INTERNATIONAL ENTRY STRATEGIES ADOPTED BY KENYA OIL MARKETING COMPANIES WITHIN THE COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA

BY

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DECLARATION

This project is my original work and has not been submitted for the award of a degree or diploma in this or any other University or College.

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This research project has been submitted for examination with my approval as the University of Nairobi Supervisor

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DEDICATION

I dedicate this project to my lovely wife Joyce, my son Kevin and my daughter Christel for the immense support, understanding and encouragement they accorded me during the entire period.

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First of all I would like to thank the Almighty God for giving me good health of Mind, body and soul to successfully complete this project.

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ABSTRACT

Kenyan oil marketing companies entering the Common Market for Eastern and Southern Africa markets do so in search for new markets for petroleum products. The oil industry in Kenya has witnessed regulatory checks to liberal trade by the Government. The oil industry players' internationalization process across borders could be a consequence of many factors ranging from saturation of domestic market, tight industry regulations and new opportunities arising from regional integration of COMESA member countries. This research project was a study on the entry strategies adopted by Kenyan oil marketing companies in their internationalization initiatives to the COMESA region. The study objectives were to determine the entry strategies adopted by Kenya Oil Marketing companies within COMESA region and secondly to evaluate the effectiveness of entry strategies adopted. The guiding theory framework for the study was based on the Uppsala internationalization theory and dunning's eclectic OLI theory. The study adopted a cross-sectional descriptive survey research design on a census of 13 petroleum companies that have internationalized, drawn from a total population of over 70 oil marketing companies operating in Kenya. A census survey was conducted with questionnaires administered to 65 respondents, data was collected and analyzed by Statistical Package for Social Sciences, SPSS in order to yield measurable parameters such as mean, standard deviation and percentages. The respondents were drawn from senior management who provide strategic decisions on their firm's internationalization process. The study findings revealed export entry strategy was the most adopted followed by mergers with majority acquisition and thirdly acquisition of foreign firms. The least used were licensing and franchising and wholly owned from start Greenfield process. The least expensive and profitable were exports, majority mergers and acquisitions of foreign firms in that order. The study findings therefore showed that there is a significant positive relationship between type of entry strategy adopted and its effectiveness with regard to cost and profitability. The researcher proposes oil marketing firms should be more innovative by using a variety of entry modes and enhance research on foreign markets to effectively penetrate COMESA regional markets. The value of the study will be of benefit to international and domestic oil industry firms, policy makers, the Government regulatory agencies and academic scholarly work.

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LIST OF ACRONYMS

KPC -Kenya Pipeline Company Limited

OMC-Oil marketing company

ERC-Energy regulatory commission

MOE-Ministry of energy

KenGen -Kenya Electricity generating company limited

COMESA- Common market for east and southern Africa

PIEA- Petroleum institute of east Africa

OTS-Open Tender System

MNE- Multinational enterprise

MNC-Multinational Corporation

EMNC-emerging Multinational Corporation

FTA-Free trade area

GNP-Gross national product

NAFTA-North American free trade agreement

CAFTA-DR-Central American free trade agreement

GDP-Gross domestic product

APEC-Asia pacific economic cooperation

ASEAN-Association of south eastern nations

ECOWAS-Economic organization for west Africa states

SADC-Southern Africa development community

EAC-East African community

IGAD-Intergovernmental authority on development.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Organizations are faced with challenges of strategic direction and either have to grasp new opportunities that arise or solve existing challenges to do with market stagnation, competitive pressures or changing legal/regulatory operating environment. Strategy is the direction which an organization takes, through configuration of its factors of production, in order to achieve its long term goals under uncertain environmental conditions with the aim of meeting and exceeding stakeholder expectations. A competitive strategy aims at gaining and maintaining competitive advantage over business rivals. Companies that adopt internationalization strategy are able to maintain their competitive advantage over rivals as they are able to leverage on their core competencies and access to new and wider markets and customers for existing products or services.

Companies intending to increase their competitive advantage under changing environment must scout for opportunities to expand within the domestic market as well as new markets abroad. The pressures to expand to new markets are fueled by increased competition in their home country markets through entry of new players into the market. The need to enter new markets could also be fueled by diminished margins as a result of restrictive government policies and or increased taxation.

Entering new foreign markets may be accomplished through various ways with each entry method having its own significant impact on the company results both in terms of organization and finances, (Belu & Caragin, 2008). The firm should therefore choose the

entry strategy that best suits their need and is within their financial capabilities. Driscoll & Paliwoda (1997) identified three modes through which firms enter foreign markets namely, exporting, and contracting and investment entry modes.

A number of studies have been done on the Kenyan based petroleum sector players' expansion into East Africa. This study will examine the entry strategies employed to the wider COMESA region.

1.1.1 International business as a concept

International business is not a new business practice since it started early with Greeks and Phoenicians merchants selling their goods abroad. International business involves carrying out business activities across national borders. The definition of international business includes foreign manufacturing and trade in the manufactured goods as well as giving services abroad in areas such as communications, transport, wholesaling & retailing, tourism, advertising, mass communication, construction among others (Ball, D. et al, 2010).

Foreign business is also a term used interchangeably with international business which indicates the operations that a firm undertakes outside their domestic market (Ball, D et al, 2010). The difference between firms operating in international market and those operating within the domestic market is that those operating in international markets must deal with several types of unpredictable business environments which include domestic as well as foreign and international environments. Firms whose business is domestic

conduct business within the borders of one country and deals only with the domestic environment.

According to Cavusgil, S.T et al (2008) the phenomenon of globalization of markets has coincided with the growth of international business activity. Globalization of markets leads to increased competition in the international business and therefore business managers always have to take into account effects of a globalized business in their international business decisions. Globalization therefore has led to reduced time and space, allowing many firms both big and small to internationalize. The ease of doing business in the global arena has significantly increased the volume and variety of goods and services traded across borders. Initially, international business was dominated by large multinational companies (MNCs) but the playing field has now been leveled allowing firms of any size to actively participate in international business.

1.1.2 Foreign market entry strategies

There are various forms of foreign market entry strategies firms use after identifying a market. Ball, D. et al (2010) broadly classifies modes of market entry into equity and non-equity. Such forms include exporting, international licensing, specialized contracting, international franchising, foreign direct investment and strategic alliances.

Export business is the sale of goods and services produced in one country across borders to a foreign country. It also involves sending goods and services to another country for use that is without any monetary compensation especially intra-corporate transfers. This mode of doing business offers the exporting firm many advantages, the greatest being

able to control the firms' financial exposure as it deems appropriate (Pustay & Griffin, 2015). Exporting is normally done in three forms namely direct, indirect and intra-corporate transfers. In indirect exporting, the firm does production, then sells to local domestic customers who in turn export these products in their original state or in a modified form, while direct exporting occurs when the firm directly sells to its foreign customers. Firms operating in different countries can transfer goods or services between the different affiliates in the form export referred to as intra-corporate transfers

Licensing refers to a business arrangement where a firm called a licensor gives permission to another company to manufacture its products or permission to use intellectual property which might include technology, patents, brand names, trademarks etc. Licensing is a preferred mode since it involves little out of pocket costs. (Pustay & Griffin, 2015).

International franchising is an arrangement whereby a firm operates a business under the name of another firm at an agreed fee. The firm allowing its name to be used is the franchisor, while the independent firm paying to use another firm's name is the franchisee. The assistance provided by the franchisor to the franchisee is in the form of marketing or merchandising, intellectual property rights such as trademarks or operating systems. Franchisor could also offer support in advertising, training and quality assurance (Pustay & Griffin, 2015).

Specialized contracting refers to an agreement where a company contracts some of its work to another company that specializes in the work or activity in question. The outsourced work or functions are normally non-core to the company. Management contract on the other hand refers to an agreement where a company outsources technical

expertise or management assistance and other specialized services from another company for a time period and pays a pre-agreed fee. In a turnkey project, a purchaser contracts a firm to do designs, construction work as well as equipping the facility and then handing it over when complete and running (Pustay & Griffin, 2015).

Foreign direct investment (FDI) refers to an entry method where firms prefer entering foreign markets through controlling ownership in a business enterprise. Three methods which firms employ to achieve this include Greenfield strategy which involves building new facilities, brownfield strategy which is buying assets in a foreign country, also referred to as the acquisition strategy and joint venture through partnerships (Pustay & Griffin, 2015).

