cultural challenges like Rwandese and Tanzanian laid back approach to formal employment had an impact as clients' deadlines which could not be easily met as the staff perceiving hard-work/extra working hours as slave/bother.

Another challenge that the organization had to cripple with was technological advancements. Ernst and Young online systems required dedicated internet routers with a higher band-width than locally available in countries like Rwanda, Tanzania and Burundi. This meant that for the organization to effectively launch its services in these countries, it had to incur huge costs to ship satellite communicate systems from the Company's Global offices to manage this challenge. This added to the

establishment costs thus increasing the capital expenditure of the expansion programme.

4.7 Internal Factors that Delayed Expansion Process to East African Market

The interviewees were asked to indicate some of the internal challenges that the organization faced in its expansion strategy in the East African market. From the interviews, the interviewees indicated that there were several internal challenges that hindered the expansion to the East African market. These included inadequacy of senior managers with proper strategic management formal education to adequately evaluate the entry strategies and related challenges/prepare adequate business plans. The managers available in the organization were majorly administrators with limited skills on strategic planning and implementation. This meant that the organization had to first train a few available managers and also recruit qualified managers to increase the success level of the market expansion strategy.

Another internal factor that the organization crippled with was the limited financial resource base to execute the expansion strategy. The expansion strategy was massive and required huge investment which was not available. To help cope with this challenge, the organization entered into investment agreements with financial firms to finance the expansion program.

Another challenge that the organization crippled with included the stringent vetting process of new staff and new partners as the organization sought to build on its human capital base to enable delver services in the expanded market. This meant that among the applicants for specific position, only a few were selected. In order to maintain the values that the organization stood for, the organization had to engage in internal

capacity building to equip its new recruited employees with the required knowledge and skills in the performance of their duties.

Another challenge that the organization faced was that the online systems required huge internet bandwidth which were not readily available in majority of the East African countries especially Rwanda and Burundi. This forced the organization to invest heavily into information technology infrastructure to ensure that the operations of the organization ran smoothly.

4.8 Effects of the Challenges on Ernst & Young's Expansion Program

The study sought to establish the effects of the challenges encountered by Ernst and Young on the expansion program. From the research finding, the study established that the challenges had far and wide implications on the expansion program. First, the challenges delayed expansion program as more time was required for the organization to re-organize and strategize on how to overcome the challenges. The challenges also led to high costs of doing business in some of the countries as the capital requirements rose beyond reasonable figures.

The challenges also led to increased risk exposure to the operations of the organization. By venturing into new market territories, the operations of the firm were put in jeopardy as the reputation risks had increased following the expanded operations of the firm. The expansion program also led to the acceptance of non-traditional business arrangements which the company had not anticipated for example limited companies in Rwanda and Burundi as opposed to partnership arrangements.

4.9 Ways in Which Ernst and Young Countered the Challenges

The study sought to establish the ways in which the Company countered the challenges. From the study findings, the interviewees indicated that the organization

countered some of these challenges by revising the costing/pricing of services in East Africa. Some markets did not appreciate the services offered by the organization hence made it difficult for the company to operate.

For countries with stringent employment rules and remuneration, the organization had to source for manpower in less expensive countries to help roll out its services in those countries. This helped in reducing friction between the organization and the governments of the concerned countries.

To help cut down on operational costs that comprised of per diems, air fares and upkeep of staff travelling from other countries, the organization launched recruitment drives to recruit the local staff and placing them under extensive training and development programs to build the kind of skill required by the organization.

To counter the challenges of limited internet connections in some of the countries, the organization resort to sourcing of own/alternative internet services via satellite VSATs to make sure that its online operating system was available at all times in their operational centers.

To counter the challenge of financial inadequacy, the organization sort to sourcing of financing from cheaper locations globally. This ensured that the sources of finance used for expansion were not expensive thus keeping low the cost of expansion process.

The study sought to establish what the East African Community needed to do in order to reduce the challenges for businesses seeking to expand to the East African market. From the research findings, the study established that the interviewees felt that the East African Community needed to harmonize business laws that often stifle

companies that are expanding into East Africa. This would increase the number of companies successfully expanding to the Community's region.

The Community members also need to address the integration challenges faced by the member countries for example, some countries still were charging high employment permits for non-citizens and demanding certain shareholding for local citizens in foreign owned companies. This is a limiting factor for some organizations thus forcing them not to invest in certain countries.

The Community members should also address infrastructure challenges for example the internet and education inconsistencies in East Africa countries. This will promote the availability of human capital because the education system will graduate individuals who are ready for the existing job markets. The East African Community member states should also through East African Development Bank, channel lower priced financing specifically promoting East African businesses expansion.

CHAPTER FIVE - SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusions drawn from the findings highlighted and recommendations that were made. The conclusions and recommendations drawn were in quest of addressing research objectives of determining the challenges of implementing entry strategies in East African Market by Ernst & Young.

5.2 Summary of the Findings

From the presentations of findings in chapter four, the summary of the findings is as follows: The interviewees worked in different departments ranging from advisory, tax, audit and support services. The interviewees had worked with the organization for varying period of time ranging from five years to fifteen years.

The reasons for the organization expanding to the East African Market included: the need to unlock the client value by exploiting opportunities in the East African region; growth of business to expand the revenue base. In addition, the organization's regional/global clients were demanding the organization's local presence to understand the local issues for effective/efficient resolutions besides competitive pressure from established firms.

