STRATEGIES ADOPTED FOR INTERNATIONALIZATION OF LARGE FAST MOVING CONSUMER GOODS MANUFACTURERS IN KENYA

By

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DECLARATION

I hereby declare that this research project is my original work and has not been presented in any other institution.

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This research project has been submitted for defense with my approval as the University supervisor.

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DEDICATION

I dedicate this project my dad and siblings who not only encouraged me to soldier on but also to act as stepping stone for bigger and better things to come.

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ABBREVIATIONS AND ACRONYMS

FMCG	:	Fast Moving Consumer Goods Manufacturers in Kenya
KAM	:	Kenya Association of Manufactures
FDI	:	Foreign Direct Investment

ABSTRACT

So as to thrive in the current dynamic market trends brought about by globalization, the organizations are necessitated to come up with appropriate strategies. Strategy enables a business attract and retain customers, ensures efficient utilization of resources as well as promoting business growth and expansion. For a firm to successfully internationalize its operations the right strategies have to be applied to ensure that the right market is chosen to suit the business objectives of a firm. This raises the need for evaluation of the strategies used during the internationalization process. The study was guided by the following research objectives: To establish the strategies adopted for internationalization of FMCG manufacturing firms in Kenya and to identify the challenges encountered in the internationalizing of large FMCG manufacturing firms in Kenya. The target respondents were top and middle level managers within the firms. Out of the 30 targeted firms, 22 responded while 8 did not respond representing a response rate of 73%. The primary data was mainly collected using questionnaires that were administered through drop and pick later method and through email. The analysis was conducted using descriptive measures such as frequencies, and percentages. The results revealed that 86% of the companies had undergone the internalization process while the remaining14% were yet to. This implied an increase in popularity of internationalization among the manufacturing companies. Exporting was found out to be the most used strategy adopted in internationalization. The study thus concludes that largest Fast Moving Consumer Goods Manufacturers in Kenya prefer the international market due to increase in demand in Kenya products and also cause of increased local competition. The study also concludes that stringent competition and various financial constraints are the major challenges that hinder full internationalization of the companies. The study recommends that the government should put in place measures to improve the internationalization process. Particularly, the government should reduce the number of bottle neck procedures undertaken during establishing an international market. The study also recommends that the government and policing agents should introduce incentives that make exporting attractive. This will encourage the companies to even export more goods, thus improving their performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In today's dynamic and continuously changing global business world, strategy has become a key driver of business success. The modern day business environment has increasingly become complex as a result of stiff competition, reduced customer loyalty, stringent regulatory environment, technological advancement, high costs of operation a macro environmental factors, such as political, economic, technology, and socio-cultural issues (Fitzroy & Hulbert, 2005). Due to these challenges, companies have opted to internationalize their operations to gain a competitive edge, minimize stiff competition, and take advantage of the low operational costs in foreign countries (Buckley &Casson, 1998). In this respect, it has been observed that many big companies have been moving their manufacturing facilities to low cost countries, such as Taiwan, China, and Bangladesh to take advantage of the low cost of labor and raw materials. In order for the firms to succeed in their internationalization efforts, Kaynak (2014) suggests that they must ensure that they adopt effective strategies that include adopting the right market penetration mode and business models that suit the new business environments.

This study is anchored on the industry and environment based theory of strategy whereby Porter (1980) highlighted that a firm's strategy is determined by the conditions in the industry. These conditions inform a firm's decision to internationalize and the strategies to be adopted in the process. The study shall also be anchored on the resource based theory of strategy which concentrates on the firms' key resources as the source of successful strategies.

The Fast moving consumer goods (FMCG) market in the world and particularly in Kenya is extremely volatile characterized by stiff competition, low customer loyalty and high operational costs (Çelen, Erdogan & Taymaz, 2005). Application of strategy in internationalization is particularly important for firms to exploit new market opportunities in different geographical areas resulting in growth of revenue and profits, creation of a competitive edge and enables companies take advantage of lower operational costs such as low cost of labor and raw materials in the foreign markets (Gavetti & Rivkin, 2005).

1.1.1 The Concept of Strategy

The concept of strategy involves deciding the 'where' a company wants to go and 'how' to get there (Fitzroy & Hulbert, 2005). This definition looks at a strategy both as an end and means. In other words, the strategy involves outlining what an organization wants to do to achieve its objects and what a company intends to do to get there (Charles, Ojera, & David, 2015). Additionally, a strategy can be taken to define the long-term goals that a company intends to achieve and how the goals will be achieved. Overall, a strategy is used as an action plan of how a company intends to deliver the required results. Second, the concept of strategy is defined in terms of strategic fit. In this respect, Mutemi, Maina, and Wanyoike (2014) define a strategy as a process involving the matching of competencies and capabilities of an organization and the opportunities available in a market to achieve a competitive advantage. From both dimensions of the definition, both agree that a strategy is an action plan of how a company intends to achieve its goals.

Having a precise and focused strategy is critical for business. First, having a good business strategy is important since it ensures that the resources owned by a company are efficiently used (Hax and Majluf, 1996). Example of these resources includes human resource, customer base, reputation, logistics and manufacturing processes as well as patents. Second, an effective strategy is important as it ensures customer attraction and retention, which is critical for business success (Van den Bosch & De Man, 2013). For instance, in order for a company to win customers and build loyalty, it must adopt an effective strategy that include the right product, price, distribution and promotional strategies; otherwise it will lose out to rivals in the industry. Additionally, strategy helps a business explore business opportunities in the best way that results in success (Charles, Ojera & David, 2015). For instance, by adopting an effective strategy, a company can expand business operations to a foreign market and succeed without much difficulty.