Strategic alliances between firms occur when they are faced with a myriad of challenges and therefore come together to share resources to undertake mutually beneficial projects. Alliances may be non- equity or equity in form. Companies can cross-license their technology to each other in forming research and design partnerships. Alliances may also be joint ventures in manufacturing and marketing (Ball et al 2010).

1.1.3 Regional markets

These are the markets created by various countries within a given region. There are various forms of such markets which include East African Community (EAC), Common Market for East and Southern Africa (COMESA), The Economic Community of West African States (ECOWAS), The Association of Southeast Asian Nations (ASEAN) among others. Apart from regional markets, there are other forms of economic

cooperation by countries around the world. Wild, J.J et al (2010), for example, states that countries within a given geographical area can form a trading block and agree to undertake economic cooperation by eliminating barriers to trade.

A free trade area (FTA) is a formal tariff free trading area. In a free trade area, each member is free to have own trading policies with non-members. A customs union involves a group of nations charging a common external tariff to non- members and usually allow free trade between member states. A common market has a free trade between member states including free movement of capital and services. An economic union has a common tariff to non-members, free trade between member states and economic policy harmonization of fiscal and monetary policy, tax regimes, and employment policies among others. Members of an economic union can use a single currency, a good example being the European Union.

The gains of economic integration include creation of trade where members have a wider catalogue as well as improved availability of goods and services due to the reduction in the cost of trade and efficiency that leads to greater purchasing power. Reduction in the cost of trade ultimately leads to lower cost of goods and services. Political cooperation is improved where countries have strong economic ties which can in turn help resolve conflicts peacefully. Economic integration also creates employment opportunities due to the expanded market, greater investments and greater diffusion of technology.

Drawbacks of economic integration include increase of tariffs to nations not belonging to the established economic blocs. Because of removed tariffs, there is diversion of trade from non-member countries to member countries. With higher levels of integration like

in the European Union, member countries are forced to give up control over key policies in areas like trade as well as their fiscal & monetary policies.

1.1.4 Common Market for Eastern and Southern Africa (COMESA)

This is a free trade area with a total of nineteen countries. These countries are within the East Africa region such as Kenya, Uganda, Ethiopia and Rwanda, Southern Africa region such as Zambia, Malawi and Zimbabwe. It has also brought in other countries outside the two regions such as Libya, Egypt and Sudan from the Northern Africa as well as D.R. Congo from Central Africa region.

COMESA was formed in the year 1994 replacing a Preferential Trade Area (PTA) which had existed in the region since 1981. It was established as an organization of free independent sovereign states which agreed to co-operate in developing their natural and human resources for the good of all their people and as such it has a wide-ranging series of objectives which necessarily include in its priorities the promotion of peace and security in the region.

However, due to COMESA's economic history and background, its main focus is on the formation of a large economic and trading unit that is capable of overcoming some of the barriers that are faced by individual states. COMESA's current strategy can thus be summed up in the phrase 'economic prosperity through regional integration' (COMESA 2018). With its 19 member states, a population of over 389 million, annual import bill of around US$32 billion and an export bill of US$82 billion, COMESA forms a major market place for both internal and external trading.

1.1.5 Oil industry in Kenya

The petroleum marketing in Kenya can be traced back to the year 1903 when imports of Kerosene started coming into the country. Later after introduction of automobiles in the country, importation of gasoline in tins and drums commenced. The first oil depot was established by Royal Dutch Shell at Shimanzi on Mombasa Island, which they named the East African oil refineries. Other companies were later licensed to commence operations in Kenya, mostly American and British multinational oil companies.

There are several players in the Kenyan petroleum industry and these comprise the ministry of energy (MOE) which provides policies to guide the industry and the energy regulatory commission (ERC) which provides stewardship to the industry, including setting of monthly prices, (The Energy Act, 2012). Others are the oil marketing companies (OMCs) that do both wholesale and retailing of oil and oil derivatives, the Kenya pipeline company (KPC) which is fully owned by the government and provides efficient, reliable and cost-effective means of transporting diesel, kerosene and motor gasoline from Mombasa to upcountry through a network of pipelines. Kenya Pipeline Company has fuel depots in Nairobi, Nakuru, Eldoret and Kisumu.

Before liberalization of the oil industry in October of 1994, only a handful of companies operated in Kenya, namely Royal Dutch shell and British petroleum (BP), Caltex, Kenya oil company limited (Kenol), Kobil petroleum ltd (Kobil), Total Kenya Ltd, National oil corporation of Kenya (NOCK) and Exxon Mobil. After liberalization, the government licensed many new oil companies to trade in petroleum products. Currently the number of registered oil companies in Kenya stand at 75, all dealing with import and distribution of

petroleum and petroleum products (PIEA, 2017).The aim of liberalization of the oil industry was to tame rampant increase of petroleum pump prices that was being done by the multinationals. However, this did not have the desired impact on local oil prices. The large numbers of new entrants in the oil industry control only a small share of the petroleum market that is heavily skewed towards only few multinationals. There are five multinationals that control the largest share of petroleum sales in Kenya including Vivo energy trading as Shell, Kenol/Kobil, Total Kenya, Gulf Energy and Libya Oil controlling about 68.3% market share as per the Petroleum Insight quarterly publication (PIEA, 2017) with the other 70 companies controlling the remaining 30%.

The Ministry of energy coordinates the importation of refined petroleum products through the Open Tender System (OTS), where interested fuel marketers bid to import fuel on behalf of the industry. Each marketer is allocated refined product based on calculated off takes from Kenya pipeline company (KPC). The regulator (ERC) then calculates maximum allowed pump price based on a pre-agreed formula that takes into account the OTS price which is the Landed cost, storage and distribution cost, oil marketing companies' margin and government taxes and levies (The Energy Act, 2012). This price-controlled environment has forced many companies to venture into the common market for east and southern Africa (COMESA) in order to maintain or increase their profits.

1.1.6 Oil marketing companies

Multinational oil companies have been operating in Kenya for long. Prior to the market liberalization in 1994 only a handful of companies controlled the petroleum industry. These were Total Kenya Ltd, KenolKobil Ltd, Caltex, Shell, British Petroleum (BP) and ExxonMobil together with the Kenyan government wholly owned National oil Corporation of Kenya (NOCK). After liberalization, many companies were registered to trade in petroleum products in the country. These new entrants in the market were allowed to import products of their own, giving them considerable cost advantage owing to their small size and minimal overhead costs that multinationals were grappling with. Liberalization of the market also allowed these small and medium sized new entrants to build up own stations to market their products. Independent petroleum dealers also established own service stations which are supplied by the new entrants in the market.

Due to a weak regulatory framework in Kenya, some of the small companies and independent dealers do not establish standard service stations but compete with multinationals who have invested heavily in standard service stations, giving the new entrants undue advantage. The Kenyan market is very price sensitive and therefore these stations command a sizeable patronage even with not so good infrastructure. Other independent dealers have been engaging in un ethical behaviors like adulteration of fuel-mixing Kerosene with Diesel or Gasoline and then selling this product cheaply to the ever price sensitive customers. Multinationals therefore realized declining profits from the increased competition, with some closing shop altogether while those that remained had to reinvent their business models to remain competitive.

ExxonMobil left the market and sold its operations in Kenya to Libya Oil (K) Ltd, operating as OiLibya brand, it was followed by Chevron (Formerly Caltex) which was wholly acquired by Total Kenya Ltd in 2008. The Kenya Shell also exited the market after its operations were acquired by Vivo Energy Kenya in 2012. More recently in 2017 Hashi Energy retail business was acquired by Lake Oil.

Some of the Kenyan companies that have internationalized to the COMESA region include KenolKobil Ltd that is present in Kenya, Uganda, Ethiopia, Rwanda, Burundi, Zambia, Mozambique and Democratic republic of Congo (Kenolkobil, 2017). Hass Petroleum is present in Kenya, Uganda, Tanzania, Rwanda, D.R Congo and Southern Sudan (Hass 2017). Hashi Energy (Lake Oil) has operations in Kenya, Uganda, Rwanda, Tanzania, Zambia, South Sudan and D.R Congo (Hashi, 2017).