The organization did evaluate the entry strategies by considering the various strategies at their disposal. The strategies differed from one country to another because of the different market dynamics across the East African market. The strategies considered included exporting strategy for the Rwandan market and acquisition strategy for Kenyan, Ugandan and Tanzanian markets. The reason for adopting different entry strategies in each country included differences in political stability, development

stages of the economies and regulations governing the operation of businesses. Other challenges included political/legal instability in countries like Rwanda and Burundi where there were no laws for partnership businesses and audit firms were registered as limited liability companies' thus huge exposure to EY. The internal challenged included inadequacy of senior managers with proper strategic management formal education to adequately evaluate the entry strategies and related challenges/prepare adequate business plans.

The challenges delayed expansion program as more time was required for the organization to re-organize and strategize on how to overcome the challenges. The challenges also led to high costs of doing business in some of the countries as the capital requirements rose beyond reasonable figures.

To help promote business expansion in the East African Community member countries, the Community members need to address the integration challenges faced by the member countries by reducing high employment permits for non-citizens and demanding certain shareholding for local citizens in foreign owned companies. They should develop infrastructure like the internet and education inconsistencies to promote the availability of human capital because the education system will graduate individuals who are ready for the existing job markets.

5.3 Implications of the Findings

The Kenyan organizations especially the firms in the auditing and accountancy field should use the study to benefit the organization by devising appropriate foreign market entry strategies by learning from the experience of Ernst and Young. The operating environment for the organization is ever changing calling for constant management of business operations and growing the market share of the companies

would require that companies think “outside the box”. This will help them beat the effects of globalization which may wipe them.

The level of competition is increasing and the benefits will accrue to organizations that are innovative and are willing to grow and maintain their market shares. The formation of East African Common market has expanded the reach for local businesses wanting to expand in the region. The findings of this study would therefore inform the management of local organizations on how to grow their businesses regionally.

5.4 Conclusions of the Study

From the findings, the study concludes Ernst and young planned and executed well its expansion strategy to the East African market. To ensure successful strategic planning and implementation, the organization set up an expansion committee to foresee the expansion process of the company. This evaluated all strategies that the company could use to expand by looking at the advantages and disadvantages of each. These were done in consideration of the prevailing circumstances in different markets. This ensured that the organization picked on the best entry strategy for each market for successful operations of the firms.

Exporting strategy for the Rwanda and Burundi market and acquisition strategy for the Kenyan Ugandan and Tanzania markets, The organization used different strategies in different countries because of the different operating environment existing in each market.

The study also concludes that the implementation of expansion strategy was without challenges. The challenges included lack of competent human capital and stringent recruitment guidelines which limited the access to qualified human capital who could

deliver services to the standards demanded by the organization. Another challenges included lack of the necessary infrastructure to support the operations of the organization in some of the new markets like Burundi and Rwanda. This forced the organization to invest heavily into its own infrastructure for smooth operations of the organization.

5.5 Limitations of the Study

Being that this was a case study on one institution the data gathered might differ from the challenges of implementing entry strategies in East African Market by other organizations. This is because different institutions adopt different strategies that differentiate them from their competitors. In addition, the operating environment of Ernst and Young is different from any other organization hence making these findings unique to Ernst and Young. The study however, constructed an effective research instrument that sought to elicit general and specific information on challenges faced by organization in entering new markets.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on the challenges of implementing entry strategies in East African Market by Ernst & Young. The study, however, minimized these by conducting the interview at the institution's headquarter since it is where strategies are made and rolled out to other office that operate on the blue print.

5.6 Suggestions for Further Research

The study recommends that further research should be done on what the East African Community Member countries are doing to reduce the challenges encountered by companies wishing to invest in their territories. Foreign direct investment is an

important element of an economies economic growth especially in the provision of jobs and raising the living standards of citizens.

The study further recommends that a similar study should be done to investigate factors that influence the expansion of firms across the East African market. With the signing of the East African Protocol and the harmonization of tariffs among East African Community member countries, more and more companies are expected to increase their venturing into new markets across the member countries..

5.7 Recommendations for Policy and Practice

For the management of Ernst & Young and other organizations, the findings of this study would be used in understanding the environmental challenges that they may encounter when going international and be able to strategize on better ways to counter the challenges so as to be successful in their expansion strategies. From the findings of this study, the company applied different strategies when entering different markets depending on the political stability. The managers of other organization can learn the importance of thoroughly examining the operating environment before embarking on the expansion program.

The government and policy makers at various levels of management can use the findings of this study to develop policies that would promote business expansions because the policies designed, serve as guidelines in assisting the management in knowing what the procedures and policies to follow when deciding to expand into a new market. Researchers and academicians should make use of this study as a basis upon which further studies on challenges of new market entry could be researched. The findings should contribute to professional extension of existing knowledge on new market expansion and its challenges.

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APPENDICES

Appendix 1: Interview Guide

1) Name of Respondent………………………………………………………………….
2) Which department are you in? …………………………………………………..
3) How many years have you worked in the Ernst & Young ……………………….
4) What are the motivations for Ernst & Young in entering the East African market?
5) Did Ernst & Young evaluate the entry strategy to use in entering the East African market? How was the evaluation done?
6) Please mention a few strategies that Ernst & Young considered for entry in the East African market
7) Which of the above strategies did the Ernst & Young choose in entering the East African market?
8) Why did the firm choose on the strategy named in (7) above to enter the East African market?
9) How effective was this strategy to the Ernst & Young?
10) Are there any environmental challenges that you have experienced in the process of expanding to the East African market? If yes, please outline the major ones.
11) What are some of the external factors that have hindered your expansion to East African market? if yes, cite major ones
12) Are there any internal factors that delayed your expansion process to East African market? If yes mention a few.
13) In what ways did the challenges affect Ernst & Young expansion program?
14) How did Ernst & Young counter the challenges it faced during its expansion process?
15) What would you recommend should East African Community do to reduce the environmental challenges that companies face when they expand to east African market?