The concept of strategy was originally used as military terms in which the Oxford English Dictionary defined the term as an act of guiding a battalion of military movements and campaign operations. However, in the business field, the concept of the strategy was introduced by the father of management Peter Drucker in 1955 in his book, *The Practice of Management*, where he defined a strategy as "‘all decisions on business objectives and on the means to reach them" (Drucker, 2007).

1.1.2 The Concept of Internationalization

Internationalization has become an important business strategy for organizations today. Marinov and Marinova (2011) define the term as the process of seeking market opportunities in a foreign market through business expansion. In other words, the concept of internationalization involves setting business presence in more than one country.

Kaynak (2014) notes that internationalization has become a common strategy pursued by most firms over the last few decades because of the globalization of the world markets that has opened up business opportunities for large firms to exploit different parts of the world.

Firms, however, internationalize their operations for a variety of reasons that differ from one firm to the next. Some firms internationalize their operations to exploit the cost advantage in foreign countries (Buckley & Casson, 1998). In this respect, it has been observed that many big companies have been moving their manufacturing facilities to low cost countries, such as Taiwan, China, and Bangladesh to take advantage of the low cost of labor and raw materials. Others internationalize their operations to exploit the consumer market and resources in the international markets (Meyer & Tran, 2006). Additionally, some large firms internationalize operations to minimize the stiff competition they face from the domestic markets.

There are numerous challenges associated with internationalization, and the perception of such challenges differs in intensity relying on the individual firm's level of internationalization (Katsikeas & Morgan, 1994). The main challenge of internationalization is related lack of financial muscle, scarcity of resources, and inability to access credit and capital as sited by Coviello and McAuley (1999). Other challenges include competition, technology advancement, limited resources, limited management time, distribution, pricing, promotion activities, logistics, and communication failures (Katsikeas & Morgan, 1994; Coviello & McAuley, 1999).

1.1.3 The concept of Fast Moving Consumer Goods (FMCG)

Fast Moving Consumer Goods (FMCG) are the products that sell very fast without incurring a high cost (Wasamba, 2008). FMCG is also defined as the essential or non-essential goods that are purchased frequently (Mandrinos, 2014). Çelen, Erdogan, and Taymaz (2005), however, define FMCG as small-scale consumer goods that are bought at the grocery stores, producer stands, or supermarkets. A critical feature of FMCG is that as much as the profits generated from the sale of FMCG products are minimal, the fact that the products sell in large quantities results in high profits generated cumulatively on those products. There is a wide range of products that are classified as FMCGs, which include soaps, shaving products, toiletries, detergents, soft drinks, processed foods, consumables, glassware, batteries, cosmetics, and plastic goods among others (Wasonga, 2012).

The shelf life of FMCG products is very short. There short shelf life is partly attributed to the fact that FMCG experiences high demand from consumers and also because most of these products are perishable and get bad rapidly. For instance, FMCGs such as fruits, meat, baked goods, and vegetables are highly perishable. From the marketers' point of view, other than FMCG products experiencing a high sales volume, and short shelf life, FMCG also has extensive distribution network (Nyaga, 2014). The distribution chain for FMCG is the interdependent collection of processes and related resources. They include manufacturers, warehouses, suppliers, logistics service providers, wholesalers and distributors and all the other parties within the supply chain network.

1.1.4 FMCG manufacturing companies in Kenya

The Kenya's FMCG has been experiencing faster growth in the last few decades. The growth of the industry has resulted in many companies, both local and foreign entering the industry to take a share of the market (Wasamba, 2008). Currently, there are many FMCG manufacturing companies in Kenya. The companies include Interconsumer Limited, Bidco Oil Refineries, Kapa Oil, Finlay, ARM, Kenya Seek Company, Kenya Nut Company, House of Dawda Group, Maisha Flour Mills, Melvin Marsh International, Nestle Foods Kenya, Eveready East Africa, Premier Food Industries, Proctor & Allan (E.A), Coca-Cola, PepsiCo, Ramzco, and HACO Industries (K) among many others (Njambi and Katuse, 2013). These among other companies manufacture a variety of FMCG that is sold both locally and internationally.

Currently, Bidco is the largest FMCG in Kenya commanding about 24% of Kenya's oil and fat products (Euromonitor, 2015). In this segment of the FMCG, they are followed by Kapa Oil Refineries that controls about 12% of the market share while Unilever Kenya comes third with 9% with the ranking done according to production capacity (Euromonitor, 2015). Like in other countries, some of the former Kenyan FMCG giants are facing hard times due to increased competition and technological advancements that have rendered some of the products obsolete (Wasonga, 2012). For instance, Eveready East Africa, which was once a leader in FMCG in Kenya, is on the brink of death as most of its main product lines, such as batteries have experienced a decline in demand. Despite the problems facing some of the industry players, Kenya's FMCM market is projected to grow and will continue to attract both domestic and foreign investors (Lee, 2009).

1.2 Research problem

Strategy plays a critical role in modern business as it highlights the objectives of the business and the steps to be taken to achieve the set objectives (Gavetti & Rivkin, 2005). Strategy also enables a business attract and retain customers, ensures efficient utilization of resources as well as promoting business growth and expansion (Cole, 2003).

For a firm to successfully internationalize its operations the right strategies have to be applied to ensure that the right market is chosen to suit the business objectives of a firm. In this respect, before deciding to enter a particular market, a company must come up with a strategic plan for that market. Strategy also plays an important role in internationalization as it ensures that business risks in the international markets are identified and minimized (Gavetti & Rivkin, 2005). Additionally, strategy plays a role in internationalization of a firm as it ensures that the right market entry strategy is chosen (Hax & Majluf, 1996). The strategy used to enter a given market, such as exporting, strategic alliance, licensing, franchising or FDI has an impact on the success of a business in a foreign market.