1.2 Research problem

Oil companies based in Kenya have been on an expansion process to various countries in the COMESA region. The motivation to expand has been influenced by a variety of reasons including depressed profits, stiff competition from new entrants and price controls by the government. The expansion has been characterized by various modes of entry strategy which the study will seek to identify. According to Karkkainen (2005) entry strategy adopted by a firm can affect its performance in the new market. Determining how much to invest and also the level of control in foreign markets can result in the firm either succeeding or failing in its goals. Entry mode is determined by efficiency or profitability. There are several studies that have been done globally and

locally on foreign entry expansion by firms. Liu and Tang (2011) studied a network based theory of foreign entry market mode and post-entry performance where they focused attention on both foreign entry mode by developing a model on foreign entry based on network theory and consequent post entry performance. Sadaghiani et al (2013) studied the impact of international market entry strategy on export performance. The outcome indicated that the mode of entering new markets affected the performance of companies under the study.

In a study of the petroleum industry done by Mwangi (2012) on factors that influence relocation of Multinational Oil companies based in Kenya to other countries found that major reasons that led to the exit was shrinking profit margins. Chege (2012) researched on challenges of strategy implementation for firms in the petroleum industry in Kenya and found that the major challenges were technology, resource allocation, job responsibilities, prioritization, organization structure, values and resistance to change. No study yet has been done on foreign entry strategies adopted by Kenyan oil companies within the COMESA region which will be the concern of this research study.

This then raises the question: what are the entry strategies that have been adopted by Kenya oil marketing companies within the COMESA region?

1.3 Research objectives

The objectives of this study were:-

i) To determine entry strategies adopted by Kenya Oil Marketing firms within the Common Market for East and Southern Africa (COMESA)

ii) To evaluate the effectiveness of entry strategies adopted.

1.4 Value of the study

The results of this study provides useful insights to Oil Marketing companies (OMCs) on the various entry modes to use in expanding to new markets within the Common Market for East and Southern Africa (COMESA), the expected challenges and their mitigation measures.

The study would be of benefit to both international and domestic Oil marketing firms, policy makers, the government and regulatory agencies and for scholarly work with regard to theory relevance and enrichment from study findings. The government/regional governments will have insights on the reasons Kenyan companies are spreading to the wider COMESA region and problems they encounter in their entry modes. This will help them formulate country specific and or regional policies that will improve market access for the benefit of all COMESA citizenry.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter the study reviewed and interrogated the various theories of foreign entry strategy. The chapter reviewed the theoretical grounding of the study. It examined empirical studies done in previous similar studies to uncover knowledge gaps. According to Gall et al (2007) literature review's importance is manifested in research problem delimitation, enhancement of new lines of inquiry, avoiding approaches that are fruitless, acquisition of methodological insights, recommendations for further research and supporting grounded theory.

2.2 Theoretical foundations

Some of the theories relating to this research study include the Uppsala theory and Dunning's eclectic theory that are discussed hereafter.

2.2.1 The Uppsala Theory

According to Johanson and Vahlne (1977), the Uppsala model explained internationalization as a process characterized by a firm's incremental progressive entry into neighboring country markets. The expansion process occurs gradually in subsequent steps, starting from exports into the host new markets and eventually culminating to suitably anchored operations in the host country. Learning experiences gained by

employees of the firm provide a vital propelling ingredient for further expansion. The theory postulates that a firm's expansion is influenced by familiar socio-cultural, geographical and politico-legal systems that are closer to the home country environment with smaller psychic distance and subsequent progression to further away markets not solely geographically but also in the widening difference of the psychic distance from home market. The process occurs in stages that are sequential in nature. (Whitelock, 2002).

In the initial stage, exports occur inconsistently due to irregular demand by foreign customers. The second stage is characterized by regular exports as a result of increased market knowledge gained and closer partnerships with agents in the foreign market. Subsequently in the third stage, the firm's activities gain greater prominence as its expansion in the new country deepens with more establishments of marketing subsidiaries finally in the fourth stage the firm ventures into international production that is wholly owned. According Johanson and Valhne (1977), firms involved in this model prefer a risk averse approach in their internationalization process which assumes a linear path with forward progression dictated by accumulation of international experience. Advantages accruing from gains in experience in foreign markets and internalization of the knowledge gained motivate firms to commit more resources in enhancing greater control of their operations abroad (Loustarinen 1979).

2.2.2 Dunning's Eclectic Theory

Dunning eclectic theory formulated in 1976 by John Dunning explained factors influencing international production and its subsequent growth by firms by combining three theoretical distinct approaches into a single holistic framework of international production (Dunning, 1988). The eclectic theory postulates that firms are motivated to foreign direct investment (FDI) activities if they are endowed with three advantages key to international entry namely, location advantages (L), ownership advantages (O), and internalization advantages (I), hence the term OLI model (Choo & Mazzarol, 2001).

In the Ownership, location and internalization (OLI) model, ownership advantages (O) depict how companies utilize their company-specific resources, with competitive advantages that sustain their monopoly in home markets to leverage the same superior home competitive edge over local competitors in foreign markets. Inherent company-specific ownership advantage alludes to organization's assets that are intangible and tangible in nature which competitors in the foreign market may not possess or endowed with in the same capacity (Ekeledo & Sivakumar, 1998). Utilization of ownership advantages effectively at onset of entry, can enable a firm achieve a superior market position but with a drawback that these assets are not all transferable to foreign markets. The location advantages refer to availability of these resources, their investment costs and entry barriers or risks involved when entering international markets. If the market potential in a country is high and investment risks are low, a firm will have viable foreign business operations.

2.3 Typical strategies of entering new markets

Foreign market entry strategies are categorized in terms of the firm's level of control, risk involvement and resource investment. Entry strategy can be further categorized into two levels of ownership and control namely, non-equity modes and equity modes. Equity modes define the level of shareholding ownership of the firm. These are broadly classified into joint ventures and wholly owned foreign subsidiaries. Licensing and franchising are contract arrangements which avoid ownership commitments and form the Non-equity modes of entry strategy (Wilkinson & Nguyen, 2011). The different types of primary or basic entry modes include direct and indirect exporting, Joint ventures, licensing and direct investment.

The lowest entry barrier mode into any new market is through exporting whereby a firm makes the lowest level of commitment to the foreign market. Exporting can be direct and in-direct. Direct exporting refers to the selling of goods and services outside the home country to the target country and setting up distribution systems without involving intermediaries which is cost intensive. In-direct exporting involves the use of agents in the target country without ownership control of distribution services. This is achieved by use of international agents or distributors, who enable a firm to get cost convenient access to foreign market knowledge that is unique and exclusive (Muchina 2011). According to Bradley (2005) different circumstances influence firms' use of export as an entry strategy. Small companies usually lack enough resources for more cost intensive entry strategies unlike the big companies that are better endowed financially.

In addition, cost intensive investments are risky because potential markets can become politically risky, uncertain or unattractive and there may be no factors bearing pressure to produce abroad.

Licensing and franchising are non-equity contracts entered into by an international company and a firm in the host country in which technology or management systems are transferred to the local firm (Shane 1994). Licensing strategy is used in contract manufacturing and franchising. It is a common method of international entry strategy favored by companies that have distinct valued brands differentiated from competitor brands. The licensor offers technological knowledge designs, patents, trademarks and intellectual property paid back by the licensee in form of royalties or other payments. The advantage of licensing is that it allows the licensor to penetrate a new market with little risk. In addition, the licensee can benefit from production expertise or a well-known product or brand name. Licensing has a disadvantage whereby some control is lost and in some occasions the licensee can give up the venture and profits after being very successful to pursue a different business venture. This is because the licensee is not a representative of the international vendor referred to as the licensor but an independent business.

Firms establish wholly owned subsidiaries in foreign markets in two ways namely, Greenfield investment venture or through acquiring an established host firm which in this case is referred to as an acquisition strategy. Greenfield as its term denotes starts from scratch and is quite costly, requires high capital resource requirements and longtime duration. Firms establish Greenfield ventures because it gives them greater ability to build an organizational culture from scratch (Brouthers & Brouthers, 1993). Another

entry strategy is the brownfield investment strategy which involves an entry process that builds on an already established business concern. This is achieved through acquisition of a local firm by an international firm through majority ownership or joint venture partnership. In contrast to Green field strategy, acquisition strategy hastens a firm's entry process to a foreign market since it involves buying existing facilities and operations. Basche (2006) notes that since the organization buys an existing firm, it can take advantage of the firm's popular brands to enhance competitiveness in the foreign market.

