

**INTERNATIONALIZATION PROCESS ADOPTED BY BIDCO OIL
REFINERIES IN PENETRATING THE EAST AFRICAN MARKET**

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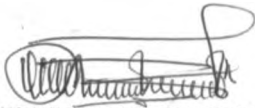
**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS OF THE AWARD OF DEGREE OF
MASTER OF BUSINESS ADMINISTRATION.**

**SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI**

NOVEMBER 2011

DECLARATION

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

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ACKNOWLEDGEMENTS

The long and difficult journey through this course would not have been successful without the support of the Almighty GOD. All glory and honour to him for seeing me through this Journey.

I would sincerely thank my wife Anita Mutunga for her understanding during the entire period of the MBA program and her continued prayers and support. My son Adrian Mativo for allowing me to study and do my assignments at home, sometimes at the cost of his time, the effort of reminding everyone that they should be quiet as Dad is studying- I am very proud of you son.

My special thanks go to my university supervisor Dr. John Yabs for his patience, understanding and guidance through the research project. Sincere thanks to all University of Nairobi lecturers and staff for their support throughout my studies.

I would also like to thank the staff at Bidco Oil Refineries for their support and for sparing time to respond to my questions. This research paper would not be possible without your enormous contribution.

Lastly I would like to recognise the invaluable support I received from my fellow MBA classmates, I cannot forget the efforts and contributions of Etyang, Peris, Julie, Grace just

to mention but a few for their **concern and lively discussions-** a team that was **dedicated to learning and success.**

DEDICATION

This research project is dedicated to my parents Andrew Mativo and Alice Mativo who instilled the value of education and hard work to me in a very tender age. To my loving wife Anne without whose support and encouragement I would not have made it. To my admirable and wonderful son Adrian for his support and patience during the entire period of my study when I left early and got home late, I hope this will inspire you to be a great scholar your father will be proud of.

ABSTRACT

With increased globalization and the dynamic nature of the business environment companies are facing increased pressure in the domestic market. There is also an increasing desire from companies to exploit available market opportunities. Companies are thus keen to explore new market and reap profits from international markets. Companies that want to explore new markets and expand internationally must follow a process. The objective of this study is to understand the internationalization process of a manufacturing company. For the purposes of this study Bidco Oil Refineries has been chosen as the case study to understand the factors the company encountered as it expanded in the East African market.

The study adopted a case study design where both primary and secondary data sources were considered. Primary data was collected using an interview guide as the key instrument. The research targeted six senior managers as head of departments in the company. Secondary data was collected through internal documents, strategy papers, chief executive officers speeches and internal performance reports.

The study revealed that there are several factors to be considered by any manufacturing company expanding into the East African region. The study revealed that the company was consistent in its internationalization process adopting the same strategy for both the expansion to Uganda and Tanzania. Notably the study revealed that legal and political environment in the regional had a huge bearing on the expansion process of the company.

The economic performance of the countries in the region also emerged as one of the key considerations the managers of the company look into before determining the desirability of the market in the country.

The education system differences and lack of governments investment in research and development was identified as one of the challenges regional companies faced. Since they lack the regional expertise to produce innovative products geared towards satisfying the regions requirements.

The research contributes to existing literature on the internationalization process of companies and the challenges faced by Multinational Corporation in their expansion process.

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LIST OF ABBREVIATIONS

EAC	East African Community
EU	European Union
FTA	Free Trade Area
GDP	Gross Domestic Product
MNE	Multinational Enterprise
WTO	World Trade Organization

CHAPTER ONE: INTRODUCTION

1.1. Background of the study

The pressures in the international business environment is now so great that for companies to survive they must be proactive. The effect of these pressures was reflected in the recent worldwide financial meltdown which affected even the biggest multinational Corporations in the World. Strategic mergers and alliances between MNCs have also increased in the recent past, depicting a picture of companies looking for all means of survival in an environment that is getting more competitive by the day.

Organizations exist and operate within an environment which often influences the firms operations, as Michael Dell Chief Executive Officer, Dell computer cooperation stated “The only constant in our environment is that everything is changing. We have to take advantage of the change and not let it take advantage of us. We have to be ahead of the game.” Trade has increased gradually within the East African community; this has been driven by the interconnection between the countries as well as the shared needs of the citizens of the region. Infrastructure systems linking the countries including the railway and road network have served to drive the demand of regional products high. The recent addition of a high fiber optic cable through Kenya is expected to increase the volume of trade as well as change the dynamics of conducting business in the region.

1.1.1. Internationalization Process

Companies have in recent times increased the level of marketing activity extended beyond domestic frontiers in a process referred to as internationalization (Gillingan, 1998). Albaum et al (1998) observes that the process of internationalization started in the 1980s but increased in the 1990s. They further note that the current interest by business firms in international marketing can be attributed in large part to shifts in demand and supply characteristics in markets throughout the world as well as the ever changing competitive environment. They also argue that companies that have been serving only domestic markets are finding that these markets are reaching the point where supply, at least in terms of productive capacity is exceeding demand.

According to Albaum (1998) companies have had to respond by increasing penetration in the current markets i.e. get extra share from existing consumer market base; developing new products for the existing markets; extending markets i.e. find new users for existing products. All these strategies are in response to changes in the environment. The process of finding new markets has therefore prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home countries. Corporations are thus expected to consider several factors before deciding on the market to enter. International firms are influenced by environmental forces and Bidco Oil Refineries is influenced by the environment in the countries where they operate. Under internationalization theory companies grow from within one country to regional and finally to the international arena.