In Kenya, firms operating in the FMCG industry have been driven to internationalize their operations by a number of factors. First, growing competition in the local markets has been a major driving factor for internationalization of FMCG companies. FMCG companies have to internationalize their operations to remain competitive (Njambi & Katuse, 2013). The increased economic integration among nations that has resulted in the elimination of trade barriers and tariffs has made it easy and cheap for FMCG firms to operate internationally, thus prompting largest FMCG to internationalize their operations. Additionally, the proliferation of the internet has resulted in the growth of e-commerce businesses that allows FMCG to conduct businesses online (Johnson, Scholes, &

Whittington, 2005). This trend has also played a key role in driving FMCG firms to internationalize operations. Moreover, the change in consumer patterns has also been identified as a key driver for internationalization of operations for most FMCG companies.

Studies show that most literatures have focused mainly on the motives and factors that drive FMCG to internationalize their operations while giving little attention to the role that strategy plays in enabling organizations realize the full benefits of internationalization. Wasamba (2008) study focused on the strategies that manufacturers of FMCGs use to motivate channel members in Kenyan supermarkets. Njambi and Katuse (2013) study focused on how third party logistics influence efficiency in the competitive advantage of FMCGs in Kenya. Arasa and Gideon (2015) and Nyaga (2014) study looked at the impact of foreign market entry strategies on the bottom line of the multinational manufacturing companies in Kenya. Lee (2009) examined the importance of marketing on the success of FMCGs in Kenya. Musuva et al. (2013) studied the impact of the capabilities on performance and internationalization of business operations of Kenya’s publicly quoted firms.

Internationally, a study by Mandrinos (2014) and Meyer and Tran (2006) focused on the country specific factors that affects internationalization process of FMCGs but failed to discuss the importance that strategy plays in the internationalization process. The same applies to Çelen, Erdogan and Taymaz (2005) study that that focused much on the policies and competitive conditions for FMCGs but failed to recognize or highlight the value of strategy for FMCGs’ internationalization process. Oraman, Azabagaoglu and Inan (2011) looked at how global expansion is critical for the survival and competition of a FMCG. Mandrinos (2014), however, studied the internationalization process of FMCG with no focus on the value of strategy. Nagarajan and Sheriff (2013) delved on the challenges facing FMCGs in India but failed to offers strategic solutions to the challenges. As such, it becomes increasingly necessary to explore the importance of strategy in internationalization process of FMCGs to bridge this gap. In view of this, the research shall attempt to answer the following research question: What are some of the strategies adopted by FMCG manufacturers in Kenya in their internationalization process?

1.3 Objectives of the study

The study was guided by the following research objectives:

i. To establish the strategies adopted for internationalization of FMCG manufacturing firms in Kenya.

ii. Identify the challenges encountered in the internationalizing of large FMCG manufacturing firms in Kenya.

1.4 Value of the study

The study is significant to the practitioners as it seeks to explain the strategies that multinational FMCG firms use to enter emerging markets and the challenges that they face in the process so that improvements can be made to ensure success. For instance, most multinational FMCGs companies face a huge challenge when it comes to choosing the appropriate market entry mode into the emerging markets like Kenya. As such, this study is significant to the practitioners as it will highlight the factors that affect the choice of market entry and the right strategies to use to overcome the barriers.

To the government and policy makers, the study will be of value as it would highlight the laws and policy issues that need to be addressed to make it easy for multinational FMCG firms to invest in Kenya. For instance, the government of Kenya can consider providing tax holidays and subsidies for foreign investors in the FMCGs. Similarly, the Kenyan government can use this study to remove the tariffs that appear to create entry barriers to foreign firms to invest in the country's FMCG industry.

This study will be significant to researchers, especially market researchers since it helps the researchers understand the nature of internationalization of FMCGs, challenges and the strategies that needs to be adopted to ensure successful internationalization of FMCG processes. For instance, cultural challenges are some of the hurdles that foreign companies investing in Kenyan FMCG industry face. Therefore, using this study, market researchers will be able to understand the cultural issues that they need to address and the most appropriate market entry method to adopt to succeed in this East African country. Additionally, the study will help market researchers understand the types of FMCGs that perform well in the Kenyan market and those that needs to be avoided by foreign firms.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section reviews existing theoretical literature on the strategies adopted for internationalization and the challenges that firms face during the internationalization process. The study goes further to highlight and explains some of the strategies that companies adopt for internationalization and the challenges that they encounter during internationalization.

2.2 Theoretical Framework

The study was guided by three theories of strategy and internationalization as highlighted below:

2.2.1 Industry and environment based theory of strategy

Industry and environmental based theories of strategies argue that profits can only be earned by selecting the most attractive industry and competing better than other players in that industry Lynch (2006). With regard to industry-based view, Porter (1980) highlighted that the firm's performance and strategy are determined by the conditions in the industry (Wang, Boateng, & Hong, 2011). Therefore, the industry structure attributes in terms of entry barriers, products homogeneity, and competitive rivalry shape the firm's ability to achieve competitive advantage at a global level. Industry-based view holds that the firm's internationalization decisions rely on the level of competition and rivalry of a certain industry wherein it operates.

On the other hand, institution-based view argue that the firm's strategic choice is constrained or enabled by numerous institutional forces, which includes elements hindering and also promoting the upgrading of current capabilities and resources (Wang, Boateng, & Hong, 2011).