2.4 Oil marketing

As a commodity, oil marketing is very challenging. It involves the targeting of appropriate markets, the swings in international oil prices as well as distribution. The oil industry is classified into three major distinct categories for ease of distinguishing their mandates, and these are namely upstream operations, midstream operations and downstream operations. Upstream operations include the exploration, production and transportation of crude oil and gas to refineries. Trading with oil as a commodity is normally done in its crude form. Midstream operations are subsumed in the downstream category. The downstream operations involve crude oil processing in refineries, distribution and marketing of the refined oil products and other oil derivatives (Raed et al., 2006). Marketing of finished oil products occurs in bulk or in small quantities. Marketing as a downstream activity serves two types of customers, wholesale and retail customers. Wholesale customers include shipping companies, petrochemical facilities, airlines, power plants and heavy industries. Fuel retail services include the network of service stations which are either owned by individuals or the large multinational

companies. The multinational oil companies differentiate their gas stations by offering superior services, high quality convenience stores and or differentiated product offering through addition of high performance additives (Barua 2010).

Petroleum product prices on the world market are affected by a number of factors, namely, market size, mode of product transport in terms of cost per liter of fuel through trucks, pipelines, rail wagons and economies of scale in undertaking marketing. Other factors include liberal pricing versus controlled pricing, government protection favoring domestic suppliers, competition in the market and finally an effective monitoring and enforcement of available legal framework (Kojima, 2010). Governments often introduce price controls to protect the general public against exorbitant prices by retailers and other oil marketers.

In Kenya, petroleum retail prices are controlled through price capping by ERC which is reviewed monthly. The ERC sets maximum retail pump prices for selected products on a monthly basis and become effective and remain in force from the 15th of the calendar month until the 14th of the following calendar month (www.erc.go.ke). A study done by Kojima et al. (2010) found that price controls may vary across different countries. For example, they found that Malawi's system of price controls was through some price stabilization fund while in South Africa and Botswana, oil prices are controlled in such a way that the price changes are automatically based on some pre-agreed and established administrative procedures. Johnson and Johnson (2006) indicate that the oil industry is characterized by unstable prices hence the need for price controls.

2.5 Marketing within regional entities

A regional entity that forms a trading bloc refers to a group of countries within a certain geographic area undergoing economic integration (Wild, J.J et al 2010). Regional trade agreements (RTA) within economic trading blocs have a positive or negative effect on trade depending on their design and implementation. When discussing the regional trading blocs, the main concept is regional trading agreements (RTA). A free trade area (FTA) is a formal tariff free trading area. A customs union (CU) has common external tariffs against non- members and a free trade area that eliminates internal trade barriers to member states. Both Free Trade Area (FTA) and Custom Union (CU) are forms of regional trade agreements.

Assessments of the impacts of RTAs reveal both beneficial and adverse effects to trade creation. Gains from RTAs result in opening up barriers to trade with resources being channeled to their most productive use which in turn leads to lowering the price of goods and services and hence inducing trade creation. There is adverse effects of trade discrimination and trade diversion of goods from inefficient members or even non-members finding their way into the regional bloc. One such adverse occurrence is trade diversion whereby production shifts from non-member countries with efficient systems to member countries with inefficient production systems. This shift might lead to escalation of the cost of goods and services. The beneficial aspect of RTAs is primarily trade creation whereby production shifts from inefficient providers in one RTA member to other efficient members of same regional bloc (Freund & Ornelas, 2009). The incentive for trade diversion arises when governments adjust external tariffs as a protectionist policy in favor of domestic production after joining a regional trading area (RTA). While

high introduction of tariffs aggravates diversion of trade, lowering tariffs reduces its occurrence. An RTA most important ingredient for success is low trade barriers enforced by regional members. (Freund & Ornelas, 2009).

2.6 Determinants of entry strategy

Factors that determine the choice of entry strategy to be adopted when venturing into new markets are grouped into two, namely internal and external factors. According to Priyanka & Ekta, (2014) internal factors are firm specific and include firm size, international markets experience, technological capacity and nature of the product. The size of a firm influences the entry mode in that smaller firms have limited financial and human resources capacity hence vulnerable to higher risk of failure. Bigger firms have more resources and greater economies of scale. Bigger firms can thus use equity mode of entry while smaller firms use non-equity mode of entry to mitigate on chances of failure.

A firm's international markets experience shapes strategic directions, company organizational culture and the knowledge resource. A sense of risk and uncertainties to venture into international markets normally arises when there are insufficient, relevant markets experience and knowledge base vital in global marketing decisions. These restrict freedom of choice in deciding appropriate market servicing modes. Firms' with greater international experience are confident in the management of foreign operations and are better experienced to manage greater resource allocation in new foreign ventures. However, firms with lesser experience anticipate greater uncertainty and are therefore unwilling to commit greater resources in a foreign market (Priyanka & Ekta, 2014).

Unique product characteristics enable the firm to differentiate its product offering from its rivals. Products that are service intensive require closer standards operational control and are not easy to serve across borders from home market. In most cases the firm is forced to start production in the foreign host country in order to be closer to the customers, therefore an equity entry mode is preferable. Non-equity mode can be adopted for products that do not require high technological and marketing knowhow, and can thus be marketed by other firms where only training on product characteristics is required.

External factors are not firms specific and therefore not controllable. These factors include legal barriers, country risk, cultural distance and market size. Legal barriers to entry are mostly imposition of tariffs or limit quotas set by the host country and are meant to spur local production. This leads a firm to go for a joint venture partnership or a fully owned venture. In some countries entry modes involving full foreign ownership of local subsidiaries or international joint ventures can be excluded by law in selected industries of strategic importance to the particular country. (Paliwoda and Thomas, 1998).

Country risk can be considered both in terms of a countries economics and or politics. According to Priyanka & Ekta, (2014), political and economic environments that are unstable in nature increase the risk factors considered in setting of a business in any country and therefore discourage the firm from adopting such modes of entry whose resource commitment is high. Cultural distance also plays a big role when choosing the most effective and efficient method of entering a new market. Greater cultural distance between the home country and host country increases uncertainty and therefore a firm would be forced to use a mode with lower resource commitment when entering the new market.

The size of market and opportunities for future growth determine whether a firm will use equity mode of entry by committing resources to the market if the market size is big with many opportunities or non-equity mode for smaller markets. Substantial gaps will normally arise in product performance and customer expectations between lead markets and other countries. These gaps determine comparisons between the competencies, capabilities and skills of competing companies. This then forms the basis for determining opportunities for growth in that market (Paliwoda and Thomas, 1998). The entry mode of choice is therefore guided by above factors and a firm must therefore consider the entry mode that would give them more advantages and also help maximize their profits.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the data design used, the population of interest, the sample size, the data collection methods and the data analysis techniques used in the study.

3.2 Research design

According to Laurel (2011) and Kothari (2008), a research design configures all aspects of the research process by interlinking them in an orderly structure to provide meaning. It guides the research process on methodology to follow, type of data collection process and type of analysis that is required to unambiguously answer the research question. A cross sectional descriptive survey design was used in the research. A cross sectional study focuses on a particular phenomenon (phenomena) at a particular time. Descriptive research attempts to accurately outline the profile of persons, events or situations as its major objective (Saunders et al 2007).

According to Mugenda and Mugenda (2003) a survey research seeks to obtain information that describes existing phenomena by asking individuals about their attitudes, behavior and values. This type of research design suited this study because it concerned itself with the measurement of the same variables across all respondents in the same industry at a particular point in time. Zikmund (2003) defines survey method as a technique used in collecting data based on information gathered from a sample of

respondents through questionnaires. The use of survey method is considered as the most efficient way of data collection in that measurement of several variables can be done without significantly increasing the cost or time of the research and versatile since the researcher is able to study a variety of topics and acquire a broad understanding of all of them.

3.3 Research population

A research population is a group of individuals or objects taken from the general population but who share or have similar characteristics. According to Cooper and Schindler (2006), a population is the collection of all elements and objects that the researcher would like to make deductions from. The population of interest is the Kenyan oil marketing companies that have ventured into the COMESA region. A census survey was used because oil marketing companies in Kenya that have ventured into COMESA are not a big population as they number only 13 as indicated in Appendix 2. A census study was therefore carried out on the population size of 13 companies. These companies were identified from individual websites, oil industry publications and energy regulatory commission website.