According to Daniels, Radebough and Sullivan (2011), an international business is any firm that engages in international trade or investment. A firm does not have to become a multinational enterprise investing directly in operation in other countries, to engage in international business, although multinational enterprises are international businesses. They observed that all a firm needs to do is export or import products from other countries. As the world shifts towards a truly integrated global economy, more firms both large and small are becoming international business.

According to Wild, Wild and Han (2010) international business is special because it occurs within a dynamic, integrated system that weaves together four distinct elements; the forces of globalization; many national business environments; the international business environment and international firm management. Daniels, Radebough and Sullivan (2011) noted that managing an international business is different from managing a purely domestic business for at least four reasons; countries are different; the range of problems a manager encounters in an international business is wider and the problems themselves are more complex, than those a manager confronts in a domestic business; an international business must find ways to work within the limits imposed by government intervention in the international trade and investment system; international transactions involve converting money into different currencies.

1.1.2 Bidco Oil Refineries

Bidco Oil Refineries is the largest manufacturer of edible oils and hygiene products in East Africa. Over the years, Bidco successfully won over the market, becoming, the largest and fastest growing manufacturer of vegetable oils, fats, margarine, soaps and protein concentrates in East and Central Africa. The market success of these products has led Bidco Oil refineries to look to the future and expand its horizons. Bidco Oil Refineries started over 35 years ago and it has asserted its position in East and Central Africa region as a leader in most advanced and edible oil and hygiene products, manufacturing, marketing and in productivity improvement practices. The company is the brainchild of Bhimji Debar Shah the grand patriarch of Bidco after whom the company is named. The company has gone through various stages of metamorphosis since its establishment as a clothing factory in 1970 (Gichira 2007). The company is committed to using the most efficient modern technologies to produce a superior range of products. Bidco has a vision for the future. Producing high quality, popular products, the company is now determined to become the Market Leader throughout Africa by 2030. The company plans to achieve this not just through modern marketing, but through customers delight. They believe that any manufacturer's greatest asset is its consumers

With affordable pricing, reliable service and the best available brands, Bidco is delivering the best to their customers. The company products play an essential part in the daily lives of people throughout East Africa. African born and proud of its African Heritage, Bidco believes in the future of Africa. The company is working for an optimistic future of economic growth built around the backbone of progressive agribusiness. With a firm

commitment to the community and environment, the company is constantly exploring new ways to improve and expand.

The company has developed an ever-growing distribution network that ensures optimum communication and efficient delivery to their customers, with complete back up service, guaranteeing a true after sales partnership. With an excellent product range of international quality, the highest customer satisfaction and the determination to incorporate the most effective systems of efficiency and management, Bidco oil Refineries remain the invincible market leader. (<http://www.bidco-oil.com/about/index>.)

The company from its initial inception has been committed to using the most efficient technologies to produce superior range of products. Over the years Bidco oil refineries has successfully won over the market, becoming the fastest and largest growing manufacturer of vegetable oils, fats margarine and soaps. The firm's vision is "produce high quality, popular products, and have the determination of becoming the market leader throughout Africa by 2030". The company plans to achieve this not just through modern marketing, but through customer delight.

The rising competition in the domestic market and little growth in exports calls for the need to identify and address the key factors that influence edible oils and hygiene products in Kenya, what kind of factors these organizations need to consider before venturing into the export business.

1.1.3. Manufacturing industry in Kenya

The Kenyan manufacturing industry is typically categorized into the large and small manufacturers. There are some manufacturers who produce both for the local market and export and others who mainly produce for the local market. Manufactures can further be categorized into those wholly owned by indigenous people i.e. Kenyan nationals and those that are partly or wholly owned by foreigners. In this mix all these manufacturers could be involved in the production of goods whose raw materials are sourced locally or imported from other countries. In Kenya all manufacturing firms irrespective of the ownership structure (foreign or local) are subject to the same tax systems and are expected to comply with all regulations governing manufacturing sector in Kenya.

The growth of the manufacturing sectors has largely been government regulated since the pre-colonial era. Kenya as one of the member countries to the East African community has largely tried to expand its market within the region.

1.1.4. Multinational Corporations in Kenya

A multinational corporation is any business that has productive activities in two or more countries. (Daniels, Radebough and Sullivan (2011). Multinational corporations are businesses that have direct investments in the form of marketing or manufacturing subsidiaries abroad in multiple countries (Wild, Wild & Han 2010). They observe that

MNC generate significant jobs, investment and tax revenues for the regions and nations they enter.

(Wild, Wild, & Han 2010) define international trade as the purchase sale, or exchange of goods and services across national borders. They observe that in recent years nation that embrace globalization are seeing trade grow in importance for their economies. They have identified various benefits of international trade which include; opening doors for entrepreneurial activity across the globe; providing people with a greater choice of goods and services as well as being an important engine for job creation.

Kenya has a large manufacturing sector serving both the local market and exports to the East African region. The country however is experiencing rising levels of poverty, coupled with the general slowdown in the economy has continued to inhibit growth in demand of locally manufactured goods forcing firms to expand their markets internationally. High cost of inputs as a result of poor infrastructure has led to high prices of locally manufactured products thereby limiting their competitiveness in the regional markets and hampering the sector's growth. The recent re-invention of the EAC provides Kenya's manufacturing sector, the most developed within the region, a greater opportunity for growth by taking advantage of the enlarged market size, economies of scale, and increased intraregional trade.