From a different perspective, Mintzberg and others have criticized the industry based approach arguing that it is not the way to develop strategy in practice. Mintzberg argues that maximizing performance through a single strategic plan is a fallacy Lynch (2006)

2.2.2 Resource based theory of strategy

Another theoretical framework that focuses on internationalization of business organizations is the resource-based view, which place emphasis on the firm-specific and heterogeneous characteristics. Resource based theories concentrate on the key resources and capabilities of the organization as the most important source of successful strategies Lynch (2006). In the 1960's, Draker argued that it is important to build on strengths and look for opportunities rather than for problems.

It views internationalization as a way used by firms to transfer valuable resources in the foreign markets such as management know-how and technological capabilities. The resource-based view suggests that retransferring such resources overseas can enable the firms to reduce risks and costs experienced abroad because of foreignness liability and high managerial complexity (Furrer, Krug, Sudharshan, & Thomas, 2004).

The resource based theories have however been criticized that although they are good at analyzing already achieved competitive advantage, they provide less insights on pathways of developing competitive advantage and responding to dynamic competitive environments Lynch (2006)

2.2.3 Theory of Mercantilism

The theory was applied mostly by the major European powers between 1500-1800.The theory holds that a country's wealth is measured by its holdings of 'treasure'. It holds that countries should export more than they import and hence receive wealth from countries that have a deficit. This theory forms the basis for internationalization whereby firms aim to expand their operations beyond their geographical operation. Government policies in the 1800's were established to restrict imports and subsidize production cost to make goods prices attractive for the export market Lynch (2006).

However, after 1800, the mercantilist philosophy weakened when the governments of colonial powers often directly intended to limit the development of industrial capabilities within their colonies. Their home based companies had technological, raw material and capital ownership that made them continue to thrive.

In 1776 however, Adam Smith questioned the Mercantilist theory and argued that the real wealth of a country consists of the goods and services available to its nationals and rather than its holding of wealth. Smith reasoned that there was no need for a country to buy more expensive locally produced goods when they can buy them cheaply from abroad Lynch (2006)

2.3 Strategy and internationalization

The FMCG manufacturing firms need a focused and clear strategy in order to succeed in a foreign market, and those without a well-defined strategy are inclined to fail. Strategies for internationalisation are important because they offer the firm action plans and direction, which are established in a concise, clear, and strategically sound way.

Strategies focus on establishing priorities, making choices, distributing resources to strategic programs as well as coordinating with the objective of realising the desired results (Rogers, Finley, & Galloway, 2001). Furthermore, strategies are important in internationalizing because they clearly define the line of timelines and accountability and improves the alignment of every activity in the organisation and promotes commitment at all levels.

Having a good business strategy according to Ross (1997) can enable the firms to explore the existing opportunities beyond their standard business practice and could help inspire their expansion to foreign markets. Clearly, business expansion is a crucial way utilised by companies to maintain their competitive edge. In the modern-day competitive and global market, firms have been forced to strategically think how to profile and position themselves with the aim of responding to externally-driven change; therefore, internationalization has become the key response.

Strategies for internationalization should be in line with the organizational values, vision, and mission (Shen, Chanda, D'Netto, & Mong, 2009)**.** Currently, there are different foreign market entry strategies, which according to Twarowska and Kąkol (2013) differ in the level of risk they present, the commitment and control of resources they need as well as the potential return on investment (ROI). The most common internationalization strategies include exporting, licensing, franchising, joint ventures, strategic alliances, and foreign direct investments.

2.4 Strategies adopted for internationalization

There are a variety of strategies that companies use to internationalize their operations and these strategies vary from one firm to another and by markets. The most common internationalization strategies include exporting, franchising, licensing, strategic alliances, and foreign direct investment (Buckley & Casson, 1998). Kaynak (2014). The strategies are highlighted below:

2.4.1 Exporting

Exporting according to Arasa and Gideon (2015) is a well-established technique that can be utilised to enter a foreign market. In this entry strategy, the firm makes no investment in the foreign country since no goods are produced in the targeted market. Basically, exporting is considered suitable, especially in countries with low trade barrier (Arasa & Gideon, 2015). Exporting can be categorised into direct export and indirect export. Firms employing direct export normally utilize overseas subsidiary, distributor, or agent or serve through the government agency. Firms often use local distributors or agents because of their knowledge with regard to the domestic market and also they speak the same language and understand the customers and local market. On the other hand, indirect export is made through export management companies, trading companies, as well as counter-trade.

According to Arasa and Gideon (2015), indirect exporting is beneficial because the exporter relies on the knowledge of the export management companies and/or trading companies. Exporting is considered to be simple and the associated risks and investment costs are exceedingly low. It is an important strategy because firms can use it as the first method to enter a foreign so as to gain knowledge of the market. Furthermore, exporting increases the use of local plant; thus, decreasing the unit costs (Twarowska & Kąkol, 2013).

Firms can also use exporting to diversify their markets and reduce the risks associated with domestic demand instability. Some of the disadvantages associated with exporting include trade barriers, high costs of transporting the products, and tariffs (Arasa & Gideon, 2015).

2.4.2 Franchising

Franchising according to Twarowska and Kąkol (2013) is an entry strategy that is utilised as a rapid technique for internationalization, especially by consumer service businesses as well as fast food chains. A franchise can be described as an existing business relationship where the right to distribute the firm's products are granted to the franchisee by the franchisor using the latter's system and brand for a certain fee. In this case, franchising allows the firm to rapidly expand into another market by utilising the franchisor's intellectual property as well as the network's enthusiasm and capital of the owner-operators (Arasa & Gideon, 2015).

Franchised businesses have some common features such as programs for group advertisements, support and training offered by the franchisor, and franchisor's help with site selection, equipment specification as well as premises signage. Franchising is considered beneficial because it enables the firms to adapt their offering in order to suit the tastes of the target market (Twarowska & Kąkol, 2013). However, franchising provides the difficulty to adapt the franchised brand or asset to the tastes of the local market.