3.4 Data collection

The study used primary data and this was collected through self-administered questionnaires. Structured questionnaire was used that consisted of both open and closed ended questions designed to elicit specific responses for qualitative and quantitative

analysis respectively. A drop and pick approach was preferred to give respondents adequate time to fill the questionnaires to be picked later at agreed convenient times. This was to enhance high response rates. Self-administered questions have the advantage of reducing bias errors arising from interviewer/interviewee interaction, less costly to administer and provide for anonymity with more revealing responses (Nachmias & Nachmias, 1996).

Respondents were the managerial level employees at the respective firms. The targeted respondents included top management namely, Chief Executive Officers, General Managers, Strategy Managers, Marketing managers, Company legal officers, Business Development Managers and Finance Managers. Senior managers were preferred as respondents because they are involved in key strategic decision making in their organizations and foreign entry decisions are strategic high-risk decisions. According to Meyer and Estrin (2001) choosing an entry mode is a critical strategic decision for a firm's international business. Board of directors and top management must be risk averse since they bear the greatest responsibility for any decisions made.

3.5 Data analysis

Descriptive statistics were used to analyze the data collected using measures of central tendency and tables. According to Zikmund (2003) descriptive analysis transform raw data into a form that makes it easy to understand and interpret and to draw conclusions out of it. Descriptive statistics include percentages, frequency distribution tables, mean and standard deviation termed as quantitative analysis. Both quantitative and qualitative data were analyzed. Qualitative analysis was employed to identify specific qualitative

attributes and trends by data coding to describe patterns and give meaning to experiences. The use of likert scale items in the internationalization challenges in the questionnaire was to ensure that qualitative data was analyzed as quantitative data. This allowed the qualitative data to be analyzed using the Statistical Package for Social Sciences (SPSS) in order to yield measurable parameters such as mean, standard deviation and percentages.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings of the study whose main objective was to determine the international entry strategies adopted by Kenya oil marketing companies within the common market for Eastern and Southern Africa.

4.2 Response rate

The researcher distributed questionnaires to 65 respondents comprising top management including general managers, strategy managers, operations managers, export managers and business development managers of oil marketing firms. 57 questionnaires were returned. This accounted for a response rate of 87.69%, which is above the 70% threshold recommended by Mugenda and Mugenda (2010) for a good response.

4.3 Organizational characteristics of oil marketing firms

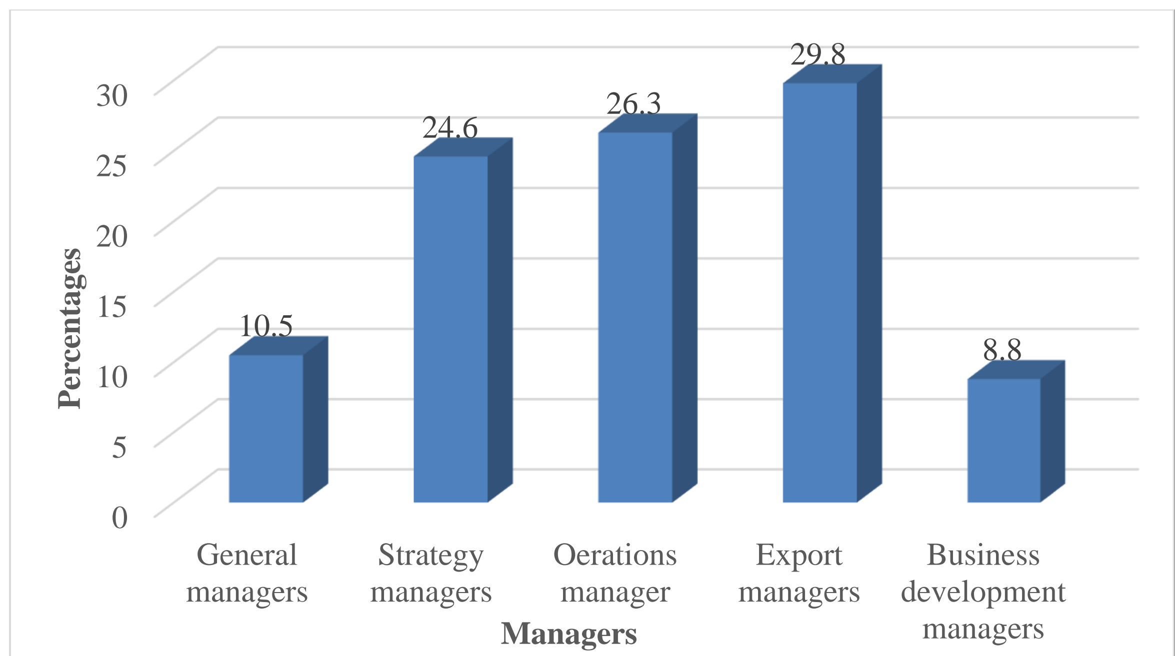
The researcher collected information on the oil marketing companies participating in the study. This included information on the respondents position in the company, period worked, whether the respondents had worked outside Kenya, foreign entry strategies adopted by the company, market share of the company in the industry, annual revenue obtained by the company from outside Kenya, the composition of top level management,

the number of countries where the company was present, the entry strategy mode , the least expensive and most profitable entry modes into the market and the internationalization process challenges. These findings are presented in this section.

4.3. 1 Respondent's position at the firm

Findings in figure 4.1 indicate that 10.5% of the respondents were general managers, 24.6 % were strategy managers, 26.3% were operation managers, 29.8 % of the respondents were export managers and 8.8% were business development managers. The findings show that the majority of the respondents were export managers who were knowledgeable on the entry strategies adopted by the oil marketing companies.

***Figure 4.1*: Respondent's position at the firm**



Source: Research data

4.3.2 Period worked

Findings in table 4.1 indicate that 35.1% of the respondents had worked 10 years and above, 43.9 % had worked between 5 years to less than 10 years while 21.1% of the respondents had worked for less than 5 years. The findings show that most of the respondents had worked between 5 years and 10 years in the company, hence the respondents were in a position to give resourceful information on the entry strategies adopted by their companies.

Table 4.1: Period worked

	Frequency	Percent
10 years and above	20	35.1
5 years to less than 10 years	25	43.9
Less than 5 years	12	21.1
Total	57	100

Source: Research data

Work outside Kenya

Findings in table 4.2 indicate that 36.8% of the respondents had worked outside Kenya while 63.2% of the respondents had not worked outside Kenya. The findings show that most of the respondents majorly worked in Kenya and they had not worked in other countries.

Table 4.2: Work outside Kenya

	Frequency	Percent
Yes	21	36.8
No	36	63.2
Total	57	100

Source: Research data

4.3.3 Foreign entry strategy planning

Findings in table 4.3 indicate that 71.9% of the oil firms had adopted foreign entry strategy planning while 28.1 % of the firms had not adopted foreign entry strategy planning. The results from the findings indicate that most of the firms (71.9%) had adopted foreign entry strategy in their company.

Table 4.3: Foreign entry strategy planning

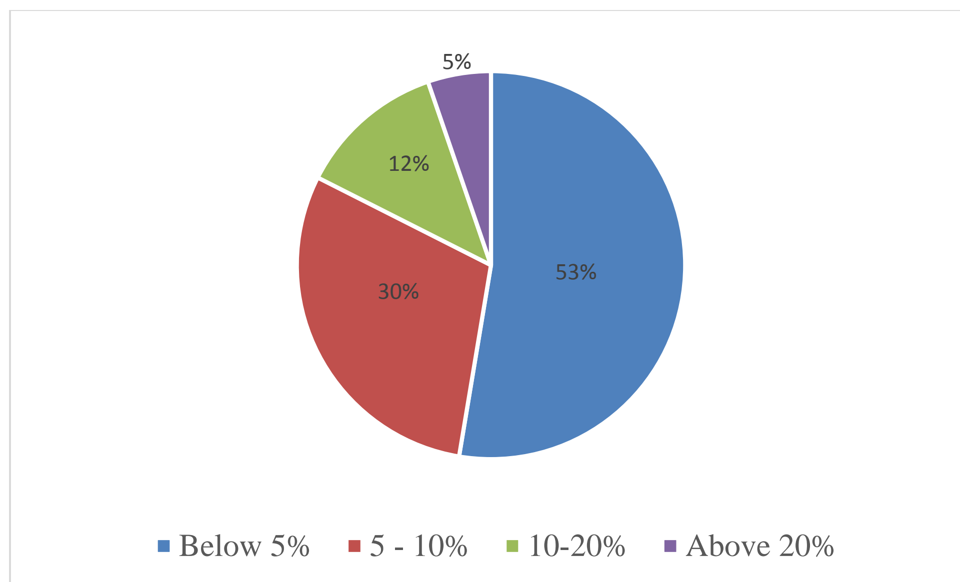
	Frequency	Percent
Yes	41	71.9
No	16	28.1
Total	57	100

Source: Research data

4.3.4 Market share in the industry

Findings in figure 4.2 indicate that 52.63 % of the firms had a market share of below 5%, 29.82% of the firms had a market share of between 5-10%, 12.28% 0f the firms had a market share of between 10-20% and 5.26 % of the firms had a market share of above 20%. The findings indicate that majority of the companies surveyed had a market share of below 5% in the industry. With a regulated market in Kenya where prices are set by the government, this data shows most companies with small market share internationalize to shore up their revenues.