<http://www.pwc.com/ke/en/industries/industrial-manufacturing.jhtml>

Firms encounter a lot of challenges and problems in entering the export business. This is so because they are entering the global competition where firms are expected to compete

against international standards. The value and volume of international trade continues to increase. Most of the goods merchandise trade is composed of manufactured goods. The dominance of manufactured goods in international trade has persisted over time and will likely continue to do so. The reason is its growth is much faster than trade in the two other classifications of merchandise – mining and agricultural products.

International business begins with international trade operations, facilitated by the environment in which transactions between private parties are free from state intervention in the world economy. It improves the well-being of many nations, and the imposition of trade barriers reduces the gains from trade. In this context, it is pertinent to understand the determinants of and the effects of international trade, international operations of multinationals and the economies of the home and host countries.

According to export processing zone authority report 2005 on the vegetable oil industry, agriculture accounts for 24% of Kenya's GDP with an estimated 75% of the population depending on it either directly or indirectly. Vegetable oil is one of the key sub sectors of agriculture, with soybean and palm oil being the leading sources of vegetable oil in the world. The report also notes that the key players in the vegetable oil industry in Kenya consist of processors who extract the oil from the seeds and refiners who convert crude oil into forms suitable for human consumption. The reports also notes that processing companies like Bidco Oil refineries have actively supported and encouraged local farming of vegetable oil crops and specifically palm oil

1.1.5. The East African Community and Kenya's trade

According to the Kenya economic survey (GOK 2011) presented by Wycliff Oparanya Minister for planning and national development and vision 2030, the value of exports increased by 18.8% from kshs 344.9 Billion to kshs 409.8 Billion in 2010. Most of these exports have been to the East African Community region. Mokamba (2007) observes that the importance of any market is viewed from the volume of trade as compared to the performance in other markets regionally or globally. According to the economic survey 2005 that African region continues to be Kenya's dominant export market. Exports earning from Uganda and Tanzania constituted over half (54.9%) of the African total. Uganda is the leading export market for Kenya in the region. With the current new impetus of strengthening and expanding the EAC body opportunities for increase in trade to regional countries are bound to increase.

1.2. Research problem

Companies need to stay ahead of the game in order to remain relevant and survive the current competition from both internal and foreign companies. Its in the backdrop of this environment that companies are looking for easy ways of expanding their market, by adopting a strategy of entering a foreign market through exports or setting up branches in foreign countries commonly referred as foreign direct investment. Kieti (2006) observes that Kenyan firms venturing into southern Sudan need to devise strategies that will best position these companies to take advantage of the opportunities in the economy in a manner that is sustainable. Kieti (2006) also observes that the decision on foreign entry

among Kenyan firms is a function of various parameters some of which are firm specific and other are influenced by the business environment in the host country.

International business is one of the strategic responses growing companies adapt to rising domestic competition, saturated market, low capacity utilization and search for market of new products. The international market is often influenced by several factors such as the government policy, incentives interventions, liberalizations, infrastructure availability, and tariff and non tariff barriers. Success in international business requires in depth understanding of these factors and employment of international business strategies. Njeri (2010) observes that a thorough analysis of the business environment in which a company is planning to enter should be conducted. This is because any firms are faced with a myriad of challenges most of which are environmental and beyond firms control. Ngetich (2010) concludes that when a company wishes to enter a market, it should prepare beyond market entry and have policies for measuring key performance indicators before and after entering.

No specific studies have been done on the internationalization process of Kenyan manufacturing companies within the East African Community. The industry this far has relied internationalization process adopted in other in other regions. This process may or may not hold true in the Kenyan situation and in particular the East African market. It is against this basis that companies with potential to exploit the EAC market are not doing so due to lack of clear guidelines on the appropriate internationalization strategy and process to follow as they venture into the market.

Given the significance and size of the East African market for the Kenyan manufacturing industry and the lack of specific studies on the internationalization process, there was thus a need to identify the best process. This proposed study therefore was seeking to fill this gap by providing an insight on this process to enable companies to understand the East African regional market better. This study was seeking to answer the question, what is the internationalization process adopted by Bidco Oil Refineries in order to capture the East African Community market?

1.3 Research objective

The objective of this study was to establish the internationalization process adopted by Bidco Oil refineries in order to penetrate the East African Community market

1.4 Value of the study

A study of the internationalization process adopted by Bidco Oil Refineries in penetrating the East African Market will help Multinational enterprises in making decisions regarding their export strategies East Africa especially if they target to have Kenya as their base country in the region. The study will be acting as a tool for Bidco Oil refineries managers and other manufacturing firms can use in their step towards developing a more competitive edge on the market and pursuing market leadership in the region.

Scholars in International Business; The study was seeking to build on previous research, generate and allow further formulation of hypotheses, and therefore offer scholars a basis for further research.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter looks at the internationalization of business operations in the context of a manufacturing company. It also looks at the concept of Multinational Enterprises as well as the internationalization theory on the study is based on.

2.2. Internationalization of Business Operations

As organizations increasingly engage in cross border trade and investments, managers need to recognize that the task of managing an international business differs from that of managing a purely domestic business in many ways. At the most fundamental the differences arise from the fact that the countries are different. Countries differ in their cultures, political systems, economic systems, legal systems and levels of economic development. Daniels, Radebough and Sullivan (2011)

Differences between countries require that an international business vary its practices country by country. Managers in international business must not only be sensitive to these differences; they must also adopt appropriate policies and strategies for coping with them.

A further way in which international business differs from domestic business is the greater complexity of managing an international business. In addition to the problems that arise from differences between countries, a manager in an international business is confronted with a range of other issues that the manager in domestic business never confronts. The manager in international business must decide where in the world to site production activities to minimize cost and maximize the value added. Then they must decide on how best to coordinate and control globally dispersed production activities. The managers in international markets must decide which markets to enter and which to avoid. They must choose an appropriate mode of entering a particular foreign market.