2.4.3 Licensing

Licensing is used as a strategy to enter the foreign market owing to its limited risk level. In this case the licensor offers the licensee trademark rights, products' know-how, patent rights, or copyrights and the licensee will in return provide and market the licensor's products in the assigned territory. The licensee will also pay royalties, normally associated with the products'' sales volume (Twarowska & Kąkol, 2013). Licensing provides the firm with numerous advantages, like rapidly entering the international markets and capital requirements are not required in order to start the manufacturing operations overseas.

As compared to manufacturing ventures, Arasa and Gideon (2015) posit that licensing enables firms to get returns more quickly and it is not affected by tariffs and regulation barriers. Still, licensing has some disadvantages; for instance, the control over assets utilization could be lost over marketing as well as manufacturing (Arasa & Gideon, 2015). Besides that, the licensee must get permission from the international vendor for specification and design of the products.

2.4.4 Strategic Alliances

A strategic alliance according to Grant and Baden-Fuller (2004) is a cooperative agreement between different firms, like minority equity participation, joint ventures, or shared research. Basically, strategic alliances are normally between companies in the high-industrialized countries with the objective of creating new technologies and products instead of selling the existing ones. Most of the strategic alliances happen with the objective of technology exchange considering that it is not easy for a firm to have the needed capabilities or resources to carry effectively out R&D (Twarowska & Kąkol, 2013). However, strategic alliance can promote competitive collaboration, which can consequently result in risks that could be used by one partner to generate advantage over the other partner.

2.4.5 Foreign Direct Investment

Foreign direct investment (FDI) directly owning facilities in the foreign market, and can be achieved by acquiring an already existing company or creating a new enterprise. As mentioned by Twarowska and Kąkol (2013), direct ownership offers the company a high control level in its business operations and can easily understand the competitive environment, market, as well as consumers in the target country. Still, FDI needs a lot of resources as well as high commitment level.

A firm can make direct investment through direct acquisition or through Greenfield investment. Acquisition is considered suitable because of its quick access as well as lower risk. On the other hand, Greenfield investment involves establishing a wholly owned subsidiary and it is costly, complex, and associated with high risk (Arasa & Gideon, 2015).

2.5 Challenges of Internationalization

There are numerous challenges associated with internationalization, and the perception of such challenges differs in intensity relying on the individual firm's level of internationalization (Katsikeas & Morgan, 1994). The main challenge of internationalization is related to financial barriers given that lack of financial muscle can obstruct a firm from going global. The financial issue as cited by Coviello and McAuley (1999) is associated with cost of running business in foreign markets, availability of resources, and inability to access credit and capital.

Another challenge is attributed to managerial knowledge considering that issues such as lack of experience at global level, managerial attitudes, and partnership difficulties can derail the process of internationalisation (Coviello & McAuley, 1999). Some firms are reluctant to go global because of lack of knowledge regarding foreign international markets. Insufficient knowledge about the foreign market is also another challenge of internationalisation. This is exacerbated by government regulations barriers and cultural differences. Other challenges include competition, technology advancement, limited resources, limited management time, distribution, pricing, promotion activities, logistics, and communication failures (Katsikeas & Morgan, 1994; Coviello & McAuley, 1999).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the method that was adopted to obtain information on the strategies that have been adopted by FMCG manufacturing firms in Kenya in their internationalization process. The chapter is structured into; research design, target population, sampling procedure, and data collection method and data analysis techniques.

3.2 Research design

The research design that was used in this study was the descriptive design so as examine the strategies adopted for internationalization of FMCG manufacturing firms in Kenya. A descriptive research design is concerned with describing the characteristics of a particular group with narration of facts and characteristics regarding the particular study Polkinghorne (2005).The descriptive research design was the most suitable as it will enable gathering of large amounts of qualitative information from many FMCG manufacturing companies in a short duration and also enable contrast and comparison among different firms regarding the strategies adopted for internationalization and the challenges faced in internationalization.

3.3 Population

The study population was multinational FMCG manufacturing companies operating in Kenya. There are eighty-five large FMCG manufacturers registered by the Kenya Association of Manufacturers (KAM, 2015).

3.4 Sampling

The sample size was 30 Kenyan based FMCG manufacturing firms which were selected through systematic random sampling. According to Mugenda and Mugenda (2003) a sample size of 10% of the population is sufficient. This study targeted a sample size of 35% to be able to gather more data. Sampling was suitable as it was difficult to survey the entire population because of insufficient time, financial resources and is also likely to produce more reliable and accurate data.

3.5. Data Collection

Primary data was collected for the purpose of this study. Questionnaires was utilized to collect the data. The questionnaires contained both closed and open-ended multiple questions regarding the strategies adopted for internationalization of large fast moving consumer goods manufacturers in Kenya. The target respondents were the top and middle level managers within the firms. The questionnaires were administered through drop and pick later method and through email.

3.6 Data analysis

Data analysis is the process of obtaining information from the data collected and presenting it. The completed questionnaires were edited for completeness and consistency to endure the data collected is valid and reliable. Factor analysis was used to group similar variables and simplify the data. SPSS which is a software package utilised for analyzing data statistically was used because it is fast in interpreting respondents’ responses, and representing data in a form that can be interpreted easily, and can be used for the calculation of the descriptive measures such as frequencies, mode, mean, median and percentages.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents analysis, findings and discussion of the study on the internationalization of FMCG manufacturing firms in Kenya. The data was summarized and presented in the form of frequencies, mean, standard deviation, charts, graphs and tables.