***Figure 4.2*: Market share in the industry**



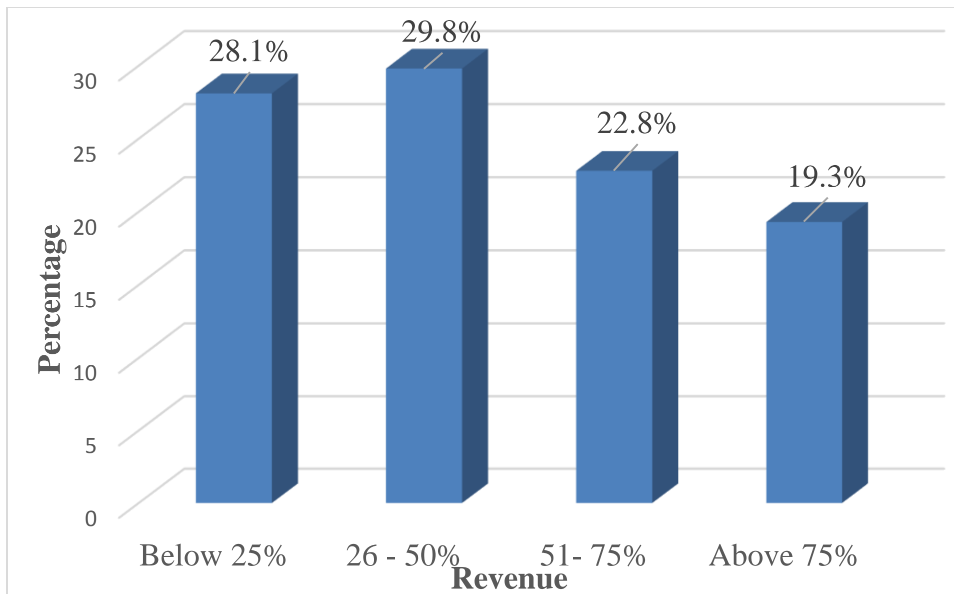
Source: Research data.

4.3.5 Annual revenue from outside Kenya

Findings in figure 4.3 indicate that 28.1% of the firms had an annual revenue from outside Kenya of below 25%, 29.8% of the firms had revenues outside Kenya of between

26-50%, 22.8% of the firms had had revenue between 51-75% and 19.3% of the firms had revenue above 75%. The findings indicate that most of the oil marketing companies were earning annual revenue between 26-50% from outside Kenya.

***Figure 4.3*: Annual revenue from outside Kenya**



Source: Research data

4.3.6 Top level management positions

Findings in table 4.4 indicate that majority of the firms' 84.2 % agreed that they recruit host country nationals in top level management positions while 15.8% of the firms do not recruit host country nationals in top level management positions.

Table 4.4: Top level management positions

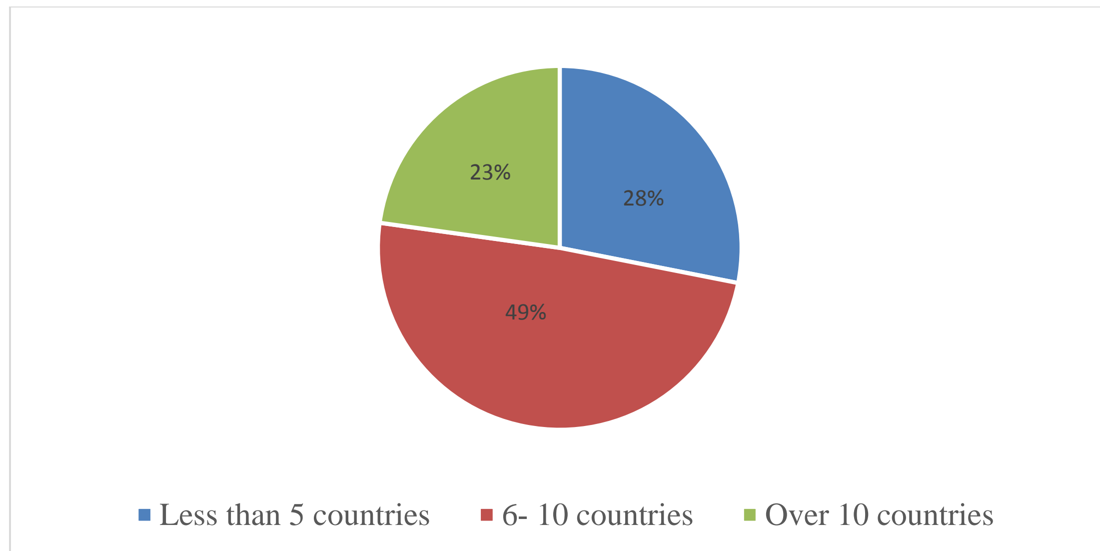
	Frequency	Percent
Yes	48	84.2
No	9	15.8
Total	57	100

Source: Research data

4.3.7 Countries the firm operate

Findings in figure 4.4 indicate that majority of the firms' 49.1% operate in 6- 10 countries, 28.1% of the firms operate in less than 5 countries while 22.8% of the firms operate in over 10 countries. The findings show that the majority of the participating oil firms were spread in many countries.

***Figure 4.4*: Countries the firm operate**



Source: Research data

4.3.8 Initial foreign entry strategy mode first adopted

The findings in table 4.5 indicated that 35.09 % of the firms had first adopted exporting strategy, 5.26% of the firms first adopted licensing and franchising strategy, 3.51% of the firms had adopted wholly owned from start strategy, 8.77% adopted joint venture with local partner strategy, 7.02 % adopted merger with minority acquisition, 19.54 % of the firms adopted merger with majority acquisition, 10.53 % of the firms adopted acquisition of foreign firms while 10.28% of the firms adopted firm Strategic alliance/ partnership strategy. The findings indicate that most of the oil marketing companies first adopted exporting as their initial foreign entry strategy mode.

Table 4.5: Entry strategy mode

	Frequency	**Percent**
Exporting	20	35.09
Licensing and franchising	3	5.26
Wholly owned from start	2	3.51
Joint Venture with local partner	5	8.77
Merger with minority acquisition	4	7.02
Merger with majority acquisition	12	19.54
Acquisition of foreign firm	6	10.53
Strategic alliance/ partnership	5	10.28
Total	**57**	**100**

Source: Research data

4.3.8 Least expensive and most profitable entry mode

The findings indicated that 33.33 % of the firms had adopted exporting entry strategy, 1.75% of the firms had adopted licensing and franchising entry strategy, 3.51% of the firms had adopted wholly owned from start entry strategy, 8.77% had adopted joint venture with local partner entry strategy, 7.02 % had adopted merger with minority acquisition entry strategy, 17.54 % of the firms had adopted merger with majority acquisition ,15.79% of the firms had adopted acquisition of the foreign firm strategy while 12.28 % of the firms had adopted firm Strategic alliance/ partnership entry strategy. The findings indicate that most of the companies considered exporting to be least expensive and most profitable entry mode.