Conducting business transactions across national borders requires understanding the rules governing the international trading and investments system. A manager in international business must deal with government restrictions on international trade and investments. They must find ways to work within the limits set by the specific governmental interventions. Even though many governments are committed to free trade, they often intervene to regulate cross border trade and investment. Managers within international businesses must develop strategies and policies for dealing with such interventions. Cross border transactions also require that money be converted from the firm's home currency into foreign currency and vice versa. Because foreign currencies change in response to changing economic conditions, managers in international business must develop policies for dealing with exchange rate movements. A firm that adopts a wrong policy can lose large amounts of money, whereas one that adopts the right policy can increase the profitability of its foreign business.

Wild, Wild and Han (2010) observe that each national business environments is comprised of unique cultural, political, legal and economic characteristics that define business activity within that nation's border. They note that this set of national characteristics can differ greatly from country to country, but as nations open up and embrace globalization, their business environments are being transformed. Globalization can cause powerful synergies and enormous tensions to arise within and across various elements of society. Company managers must be attentive to such nuances, adopting their products and practices as needed. The international business environment influences how firms conduct their operations in both subtle and not so subtle ways. No business is entirely immune to events in the international business environment, as evidenced by the long term trend towards more porous national borders. The drivers of globalization are causing the flows of trade, investment and capital to grow more intertwined, often causing firms to search simultaneously for production bases and new markets. Companies today must keep their fingers on the pulse of international business environments and see how it may affect their business activities.

Wild, Wild and Han (2010) note that International firm management is vastly different from managing a purely domestic business. Companies must abide by the rules in every market in which they choose to operate. Therefore the context of international business management is defined by the characteristics of national business environments. Because of widely dispersed production and marketing activities today, firms commonly interact with people in distant locations within an international business environment. Finally they state that managers and their firms are compelled to be knowledgeable about the nations in which they operate because of the integrating power of globalization.

Businesses should try to anticipate events and forces that can affect their operations by closely monitoring globalization, national business environments, and the international business environment.

Pearce & Robinson (2000) define a firm's business environment as consisting of all the conditions and forces that affect its strategic options and defines its competitive situation. There a number of factors that influences a firms choice of direction and action and therefore its organizational structure and internal capabilities. The authors argue that the firms do not exist in a vacuum but rather in an environment comprised of the internal and external environment. Firms are environmentally dependent because they source their inputs such as raw materials and human resources from it and produce their outputs in the form of goods and services to it (Cole 1990). According to Pearce and Robinson (2000) the external environments is beyond a firms controls and affects all firms at equal scale.

2.3. Multinational Enterprises

According to Wild, Wild and Han (2010) In this age of internationalization, small companies are increasingly active in international trade and investments. Companies are exporting earlier and growing faster, often with the help of technology. Where the traditional distribution channels often only gave large companies access to distant markets, electronic distribution is cheap and effective alternative for small businesses that sell digitized products. Globalization is a potent force transforming our societies and commercial activities in countless ways. The drivers of globalization i.e. technological innovation, and falling trade and investment barriers, influence every aspect of the global

business environment. The dynamic nature of globalization also creates increasing competition for all firms everywhere, and managers begin to see the entire world as an opportunity. Any home and abroad firms must remain vigilant to the fundamental societal and commercial changes that globalization is causing.

2.4. Relevance of the Theory of Internationalization

Porter (1990) observes that, corporate strategies have to be seen in a global context. Even if an organization does not plan to import or to export directly, management has to look at an international business environment, in which actions of competitors, buyers, sellers, new entrants or providers of substitutes may influence the domestic market.

Porter (1990) introduced a model that allows analyzing why some nations are more competitive than others are, and why some industries within nations are more competitive than others are. This model of determining factors of national advantage has become known as Porter's Diamond. Porter suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition.

The situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries. These factors can be grouped into human resources (qualification level, cost of labor, commitment etc.), material resources (natural resources, vegetation, space etc.), knowledge resources,

capital resources, and infrastructure. They also include factors like quality of research on universities, deregulation of labor markets, or liquidity of national stock markets. These national factors often provide initial advantages, which are subsequently built upon. Each country has its own particular set of factor conditions; hence, in each country will develop those industries for which the particular set of factor conditions is optimal. Porter points out that these factors are not necessarily nature-made or inherited. They may develop and change.

Home Demand Conditions, describe the state of home demand for products and services produced in a country. They have impact on the pace and direction of innovation and product development. According to Porter, home demand is determined by three major characteristics: their mixture (the mix of customers needs and wants), their scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets. Porter states that a country can achieve national advantages in an industry or market segment, if home demand provides clearer and earlier signals of demand trends to domestic suppliers than to foreign competitors. Normally, home markets have a much higher influence on an organization's ability to recognize customers' needs than foreign markets do.

Related and Supporting Industries, the existence or non-existence of internationally competitive supplying, industries and supporting industries. One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system. Besides suppliers, related industries are of

importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software).

Firm Strategy, Structure, and the general conditions in a country determine how companies are established, organized and managed, and that determine the characteristics of domestic competition. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently. This will provide advantages and disadvantages for particular industries. Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies.

Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

Porter's Diamond has been used in various ways. Organizations may use the model to identify the extent to which they can build on home based advantages to create competitive advantage in relation to others on a global front. On national level, governments can (and should) consider the policies that they should follow to establish national advantages, which enable industries in their country to develop a strong competitive position globally. According to Porter, governments can foster such advantages by ensuring high expectations of product performance, safety or

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the design and methodology used in the study of the internationalization process for Bidco Oil Refineries in penetrating the East African Community market. It includes the research design, data collection methods and the data analysis procedure.