4.2 Response Rate

The study targeted 30 Kenyan based FMCG manufacturing firms. The target respondents were top and middle level managers within the firms. Out of the 30 targeted firms, 22 responded while 8 did not respond representing a response rate of 73%. The finding are presented in Table 4.1. The response rate was considered excellent for the study in achieving the study objectives. This Mugenda and Mugenda (2003) assertion that a response rate of 50 percent is adequate for analysis and reporting; a rate of 60 percent is good while a response rate of 70 percent and over is excellent.

Table 4. 1: Response Rate

Response Rate	Frequency	Percent
Responded	36	88%
Not Responded	5	12%
Total	**41**	**100%**

Source: Research Findings (2016)

4.3 Descriptive Analysis

4.3.1 Age of the Organization

This section sought to establish the age of the organizations. The findings obtained as illustrated by Table 4.1 indicate that 45% were operation for a period of 6-15 years, 41% for a period of above 26 years, while 14% for a period of 16-25 years. This indicates the organizations had been operational for a considerable length of time thus well conversant current practices and trends.

Table 4. 2 : Age of the Organization

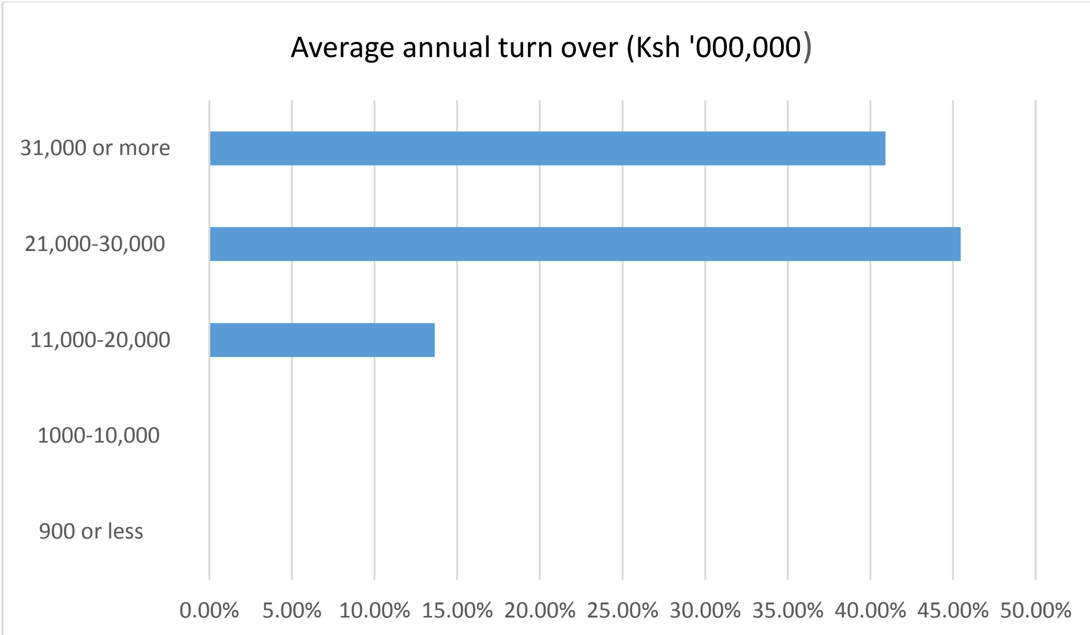
Duration	**Frequency**	**Percent**
6-15years	10	45%
16-25years	3	14%
26years or more	9	41%
Total	**22**	**100%**

Source: Research Findings (2016)

4.3.2 Average annual turnover

This section aimed at establishing the annual turnover of the organizations. This was used as a measure of the performance of the companies. The findings are as shown by Figure 4.1.

Figure 4. 1: Average annual turnover



Source: Research Findings (2016)

As presented by Figure 4.1, 10 of the companies had a turnover of 21, 000-30,000 million, 9 had a turnover of 31,000 million or more while 3 had a turnover of 11,000-20,000 million. Thus implying that no company had an average turnover of below 10,000 (000,000). Hence an overall good performance by the respective companies.

4.3.3 Number of Employees

The study sought to identify the number of employees in the organizations. This was used as a measure of size of the companies. As per Table 4.3 had 1001 or more employees, while had 501-1000 employees. This thus implies that majority of the companies had more than 500 employees, they were thus well conversant of the market environments. Their size also enabled them undertake various practices such as internationalization.

Table 4. 3: Number of Employees

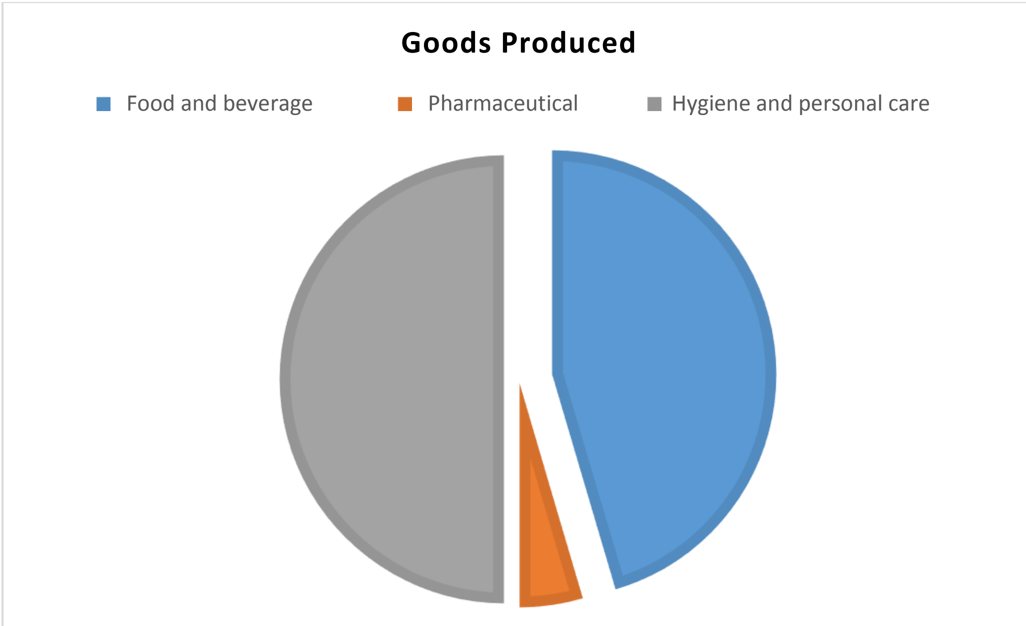
Number of Employees	Frequency	Percent
100 or less	3	14%
101-500	9	41%
501-1000	10	45%
Total	**22**	**100%**