Table 4.6: Least expensive and most profitable entry mode

	Frequency	Percent
Exporting	19	33.33
Licensing and franchising	1	1.75
Wholly owned from start	2	3.51
Joint venture with local partner	5	8.77
merger with minority acquisition	4	7.02
Merger with majority acquisition	10	17.54
Acquisition of foreign firm	9	15.79
Strategic alliance/ Partnership	7	12.28
Total	**57**	**100**

Source: Research data

4.3.9 Internationalization process challenges

Findings in table 4.7 shows that 89.70% of the respondents indicated that there was host country regulatory policy challenge. Similarly, 69.40% indicated that there was firms' financial capacity and assets base. A significant number 89.80% of the participants indicated that there was geographical distance challenge. 91.8% of the respondents agreed that there were challenges with competitor strategies in the market and 89.8% of the respondents agreed to the statement that Country GDP/purchasing power posed internationalization process challenges. Majority of the respondents 73.5% agreed to the statement that host country banking interest rate posed internationalization process challenges of the oil marketing companies. The study therefore finds that majority of oil marketing companies were experiencing internationalization process challenges.

The main internationalization process challenges the companies face include host country regulatory policy, firms financial capacity and assets base, geographical distance, competitor strategies ,country GDP /purchasing power , host country banking interest rate, host country man power skill levels, host country political factors, host country currency fluctuation, host country management and work ethic culture and culture and language barrier. The findings are therefore in agreement with Priyanka & Ekta, (2014), that political and economic environments that are unstable in nature increase the risk factors considered in setting of a business in any country and therefore discourage the firm from adopting such modes of entry whose resource commitment is high.

Table 4.7: Internationalization process challenges

Challenge	Mean	Standard Deviation
Host country regulatory policy	3.37	0.98
Firms financial capacity and assets base	3.87	1.44
Geographical distance	3.59	0.99
Competitor strategies	4.25	0.94
Country GDP/Purchasing power	4.5	0.9
Host country banking interest rate	2.24	1.24
Host country manpower skill levels	3.57	1.06
Host country political factors	2.35	1.15
Host country currency fluctuation	2.22	0.77
Host country management &work ethic	3.87	1.44
Culture and language barrier	3.84	1.03
Average	**3.11**	**1.05**

Source: Research data

4.3.10 Measures to mitigate internationalization process challenges

The respondents in the study were asked to make recommendations regarding measures undertaken to mitigate internationalization process challenges to enhance better entry. The major theme emerging from the responses was that the companies adopt better pricing strategies, making the products available at all time, frequent visits to the clients

of the companies, training host nationals in management positions and form partnerships with local firms and stakeholders. Firms also mitigate challenges through adapting to the local regulation requirements, country culture and ethics.

4.4. Discussions of findings

From the research findings, oil marketing firms prefer exporting entry strategy mode over others. 35.09% of the respondents prefer export entry mode, followed by 19.54% who prefer merger with majority shareholding acquisition and wholly owned acquisition entry mode at 10.54% being the top three most preferred entry strategies. Comparatively the three least preferred initial entry modes are wholly owned starting from scratch mode at 3.51%, licensing and franchising at 5.26% and mergers with minority stakeholder acquisition at 7.02%. From the findings the preferred initial entry mode into any new market is through exporting.

Export entry strategy enables a firm to make the lowest level of commitment to the foreign market as it tries to adapt and understand the market while looking for more information to determine its subsequent entry strategy process. According to Bradley (2005) different circumstances influence firms' use of export as an entry strategy. Small companies usually lack enough resources for more cost intensive entry strategies unlike the big companies that are better endowed financially. The other preferred entry modes after exporting are majority holding acquisitions that bring the endowment of owner led control of operations. A majority of the oil marketing firms find it favorable to retain control of the international expansion strategy as majority decision makers.

The least expensive and most profitable preferred entry strategy mode from the findings is the exporting mode at 33.33%, merger with majority acquisition at 17.54% and acquisition of foreign firms at 15.79%. This is similar to initial preferred entry mode sequence which explains that preference of the entry mode is influenced by profitability and cost investment concerns.

The findings are in agreement with the Uppsala incremental expansion. According to Johanson and Vahlne (1977), the Uppsala model explains internationalization as a process characterized by a firm's incremental progressive entry into neighboring country markets. The expansion process occurs gradually in subsequent steps, starting from exports into the host new markets and eventually culminating to suitably anchored operations in the host country. It also lends credence to the Dunning's eclectic OLI theory with regard to ownership control that enables control of firm specific ownership advantages over competitors that a firm would strive to protect in its entry process.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 Introduction

The objectives of this study were to determine the entry strategies adopted by Kenyan oil marketing companies within COMESA markets and evaluation of the effectiveness of entry strategies adopted. Thirteen firms were surveyed, 65 respondents from the 13 firms were given questionnaires with a response rate of 87.69% achieved. This chapter summarizes the findings of the study and present discussion, conclusions and recommendations of the study. It provides an interpretation of the results by comparing them to the theoretical background presented in chapter two. Limitations of the study and suggestions for further research are also highlighted.

5.2 Summary of findings

Findings indicate that majority of the oil firms, 71.9% had adopted foreign entry strategy planning while 28.1 % of the firms had not adopted foreign entry strategy planning. The study findings also reveal the most preferred initial entry strategy that Kenyan oil marketing firms have adopted in their expansion within COMESA is the export mode. Respondents indicate it is the most preferred at 35.09% followed by majority merger acquisitions at 19.54% and foreign firms' acquisition at 10.54%. The least preferred being the wholly owned from start or scratch entry mode at 3.51% followed by licensing and franchising at 5.26%.

Similarly in evaluating the effectiveness of entry strategies adopted, respondents were asked which was the least expensive and profitable international entry mode adopted by their firm. The study responses indicate exports mode was the least expensive and profitable at 33.33% followed by mergers with majority acquisitions at 17.54%. According to the study findings, factors that hinder effective entry strategy are the internationalization challenges experienced by Kenyan oil marketers in foreign entry process. The study findings indicate that host country purchasing GDP power is the greatest internationalization challenge experienced in foreign market entry in the COMESA region. The mean score of the respondents was 4.5, the highest mean score compared to other challenges. The other internationalization challenges that followed when ranked in order of importance from mean scores are competitor strategies at 4.25, firm's financial base and assets as well as management and work culture and ethics followed at 3.84. The least important internationalization challenge was the currency fluctuation rates at 2.22 followed by host country banking interest rates.

The GDP purchasing power, competitor strategies in the host country and the firm's financial base would determine a viable entry strategy to adopt. A market with high GDP/purchasing power and a firm experiencing high revenue sales would afford the firm to shift from an export entry mode to an entry strategy that has high investment commitments such as foreign firm acquisition or merger with a majority stake holding. Firms advantaged with resource endowments would pursue an entry mode of acquisition or mergers with majority stake to enhance ownership control of firm specific core competencies that they would use to sustain profitable operations in a highly competitive environment. A firm's financial base is an important factor in determining the type of

foreign entry strategy to adopt. A firm with high financial capabilities, assets and dominant brand name can acquire a foreign firm with majority ownership and rebrand the new entity or can start from scratch in what is known as the Greenfield strategy to enhance and sustain home country operating standards and company culture.

The study findings that indicate export entry strategy is the most preferred entry mode in the initial foreign entry stage confirm the Uppsala gradual expansion theory by Johanson and Valne (1977) that postulates firms start incremental progressive entry into neighboring country markets. The expansion process occurs gradually in subsequent steps, starting from exports into the host new markets and eventually culminating to suitably anchored operations in the host country. Dunning's eclectic OLI model by John Duning (1976) also explains the preference of ownership of entry control process according to the study findings, by firms that engage in majority mergers or wholly owned acquisition entry strategy to exploit firm specific advantages so as to increase competitive advantage in the host country market.

5.3 Conclusions

The study objectives were to determine the entry strategies adopted by Kenya oil marketing firms in expanding within COMESA regional bloc, the second objective was to evaluate the effectiveness of entry strategies adopted. From the research study, the study findings conclusively reveal the preferred entry strategies adopted by the 13 Kenyan oil marketing firms surveyed in the study and the effectiveness of the entry strategies adopted as evaluated by their profitability to the firms operations. According to Karkkainen (2005) entry strategy adopted by a firm can affect its performance in the new

market. Determining how much to invest and also the level of control in foreign markets can result in the firm either succeeding or failing in its goals. Entry mode is determined by efficiency or profitability.

The study findings conclude that export strategy is the most adopted foreign entry by the 13 oil marketing firms surveyed. This can be partly explained by the fact that majority of the 13 Kenyan oil firms surveyed are smaller in financial capacity, assets and nascent in international experience compared with their multinational competitors to afford setting operations from scratch in COMESA countries or adopt costly investment entry modes commonly done by multinational firms. The few with the financial muscle can afford acquisitions of foreign firms or mergers with majority stakes to ensure control and ownership of the expansion process. The reason for expansion to the COMESA region is the push factor of Kenya government fuel price controls and shrinking profit margins due to intense local competition. A study of the petroleum industry done by Mwangi (2012) on factors that influence relocation of Multinational Oil companies based in Kenya to other countries found that major reasons that led to their exit was shrinking profit margins. The pull factors are the progressive harmonization of COMESA trading bloc rules, favorable policies and regulatory environment in some host countries.

5.4 Recommendations of the study

The study findings have implications on the theory and present policy framework within the home country of the oil marketing firms and the COMESA bloc. The findings can add to theory build up, reveal to the firms owners' the essence of viable entry strategies and

influence stakeholders' viewpoint in determining beneficial policy framework to oil marketing firms.

5.4.1 Implications of the study on theory

The study was guided by the framework of the Uppsala internationalization theory and Dunning's eclectic theory. Initial foreign entry to COMESA using the low investment commitment export strategy pursued by many firms corroborates with the initial low commitment exploratory foreign entry approach postulated by the Uppsala theory. Secondly the OLI model of ownership advantages, location advantages and internalization advantages applies to the foreign entry approach used Kenya oil firms that are market share leaders. These firms have resource endowments, brand and financial home country advantages that they seek to export in their foreign expansion ventures within COMESA. They prefer the acquisition or majority stake acquisition merger modes to achieve ownership control.

The findings also reveal the two theories weaknesses, for instance why some players have never graduated from the export mode to other high level commitment expansion modes. The foreign expansion sequence from the findings is not uniformly gradual following geographical proximity as advocated by the Uppsala theory. This may be explained by the diverse unique internationalization challenges such as differing country GDP levels, varied policy regulatory frameworks and variation in cultures within neighboring countries that distorts the uniformity of the expansion pattern.

The theory of Dunning eclectic OLI model may not apply in all instances where oil firms that have the monopoly of resource endowments can enter into the market using majority acquisition mergers or acquisition of foreign firms. The big resource endowed firms may encounter host regulatory policy barriers that bar foreign majority stakes in some countries. Consequently, lack of local markets operating environment knowhow and other host country barriers will force them to form strategic alliances and partnerships with local players to maintain an international presence in a lucrative market but devoid of ownership controlling stake advantage.

5.4.2 Recommendations for policy and practice

The findings provide insight to policy and regulatory framework players within COMESA as well as the COMESA secretariat to formulate friendly international trading policies that can spur foreign direct investment by the region's oil firms to enable profitable, efficient and quality business in respective country oil sectors. Kenyan oil firms should be innovative in their foreign entry process to practice a variety of entry strategies such as joint ventures, strategic alliances and partnerships to penetrate the COMESA market. It is therefore important for oil firm managers to acknowledge that determining a viable foreign market entry creates competitive advantage. Current entry strategies are limited but continuous market research can broaden the range of modes to adopt.

5.5 Limitations of the study

Some of the respondents were not readily available hence we never obtained their responses while some had a busy schedule to effectively give adequate responses in some questionnaire sections. Some respondents were unwilling to give information due to client confidentiality clauses. The study would have been enriched by deeper insights if we were studying a case study to conduct individual face to face interviews to get more probing interrogative responses.

5.6 Suggestions for further research

Further research can be conducted into entry strategies adopted by Kenyan oil firms into individual country markets and analysis thereof to study the inter-country variances. Further studies can be done on emerging trends of oil companies in their expansion strategies in the COMESA region or entry barriers Kenyan oil firms encounter within COMESA especially in the post-entry stage and strategies to overcome them to sustain profitability of their operations in COMESA host countries. The study was limited to Kenyan oil companies but more research can be done into entry strategies employed by multinationals expanding within the COMESA region.

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APPENDICES

Appendix 1: Introduction Letter

Date

The respondent oil Marketing Company

Dear Sir / Madam,

RE: MBA RESEARCH PROJECT QUESTIONNAIRE

I am postgraduate student undertaking a Master of Business Administration (MBA) degree at the School of Business, University of Nairobi.

I am undertaking a research on entry strategies adopted by Kenya Oil Marketing firms into the Common Market for East and Southern Africa (COMESA). The purpose of this letter is to request you to respond to the attached questionnaire. The information collected shall be treated with strict confidence and at no time will your name or that of your organization be referred to in the report.

The result of the report will be used solely for academic purposes and a copy of the report can be availed to the interviewed organization(s) on request.

Yours faithfully,

Earnest M. Munyao

MBA Student, University of Nairobi.

Appendix 2: Kenyan oil companies that have internationalized

1. KenolKobil Limited
2. Hashi Energy/Lake Oil
3. Hass Petroleum Limited
4. Gulf Petroleum Limited
5. Fast Energy
6. Tosha
7. AfriOil International Limited
8. Galana
9. Ainushamshi Energy (As Energy)
10. Dalbit
11. Olympic Petroleum
12. Texas Energy
13. Futures Energy Co. Ltd

Appendix 3: Questionnaire

Section A 1: Profile of the respondent

1. What is your position in the organization___________________?

2. How long have you worked in this company (Please tick)

a) 10 years and above_____

b) 5 years to less than 10 years______

c) Less than 5 years_____

3. Have you worked outside Kenya?

a).Yes____ b). No _____

4. Have you been involved with foreign entry strategy planning or implementation for the Company?

a). Yes___________ b). No_______

Section A2: Firm information

5. What percentage of the market share do you command in the industry?

Below 5% ☐ 5-10 % ☐ 10-20 % ☐ Above 20 % ☐

6. What percentage of your annual revenues comes from outside Kenya but within COMESA region? Below 25% ☐ 26-50% ☐ 51-75% ☐ Above75% ☐

7. Does your firm recruit host Country nationals in top level management positions?

A).Yes __________ B).No __________

SECTION B: Identifying entry strategies adopted

8. How many countries does your firm operate in?

a) Less than 5 Countries ( )

b) 6 – 10 countries ( )

c) Over 10 countries ( )

9. a) Which entry strategy mode did your firm first adopt in its initial foreign entry process? Tick one of the boxes below;

1. Exporting ☐
2. Licensing and Franchising ☐
3. Wholly owned from start ☐
4. Joint Venture with Local Partner ☐
5. Merger with minority acquisition ☐
6. Merger with majority acquisition ☐
7. Acquisition of foreign firm ☐
8. Strategic alliance/Partnership ☐

b).Why did your firm adopt the foreign entry mode that you have chosen in 9(a) above?

____

____

c). If more than one entry mode has been used, which is the first choice entry mode, and which are the least favourable modes. **a.___ b.___ c.___ d.___ e.___ f.___ g.___ h.___**

d) Which entry mode(s) among these is the least expensive and most profitable?

1. Exporting ☐
2. Licensing and Franchising ☐
3. Wholly owned from start ☐
4. Joint Venture with Local Partner ☐

5. Merger with minority acquisition ☐

6. Merger with majority acquisition ☐

7. Acquisition of foreign firm ☐

8. Strategic alliance/Partnership ☐

e) Which of the above entry modes does your company see as the best means of entering a country? **1.___ 2 ___ 3___ 4__ 5__ 6 ___ 7___ 8___**

f) Which entry strategy does your firm mostly use in your expansion process and why? ____

SECTION C: Internationalization process challenges.

10. The following likert scale indicates factors that may be encountered during entry into a new market. A scale of 5 indicates the highest likelihood and 1 indicates the least likelihood of challenges in the choice of an entry mode. Kindly rate these challenges;

5 – To a very great extent, 4- To a great extent, 3 –To a moderate extent, 2 – To a little extent , and 1- To No extent

Challenge	1	2	3	4	5
1.Host Country Regulatory Policy					
2.Firms Financial Capacity and assets base					
3.Geographical Distance					
4.Competitor Strategies					
5.Country GDP/purchasing power					
6.Host Country banking interest Rate					
7.Host country Man power skill levels					

8.Host Country Political Factors					
9.Host Country Currency fluctuation					
10. Host Country management & work ethic culture					
11. Culture and language barrier					

11. Any other challenges your firm experienced not listed above in the table? ____

12. How do you mitigate these challenges to enhance better entry strategy?

____

Thank you for your indulgence.