3.2 Research design

The research design for the study was a case study of Bidco Oil Refineries Ltd. The case study was chosen in order to allow a thorough and holistic examination of the oils and general hygiene manufacturing business. Bidco Oil Refineries was the choice given its commanding lead in market share of the edible oils and hygiene products in the region.

Case studies place emphasis on a full contextual analysis of fewer events or conditions and their interrelations. An emphasis on detail provides valuable insight for problem solving, evaluation and strategy (Cooper & Schindler 2003).

The research also employed secondary data analysis. Secondary data analysis is the process of reviewing studies made by others for their own purposes (Cooper & Schindler 2003). Reports of prior research studies often reveal an extensive amount of historical

data or decision making patterns. By reviewing prior research studies the researcher was able to identify methodologies that proved successful and unsuccessful.

These techniques were deemed appropriate for this study since they involved procedures of collection and analysis of data from the subjects, in this case senior managers at Bidco Oil refineries.

3.3. Data Collection

Data collection was done through interview guide directed to the middle to top management of the company. These are managers who were expected to be involved in the running and decision making of their departments. The interviewees by virtue of their position were expected to be conversant with the factors affecting the company's penetration in the East African market and the challenges involved and the strategies the company is employing to counter these challenges. The researcher interviewed the heads of the following departments in the company; production manager, marketing manager, finance manager, distribution manager and operation manager

The interviews were based on open ended questions which allowed the respondents to answer in their own words (see attached Appendix I) and therefore provide the researcher with greater justification of their response. The advantage of using interviews is that it provided the researcher with deeper information and details on anything can be secured. It allowed the interviewer to note conditions of the interview, probe with additional questions, and gather supplemental information through observation. Interviews have more control than with other kinds of interrogation (Cooper & Schindler 2003). All

respondents were given the opportunity to provide feedback. Feedback was generally anonymous which was expected to encourage openness and honesty.

3.4. Data analysis

The data collected was qualitative and therefore Content analysis was used to analyze the data. Content analysis measures the semantic content or the 'what' aspect of the message (Cooper & Schindler 2003) its breadth makes it a flexible and wide ranging tool that is suitable for this kind of study. This is a systematic qualitative description of the composition of the objects or materials of study. It involves observation and detailed description of objects items or things that comprise this study. Content analysis guards the researcher against selective perception of the content, provides for the rigorous application of reliability and validity criteria. The analysis ensured that the units developed reflect the objectives for which the data was collected. Previous studies that have employed content analysis include Munyao (2007), Ngunjiri (2005).

CHAPTER FOUR: DATA ANALYSIS RESULTS AND DISCUSSION

4.1. Introduction

This chapter outlines the research findings obtained from the study of Bidco oil refineries, which gives an understanding on how the company is penetrating the East African market. The chapter further discusses how the company has positioned itself in the East African market, factors the managers consider to be important for the success of the company in the region. The data was collected using an interview guide and was collected on six managers; Financial controller; Production manager; Export manager; Senior marketing manager, Quality controller; Human resources manager making 100% response rate. The findings have been presented in prose.

4.2. Respondents background

The length of service of the respondents was a key factor for consideration in this study since it helps the researcher determine the level of understanding the respondent has of the company operations. In this study the respondents had different levels of experience with the company. The study established that the level of service of the managers interviewed ranged between two years and eight years within the organization. Some had also experience in other sectors and companies, however the study only focused on their understanding of the operations of Bidco oil refineries.

It was also noted that all of them were part of the direct reports to the managing director thus involved in the strategy formulation of the company and therefore in a position to provide information for the study. These respondents were drawn from different departments within the organization. These departments are Finance department, production department, export department, marketing department, human resources department and quality control department.

4.3. Internationalization process

The study sought to find the internationalization process adopted by Bidco oil refineries in expanding to the East African market. The interviewees said that the factors that influence the expansion strategy at Bidco emanate from within the company corporate mission “BIDCO exists to serve daily consumer needs to enhance happy healthy living by Branding, Transforming, Distributing the goodness of Mother Nature”.

The company has strategic plans which are reviewed and revised gradually to take into consideration the changing environment and factors. The company employees act as strategic tools tasked with scanning the environment and identifying opportunities for expansion and growth. The managers advised that the company used a defined analysis method to analyze their investment projects. This helps out in identifying projects that have a positive net present value and thus improving the overall net worth of the company.

The company started its regional expansion process in 2001 by establishing its first oils and soap factory in Tanzania. To have market knowledge through foreign direct investments and collaboration with local and foreign companies was part of Bidco oil refineries market entry strategy. The company started establishing its factories in Tanzania and Uganda through collaboration with locally based partners. The business strategy then was to ensure that the company continues to grow its market share and expand its regional reach. The company continued with the expansion strategy by commissioning a new refinery project in 2003 and at the same time starting its operation in the neighboring Uganda.

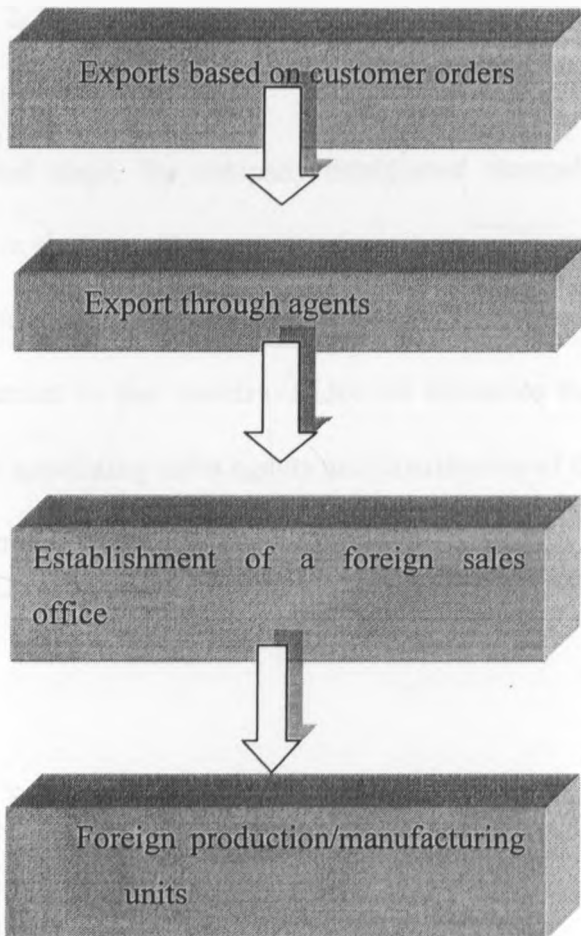
The managers indicated that the company uses the internationalization theory/ process in identifying and penetrating its international target market. This is a learning based process since the firm is uncertain about investing. The investment uncertainty is usually reduced by acquiring concrete market knowledge, usually done through export of goods into the market. The process tries to identify the general driving forces behind the incremental internationalization process. The internationalization is the result of series of incremental decisions within the firm.

Most important obstacle to internationalization is the lack of knowledge and resources. The managers pointed out that the company reduces this through incremental decision making and learning about the foreign markets and operations through experimental knowledge. This experimental knowledge can mainly be acquired through personal knowledge in the specific market. This leads to the reduction of risks of market investments. It was noted that the company developed itself first in the Kenyan market

and when it felt confident then it decided to enter into regional market and started its exports to the neighboring countries in the region. The next step was to export via agents and third step was establishing sales unit and last step in the process was establishing manufacturing unit in Uganda and Tanzania. According to this theory, Bidco took four stages in entering into the regional market viz; Exports based on customer orders; Export through agents; Establishment of a foreign sales office; and Foreign production/manufacturing units.

This is illustrated in Figure 1 below.

Figure 1: Internationalization process



4.3.1. Stage 1. Exports based on customer orders

This is when the company started entering into foreign market, this first step was chosen by the firm so as to start export to the target export country, as the company has no knowledge, information of the resources in that country. The managers pointed out that Bidco oil refineries initially supplied customer orders to Tanzania, as a way of testing the market and introducing their products to the market. Through these exports the company was able to test the demand of its products in the region as well as test the level of competition in the importing countries.

4.3.2. Stage 2. Exports through agents

At the second stage, the company established channels to export. It found the local distributors in the importing country for exporting its products. This stage provided the company knowledge about the information channel and some superficial knowledge about the market in that country. Bidco oil refineries then expanded their operations in Tanzania by appointing sales agents and distributors of their products, this was based on the tested demand determined at stage one.

4.3.3. Stage 3. Establishment of a foreign sales office

The third stage of the company established a sales subsidiary in the importing country. This meant that the company had already obtained the knowledge and information about the country via exports and indirect exports and now it was easy for the company to establish its sales subsidiary in that country. Company can easily control and manage its business in the chosen country. In this stage Bidco oil refineries got more and wider knowledge about the market.

4.3.4. Stage 4. Foreign production/manufacturing units

The last and fourth stage of the company was to establish its manufacturing unit in Uganda and Tanzania. In this stage the company had more and differentiated knowledge of the markets therefore it was easy for firm to start production there. As the Company proceeded from one stage to next stage, its resource commitment to market increases.

4.4. Main factors influencing the business environment in the importing countries

The respondents were asked to name the major factors affecting the penetration of the company in the region and they pointed out several factors which are discussed below in no particular order. The interviewees had varied order of the strength of the factors and how they influence their operations in the region. They further acknowledged that these factors are greatly influenced by the type and nature of products under consideration. The

managers agreed that the company internationalization process is affected by factors like digital divide, educational levels, purchasing power differences between the countries. Government policies in such areas as research and development, security, language, education and infrastructure, different currency systems as well as the level of financial and banking infrastructure in the importing country and Kenya's membership to regional economic bodies affect the company's efforts when dealing in regional trade.

4.4.1. Educational structures and Research and development

The educational levels and structures in the different countries the company is operating were noted to influence the type and qualification of manpower that the company was looking to tap into. The various countries in the region have different educational systems, the residents of the region thus approach work through different dimensions and approaches. The managers considered educational level and structures to be strong indicators that they were major influence in the operations of the company in the various countries in the region.

Governments' investments in research and development was considered by the managers not to be a key factor in influencing good business environment in the region. This was attributed to the fact that all the countries in the region do not have a properly coordinated way/structure of conducting research and meaning that the manager do not expect any meaningful results form this process. The managers observed that innovativeness in the industry in coming up with new products was important in determining the level of growth the company can attain within the region. They noted that the edible oil and

hygiene products industry was not fully exploited by regional companies as it was dominated by international multinationals.

4.4.2 Legal and political environment in the region

The legal and regulatory framework in the countries the company exports to was deemed by the managers another important factor in influencing the way the company conducts its business in the region. The managers indicate that the legal framework enabling the export of goods and services in the regional as well as the import of goods and services for the importing countries to be a key consideration for the company senior management.

The interviewees identified two factors as significant in the influence of the legal and political environment to businesses venturing in the East African market as experienced by Bidco Oil Refineries. Firstly, the strength of the legal framework in the region and Secondly, the effect of the political environment on the east African countries. The respondents considered the legal and regulatory framework to be very key in determining the economic and trading environment in any country. Uganda was considered to have good trading environment and well established enabling legal framework as compared to Tanzania. The managers also pointed out that Rwanda exhibits the best legal framework for conducting business pointing out that the government of Rwanda was keen in inviting investor into the country and thus has also very good foundation for any country that is wishing to invest in the country.

Kenya as the host country was considered important in determining the success or failure of a company wishing to export to the East African market. The managers emphasized the importance of having a favorable tax regime that encourages the growth of companies especially those producing their goods locally and exporting the region. This would enable the companies products to remain competitive in the region.

4.4.3. Financial and banking infrastructure.

Financial and banking infrastructure in all the countries in the region both Kenya and the importing countries is a key factor for the development of internationalization process of the company. With good infrastructure the managers emphasized that the company will be able to make the access of funding easier within the region and thus be able to support its business operations in the long term.

The membership of Kenya as the host country in the various regional bodies was noted to be a key factor influencing the operation of the company. This factor was considered key in influencing the expansion strategy of the company in the region.

4.4.4. The economic environment in East Africa

The respondents identified two main factors as the key determinants economic environment in East African and thus important for any firm entering the market. Firstly the prospects of growth in the East African countries; the importing country prospects of

economic growth determine the size of the market to be exploited by the company. Countries with a positive rate of growth were considered to be more attractive for market expansion and setting up of industries than those with low or negative rate of growth. The countries GDP growth rate as well as the rate of inflation prevalent in the country were considered to be important in establishing the nature and size of the market. Secondly the exporting and importing government policies were key to determining the internationalization process a company is to adopt. Some countries have export incentive through preferential tax rates, low import duties or no duty on some commodities.

4.4.5. The social cultural environment in east Africa

The East African region represents' people of diverse languages, religions, races and beliefs. The managers confirmed this factor to be very important in determining the nature and type of goods to offer to any particular country, the type of advertisements to be done in each country. The social cultural environment is based on the fact that residents of the region have ties to each other, they have relations defined by religion and language. This the respondents pointed out that its very important for any multinational corporation to fully understand these social cultural dynamics in the region.

4.5. Comparison with Literature

Johansson and Vahlne (1990) explained that firm sometimes skip to some stages and jump to another stage for example firm can start exports with the country and skip the stage 2 and directly establishes sales concern in the country. In the second or the third

stage firm can develop its relations through joint ventures with earlier representatives. With every stage the experiential knowledge of the managers/entrepreneurs increases. There is a direct relationship between market knowledge and market commitment. As a firm gains more market knowledge via experience its market commitment increases. With increased market knowledge a firm commits more towards because its experience is also increasing. Thus experiential knowledge is the main driving force behind internationalization.

Johanson and Vahlne (1990), observe that a critical assumption (of the internationalization model) is that market knowledge, including perceptions of market opportunities and problems, is acquired primarily through experience from current business practices in the market. Experiential knowledge generates business opportunities and is consequently a driving force in the internationalization process. But experiential knowledge is also assumed to be the primary way of reducing market uncertainty. Thus, in a specific country, the firm can be expected to make stronger resource commitments as it gains experience from current activities in the market.

The cumulative knowledge held by the manager's acts decisively on the process of internationalization. Because as Managers understand the influence of the firms, the conditions of the home market, the structure and the process of the foreign market, all this helps in reducing the limitations of the firms in its internationalization process. They have psychic distance (There are some factors such as language, culture, political system, level of education, level of industrial development, which hamper the flow of information between firms and markets) in mind with respect to home and host country therefore

going abroad bounds their decision making in rationality and, they make decisions to enter into markets, which are psychologically close to them having similar consumer behaviors, tastes, industrial structures and institutional settings. This means that when firms start their foreign operations they first choose those countries, which are close to them due to language, culture, and different levels of industrialization factors. As the firm's succeed in these operations, then it decides to enter into other far-flung markets. They change with the development of the trade and communication but on a gradual process.

The firm also strives to increase its long-term profits for this it keeps its risk taking at low level. For achieving this efforts are made at all level of the firm. Johanson and Vahlne (1990), In the (Internationalization) model it is assumed that the firm strives to increase its long-term profits, which is assumed to be equivalent to growth. The firm is also striving to keep risk taking at a low level. Thus strivings are assumed to characterize decision-making on all levels of the firm. Johanson and Vahlne (1990) concluded that, The better the knowledge about the market the more valuable are the resources, the stronger is the commitment to market.



CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter presents the summary of the findings derived from the research. The chapter is also looking at the limitations of the study and suggests areas identified by the researcher that require further studies.

5.2 Summary

Based on the findings presented in chapter four the study concludes that Bidco Oil Refineries uses the internationalization model in penetrating the East African market. The study also concludes that the company used the same model of expansion in the East African region. The use of this internationalization process has enabled Bidco Oil Refineries become the largest producer of edible oil and hygienic products in the region within a very short span and be able to maintain that leadership position. This is evident not just in price competitiveness but also in quality and value of the products offered by the company in the region.

The use of this process has enabled the company to fully understand its market, maintain a healthy relationship with its customers as it continues to launch new products targeted

at satisfying the identified customer needs. The process also enables the company do an internal evaluation of the risk and return on investment when expanding within the region. The study also concluded that the company is fully committed to this tested strategy of regional market entry.