Source: Research Findings (2016)

4.3.4 Nature of goods manufactured

The study sought to establish the nature of goods produced by the companies. As presented by Figure 4.2, 50% of the companies produced Hygiene and personal care products, 45% Produced food and beverage while 5% produced pharmaceutical products. Thus an indication that the pharmaceutical sector had minimal penetration. This may be due to the delicate nature of products produced and procedures involved.

Figure 4. 2: Nature of goods manufactured



Source: Research Findings (2016)

4.3.4 Internationalizing of the operations

This section sought to establish the extent of internalization by the companies. The results revealed that 86% of the companies had undergone the internalization process while the remaining14% were yet to. This shows a very high extent of internalization in the companies. Thus indicating that majority had undertaken internalization and hence able to provide valid and accurate data.

4.4 Factors Contributing to Internationalization

The study sought to establish the various factors that have contributed to internationalization of the companies' operations. The findings revealed that the major internationalization factor was due to the growing customer demands outside Kenya with a frequency percentage of 74%. The other factor established was increased local competition with a percentage of 26%. The increased demand outside the country may be as a result of the production of goods with a more competitive pricing and satisfactory quality as compared to the pre-existing in the international market.

4.4 Strategies Adopted for Internationalization

The study aimed at establishing the exact strategies adopted by companies in undergoing internationalization. The results obtained indicate that 89% had adopted exporting strategy while the remaining 11% had adopted direct investment in the foreign market. This shows the preference of exporting over the other strategies. This may be due to the fact that exporting is considered to be simple and the associated risks and investment costs are exceedingly low. Additionally, it is an important strategy because firms can use it as the first method to enter a foreign so as to gain knowledge of the market. Furthermore, exporting increases the use of local plant; thus, decreasing the unit costs (Twarowska & Kąkol, 2013).

The increase in popularity in direct investments in the foreign markets may be caused by the direct ownership gained, which offers the company a high control level in its business operations and can easily understand the competitive environment, market, as well as consumers in the target country. Still, foreign direct investment needs a lot of resources as well as high commitment level. The findings concur with those of Nyaga (2014) who also established exporting and direct investments to be the main strategies preffered by companies.

4.5 Challenges Encountered in Internationalization

Internationalization in the manufacturing companies is not entirely a smooth process as it is faced by numerous challenges. The study aimed at establishing some of these challenges and findings obtained are as shown by Table 4.4

Table 4. 4: Challenges Encountered in Internationalization

Challenge	Frequency	Percent
Stringent competition	12	55%
Limited financial resources	8	35%
Logistical Constraints	2	10%
Total	**22**	**100%**

As presented, 55% of the companies experienced challenges due to stringent competition and cut-throat pricing, 35% challenges on limited financial resources while the remaining 10% had challenges on logistical constraints. The increased stringent competition may be have resulted from the long procedural requirements required in undertaking the internationalization. The challenges established are in line with Covelo and McCauley (1999) who argue that the main challenge of internationalization is related to financial barriers given that lack of financial muscle can obstruct a firm from going global. Thus, the companies aiming to venture in this market are required to come up with the necessary strategies so as to curb this competition.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter contains summary of the study, conclusion and recommendations and areas for further research. Data analysis and summary and conclusions were made in line with the study objective which was to determine the Strategies adopted for Internationalization of Large Fast Moving Consumer Goods Manufacturers in Kenya.

5.2 Summary of Findings

The study aimed at establishing strategies adopted for internationalization of Large Fast Moving Consumer Goods Manufacturers in Kenya. The target respondents were top and middle level managers within the firms. Out of the 30 targeted firms, 22 responded while 8 did not respond representing a response rate of 73%. The primary data was mainly collected using questionnaires that were administered through drop and pick later method and through email. The analysis was conducted using descriptive measures such as frequencies, and percentages. The results revealed that 86% of the companies had undergone the internalization process while the remaining14% were yet to. This implied an increased adoption of internationalization among the manufacturing companies.

The study sought to determine the various factors leading to internationalization by the companies. The findings revealed that the major internationalization factor was due to the growing customer demands outside Kenya with a frequency percentage of 74%. The other factor established was increased local competition with a percentage of 26%. This thus shows that the local Kenyan market was deemed unfavorable by the manufacturers who opted to go internationally. As such, a number of strategies were established by the study to be used by the Large Fast Moving Consumer Goods Manufacturers in Kenya. The main one being exporting followed by foreign direct investments. These two are mainly chosen due to low risk chances and the benefits attained from them. The study also sought to establish the challenges that face the internationalization process. Stringent competition and cut-throat pricing and limited financial resources were established to be the main challenges undermining internationalization. The study's findings are in line with Arasa, and Gideon, (2015), who hold that though most organizations yearn to go international, very few always succeed due to the stringent competition and various financial constraints.