The study also concluded that the regulations of regional economic bodies greatly affect the operations and strategies of the company. Low level of investment by the governments of the region into research and development was considered to be a major hindrance to the expansion strategies of manufacturing companies within the region. This the respondents noted that denied the company the level and type of expertise necessary to satisfy the market with innovative products and be able to compete with other international companies.

Further analysis into the answers provided it was noted that a lot of emphasis on the nature of legal environment was expounded by the exports managers ranking this as the most important factor for the success of any company in the east African market. Marketing managers who was also widely travelled within the East African market emphasized the importance of an enabling legal framework for enabling the entrance of any company into any of the east African countries. The finance manager was of the opinion that the legal frameworks was important in ensuring that taxes within the region remained fair for both foreign companies and inter companies. From the above the profession and specialization of the respondent seemed to have a bearing on the nature of response and importance of the factor.

5.3 Conclusion

The study confirms that the several factors are important for any company wishing to expand to the region to fully understand. Some factors are country specific while others are region specific. Past studies done in other regions have revealed specific trend among managers as they seek to expand to the regional market. This study however identified the unique factors any major manufacturing enterprise should consider as they venture into the East African market.

The following conclusion emerged from the study. The political and legal environment in the region is an important factor for any manufacturing company to keenly consider. This was largely attributed to the fact that countries legal framework will determine whether their investment of the external companies are safeguarded in that particular country as well as ensuring that the company engages in only legalized productions.

The economic environment in the region is major consideration for managers wishing to export into the region. The trade and investment regulation as well as incentives offered by Kenya are key in influencing the ease with which a company expands in the region.

Social cultural factors are considered important by the managers of the company. This helped them in deciding products suitable for the population as well as coming up with marketing strategies. The study noted the strength of this factor based on the divergent nature of the East African population and their varied tastes and preferences.

5.4 Recommendations for further research

Further studies need to be conducted to investigate the stability of these factors over a long term periods and how their fluctuations may affect the performance of the company over the period. There is need for improved documentation of the existing legal and regulatory frameworks as well as creating an enabling environment for the local companies to be able to expand regionally. With the recent revival of the East African community it will go along way in ensuring regional growth, creation of employment opportunities, provision of superior products and increased competition within the region which is very important for the customers.

The governments of all the East African countries should pursue closer cooperation to create an environment that can create multinational corporation giants capable of competing with other international corporations. For companies to be able to grow, it's important to have the local financial and economic support of the region. With scarcity information on research on these factors Kenyan companies are safer conducting an intensive research into the region to ensure that they fully understand the key factors that need to be considered before venturing into the market. This will save them cost on the failure once they have committed resources in the venture.

5.5 Limitations of the study

The study was limited to the factors influencing Bidco Oil Refineries in expanding into the East African market, the application of this process could differ in different

organization even in the same industry. Secondly this being a privately owned company there was a challenge on the information available for study. Most of the information is confidential and proprietary and the interviewees disclosed information at their discretion. Time limits, budget constraints, and difficult nature to get these senior managers to be interviewed and the fact that this was based on only one company limits the interpretation and usage of the resulting information.

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APPENDIX I: INTERVIEW GUIDE

This questionnaire is designed to collect information from senior management staff at Bidco Oil Refineries for Academic purposes only and therefore the response shall be absolutely confidential.

1. What is your position in the company?
2. How long have you worked with Bidco Oil Refineries?
3. How long have you been in your current position?
4. What is the geographic network coverage served by Bidco Oil Refineries in East Africa?
5. Bidco Oil Refineries has experienced exponential growth in the recent past, what fundamentals have brought about this growth and is it sustainable in the future.
6. What are the company's foreign market strategies?
7. Does the company allocate resources for the expansion of the export business? If yes do you think the allocated resources are sufficient?

8. What legal problem does the company encounter exporting to the east African countries?
9. What role should the government play in streamlining and providing a conducive export environment to companies operating in Kenya
10. How has the deteriorating values of the Kenya shilling against the major currencies affected the operations of the company specifically in relation to exports?
11. What problems do you encounter in marketing your products in the east African market?
12. Do you find communication as an important ingredient as you enter this regional market? What communication problems do you encounter in penetrating the east African market?
13. What are the perceptions of these country's residents towards Kenyan companies?
14. What economic policies do you find favorable for exporters in the east African market?
15. What does Bidco Oil Refineries do to overcome challenges which are not supportive of their export business?

16. What problems does structure pose to the implementation of an export strategy in a company?

17. How does Bidco Oil Refineries assess the potential markets in the region and what are the main factors considered?

18. The government of Kenya recently formed the ministry of the east African community to handle any regional issues. what do you expect from this ministry in ensuring that export business to the east African market is streamlined and made easier?

APPENDIX II: LETTER OF INTRODUCTION

Jeremiah M. Mativo
P. O. Box 50945, 00200
Nairobi.

Human resources manager,
Bidco Oil Refineries
P. O. Box
Thika

Dear Sir/ Madam,

I am a student at the University of Nairobi undertaking a degree of Master of Business Administration. As a requirement to complete the program I will need to submit a research project on a management problem. I am doing the research on *“Internationalization Process Adopted by Bidco Oil Refineries in Penetrating the East African Community Market”*

I hereby kindly request for your permission to interview you and for your time.

The results of the interview and research will be used solely for academic purposes and a copy of the same will be availed to you on request.

Thank you

Yours Faithfully
Jeremiah Mativo
D61/61521/2010