5.3 Conclusion

The study established that internationalization is not a new concept to the Large Fast Moving Consumer Goods Manufacturers in Kenya. This is attributed to the fact that majority of the companies had already undergone the internationalization process. Exporting was found out to be the most used strategy adopted in internationalization. The study therefore concludes that largest fast moving consumer goods manufacturers in Kenya have been driven to internationalize their operations due to increased demand for their products and also because of increased local competition. The study also concludes that stringent competition and various financial constraints are the major challenges that hinder full internationalization of the companies.

5.4 Recommendations

Based on the study's findings, the study makes a number of recommendations. Firstly, the study establishes that internationalization has been used to improve the performance of most organizations. The study therefore recommends that the government should put in place measures to make the Kenyan market attractive for international investors. This can be done by offering certain incentives like lower levies and taxes for international businesses that establish operations in Kenya. In addition, the government should take measures to simplify the process of business registration and acquisition of trade licenses which in many cases has previously been very complex and time consuming. Moreover, exporting was established to be the main strategy adopted for internationalization. As such, the study recommends that the government and policing agents should offer incentives to local manufactures such as tax reliefs and refunds for goods exported. This will in turn encourage the companies to even export more goods improving their performance and earning foreign currency to the country. Lastly, so as to curb the various challenges faced during internationalization, the study recommends that the organizations should carefully evaluate their internal structures and resources during formulating of the strategies. This will enable choosing the strategy that fits best and that will bring maximum gains.

5.5 Suggestions for Further Research

Though the study answered the various research questions fully, there some areas which still need further studies, so as to enable comprehensive understanding of the phenomena that exists. To begin with, the study only concentrated in FMCGs manufacturers in Kenya. This may not be an actual representation of the other companies in Kenya. A future study should be conducted, comprising of other sectors so as to enable generalization of the results. Also, since the study was mainly centered locally, a future study may be conducted in the international market so as to examine critically the exactly pre-determining factors undermining the internationalization process. This will enable a full conceptualization of the internationalization strategies to be put in place. Additionally, due the current dynamic markets, a study could be conducted in future so as to ascertain whether the strategies that are being used now will still be in use, or other strategies would have emerged.

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APPENDICES

APPENDIX I: LETTER OF INTRODUCTION

University of Nairobi,

P. O. Box 30197 - 00100,

Nairobi, Kenya.

Dear Sir/ Madam,

RE: INTRODUCTION LETTER

I am an MBA student at University of Nairobi doing a survey on THE STRATEGIES ADAPTED FOR INTERNATIONALIZATION OF LARGE FIRST MOVING CONSUMER GOODS MANUFACTURERS IN KENYA. A part of the course work I am required to do a research project on management problem, therefore I would like to use your organization as part of my study. The results of the report will be used solely for academic purposes and a copy of the same will be availed to you if you participate. The information provided will be confidential and will only be used for academic purpose.

Thanks in advance.

Yours faithfully,

MONICAH NJUKA NJENGA

APPENDIX II: QUESTIONNAIRE

PART ONE: ORGANIZATION DEMOGRAPHICS

1. Company name:

   …………………………...…………………………………………………………

2. Age of the Organization(please tick appropriately)

5 years or less [ ]

6-15years [ ]

16-25years [ ]

26years or more [ ]

3. Average annual turnover (000,000):

900 or less [ ]

1000-10,000 [ ]

11,000-20,000 [ ]

21,000-30,000 [ ]

31,000 or more

4. Number of Employees:

100 or less [ ]

101-500 [ ]

501-1000 [ ]

1001 or more [ ]

5. Country of Origin:…………………………………………………………………

6. Please tick appropriately based on the nature of goods manufactured:
   a. Food and beverage [ ]
   b. Pharmaceutical [ ]
   c. Hygiene and personal care [ ]

7. Has your company internationalized its operations?

Yes [ ] No [ ]

<u>PART TWO: FACTORS CONTRIBUTING TO INTERNATIONALIZATION</u>

8. Which of the following factors contributed to internationalization of your company's operations (Please tick appropriately)

a) Increased competition [ ]
b) High operational costs [ ]
c) Removal of trade barriers in foreign countries [ ]
d) Growing customer demand outside of Kenya [ ]
e) Growth of the internet and social media [ ]

Any other…………………………………………………………..…………………

PART THREE: STRATEGIES ADOPTED FOR INTERNATIONALIZATION

9. Which of the following strategies has your company adopted in its internationalization process (please tick appropriately)

a) Exporting [ ]
b) Licencing [ ]
c) Franchising [ ]
d) Strategic alliance [ ]

10. Direct Investment in a foreign market

Any other……………………………………………………………………...……………

PART FOUR: CHALLENGES ENCOUNTERED IN INTERNATIONALIZATION

11.Has your company experienced any of the following challenges in its internationalization process? (Please tick appropriately)

a) Limited financial resources [ ]
b) Lack of proper managerial experience on internationalizing operations [ ]
c) Trade Barriers [ ]
d) Logistical constraints [ ]
e) Stringent competition and cut-throat pricing [ ]
f) Technological constraints [ ]

Any other……………………………………………………………………..…………

THANK YOU!!

APPENDIX III: LETTER FROM THE UNIVERSITY

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 26/09/2016.

TO WHOM IT MAY CONCERN

The bearer of this letter MONICA NJUKA NJENGA

Registration No. D61/74870/2014

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

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

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

Thank you.

UNIVERSITY OF NAIROBI
DEAN'S OFFICE
2 ? OCT 2016
SCHOOL OF BUSINESS
P.O. Box 30197 - 00100, NAIROBI.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS