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MARKET ENTRY STRATEGIES AND PERFORMANCE OF MULTINATIONAL CORPORATIONS IN KENYA

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Abstract

The purpose of the study was to examine the relationship between market entry strategies and organisational performance of multinational corporations in Kenya. The specific objective is to establish the relationship between market entry strategies and organisational performance of multinational companies in Kenya. The study employed descriptive cross-sectional research design. The study established that market entry strategies explained 43.1% of the variance in organizational performance of multinational companies measured using financial performance parameters and 52.5% of the variance in organizational performance measured using non-financial parameters. The hypothesis that there is a significant relationship between market entry strategies and organisational performance was therefore supported. The study recommends that multinational corporations should carry out research on the market entry strategies before venturing into international market. This will ensure that they use the appropriate market entry strategy to enhance their performance. The study also recommended that the management evaluate the factors influencing the choice of market entry modes in order to choose the best alternative. The results makes a contribution to theory development, policy and marketing practice in relation to the effect of market entry strategy and organisation performance The limitation of the study is that it used top management as the respondents, may be if other cadre of employees were studied they could have contributed to more exhaustive results for generalization, this however did not compromise on study results. Therefore, the study suggests that there is room for further research incorporating a large population approach, using longitudinal designs and using group discussion to get more information from the respondents.

Key words: *market entry strategies, multinational companies, organisational performance*

1. Introduction

Market entry strategies specify the methods of selling, delivering, and distributing services or products in a new country. The entry modes comprise of investment, contractual, and export entry mode (Meyer *et al.*, 2009).For the case of export entry mode, Kirbua and Benjamin (2007) suggest that the feature in this mode of entry is the exportation and importation of products to a market in a foreign country from a market in a domestic country. In contractual entry mode companies seek to use franchising and licensing when entering a new market in a foreign country. Doole and Lowe (2007) point that these are agreements that allows utilization of certain benefits, such as brand names. In the franchising model, the franchisee works under the rules and manual of operations that the franchiser gives. An investment entry mode allows firms to acquire proprietorship of a different firm located in another foreign country market. The foreign direct investment (FDI) in Kenya increased from 1990s due to liberilisation of the economy and is concentrated in manufacturing sector and is Greenfield in nature (Kinuthia, 2010).

Many processes that comprise of management and executing or accomplishing such processes is what entails organisational performance. Attainment of organisational efficacy results from proper management of people and is a function of organisational performance (Armstrong, 2006). The quantification of organisational effectiveness and efficiency is what comprises performance.

Multinational corporations (MNCs) refer to those entities with headquarters in a given country which still carry out businesses in different markets located abroad. MNCs must operate from a given central office that allows them to carry out coordination of how their goods and service move. Rugman and Collins (2009) assert that MNCs seek to do business globally essentially because of the fact that they aspire to provide to the diverse needs of clients. These MNCs strategize on how to enter new markets which has a bearing on their performance and the study sought to find out this influence.

2. Literature Review

2.1 International Marketing Theory

This theory is relevant to this study as it discusses the factors that determine market entry approaches for multinational corporations intending to expand. International marketing theory focuses on finding and satisfying international customer needs better than the competition, both domestic and international, and of coordinating marketing activities within the constraints of the international environment (Terpstra & Sarathy, 2010).

The international marketing theory is essential to the business firms that undertake international marketing and this is supported by the fact that globalization has brought tremendous changes in the way business is conducted across the globe (Katsikeas, 2003). Hollensen (2007) points that the theory of international marketing makes it possible for the international marketing firms to comprehend the international marketing environments and be able to conduct business in a manner that is competitive. Same and Larimo (2005) argued that international marketing theory will enhance organisations understanding of international marketing environment. Bradley (1987) points that the implications of the theory of international marketing is repetitive and none evaluative. However, proponents of the theory opine that it is essential for individuals and business firms to understand the theory of international marketing because it discusses international marketing environments that have multidimensional interactions (Bartels, 1968). Malhotra *et al*. (2013) observed that globally, many organizations are seeking markets for their businesses in foreign countries due to competition locally and in order for their growth in sales and market share.

To survive in this complex, different technological and competitive environments, businesses must adopt adjustable international marketing strategies to compete in the global marketplace. Businesses that avoid international markets or do not have adaptable or well-developed international strategies often discover that they face competition from aggressive foreign competitors seeking to expand abroad into local markets and internationally oriented domestic businesses (Doole & Lowe, 2008).

2.2 Market Entry Strategies and Organizational Performance

Kotler (1997) indicates that the selection of the wrong market entry strategy has far reaching negative effects on performance. Hyun and Kim (2010) noted that MNCs often failed when setting up subsidiaries abroad because of the diversification approaches used that are not related to that specific market. Kirbua and Benjamin (2007) observed that multinational companies can be successful in new markets abroad by selecting the most salient options such as merging with an existing firm in the abroad market, creating subsidiaries, or by acquiring an existing firm.

However, little attention has been drawn in terms of investigating how entry choices affect the performance of MNCs. For instance, O'Donnel (2010) study indicated that new subsidiaries were unlikely to be diversified compared to when these MNCs acquire an already established or existing business firm. On the other hand, Koch (2010) established that entry choices were key determinants of business success or failure as they affected the performance of foreign subsidiaries.In an investment entry mode the MNCs are in control of the international marketing strategy and can significantly benefit in terms of logistics such as being able to navigate the import hurdles, which will save the firms from the costs of importation and manufacturing. Marks and Mirvis (2001) argued that firms that merge with the existing businesses are likely to register better performance in terms of profits. Hyun and Kim (2010) observed that merging of businesses makes it possible for companies to register profits and revenue which assist the companies to undertake research development and be able come up with better products.

There are literature that discusses the entry approaches and how they translate to better performance. The studies provide various results of the entry strategies as being none essential, mediated, or direct effect. The assumption is that new market entries are unlikely to perform better than entry modes used by experienced firms. However, the experienced firms might experience more challenges as they undertake more investments and research in their host markets, which can interfere with their performance. The other aspect is that some MNCs might undertake market entry strategies not related to some specific markets and have a negative effect on their performance. It is against this background that this study examined the effect of entry strategies on organizational performance.

3. Research Methodology

The study employed a descriptive cross-sectional research design because it made it possible for the researcher to fully describe various characteristics of the research study. Cross-sectional study involves collection of data at a single point in time (Zikmund, 2003). The study population for this research encompassed MNCs operating in the republic of Kenya. According to the Kenya Association of Manufacturers (KAM, 2011), there are 213 multinational corporations operating in Kenya.

The sample size was calculated using the formula for finite population as proposed by Yamane (1967) and cited by Israel (2009).

$$n = \frac{N}{1+N(e^2)}$$

Where:

n= desired sample size

N= Population

e = margin of error at 5% (standard value of 0.05)

The sample size for the study was:

$$n = \frac{213}{1+213(0.05)^2} = 139$$

Only one employee of the top management per organization were targeted from these 139 firms (either the Country director, or Marketing Director or Operations Manager)

Secondary and primary data was used in the study. Secondary data was gathered from both internal and external sources. The questionnaire was used to solicit primary data.

4. Findings and Discussion

The results of the market entry strategies KMO sampling adequacy and Bartlett's Test are summarized in Table 4.1.

Table 4.1: Market Entry Strategies KMO Sampling Adequacy and Bartlett's Sphericity Tests

KMO and Bartlett's Test	Statistics
Kaiser-Meyer-Olkin Measure	.726
Bartlett's Chi- Square	1059
Bartlett's df	105
Bartlett's Sig.	.000

Source: Primary data (2019)

The study results in Table 4.1 showed that KMO statistic was .726 which was significantly greater than the critical level of significance of the test which is set at 0.5 (Field, 2009). In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 1059 with 105 degree of freedom, at p 0.000< 0.05). These results justified further statistical analysis of the data.

Factor analysis was also conducted after successful testing for validity and reliability. Factor analysis was conducted using Principal Components Method (PCM) approach. The relevant results are presented in Table 2.

Table 2: Market Entry Strategies Factor Loadings

Items	**Factor loadings**
Export entry mode	
Our organization does direct export of all products and services	.800
Our organization has an import division doing all the import activities	.589
Our organization has an agent that handles all export and import activities	.689
Contracting entry mode	
Our organization offers products/services within specified rules, procedures and processes specified by our parent company	.790
Our organization designs, develops and maintains products/services with technology from our parent company	.796
Our organization uses name, logo and trade mark of our parent company	.708
Our organization offers products/services using managerial and marketing skills permitted by our parent company	.864
Our company always uses preparation and production techniques permitted and approved by our parent company	.581
Our organization always pays a given fee or royalty to our parent company	.543
Investment mode of entry	
Our company is a foreign company that came and set up a new plant and machinery in the country	.656
Our company is in partnership with a parent foreign company	.736
Our company was partly sold to a foreign company	.855
Our company shares profits with our foreign company partner	.734

Our company was totally bought by another foreign company leading to our new company name	.777
The company shares risks and losses with our foreign company	.603

Source: Primary data (2019)

The item that "our organization offers products/services using managerial and marketing skills permitted by our parent company" had the highest coefficient of .864, while the item that "our organization always pays a given fee or royalty to our parent company" had the lowest coefficient of .543.

Overall, the factor analysis was to create a small number of factors describing market entry strategies from a large number of variables/indicators. However, the factor analysis conducted on all the items describing market entry strategies attracted a coefficient of more than 0.5 hence were retained for further analysis in regression.

4.1 Measures of Market Entry Strategies

Fifteen items (15) were used to measure market entry strategies. Respondents were asked to respond to items measuring market entry strategies. Responses were given on a five-point Likert scale where 1=not at all; 2=to a small extent; 3=to a moderate extent; 4=to a large extent; 5=to a very large extent. The scores for 'large extent' and 'very large extent' were lumped together, the scores for moderate extent were explained individually, and the scores for 'a small extent' and 'not at all' were also explained separately. The results were measured using mean scores and coefficient of variation as presented in Table 3. For purpose of this study, the coefficients of variation ratings were determined as 0 to 25% very good, 26 to 50% good, 51 to 75% fair and 76 to 100% poor.

Table 3: Summary Scores for Measures of Market Entry Strategies

Market entry strategies	**Mean Scores**	**Std Dev**	**CV (%)**
Export entry mode Our organization does direct export of all products and services	3.09	1.39	45
Our organization has an import division doing all the import activities	3.32	1.47	44
Our organization has an agent that handles all export and import activities	3.03	1.42	47
Average	**3.14**	**1.43**	**45**
Contracting entry mode			

Our organization offers products/services within specified rules, procedures and processes specified by our parent company	4.14	0.96	23
Our organization designs, develops and maintains products/services with technology from our parent company	4.23	0.81	19
Our organization uses name, logo and trade mark of our parent company	4.34	0.81	19
Our organization offers products/services using managerial and marketing skills permitted by our parent company	4.17	0.88	21
Our company always uses preparation and production techniques permitted and approved by our parent company	3.91	1.10	28
Our organization always pays a given fee or royalty to our parent company	3.65	1.25	34
Average	**4.07**	**0.97**	**24**
Investment mode of entry			
Our company is a foreign company that came and set up a new plant and machinery in the country	2.89	1.54	53
Our company is in partnership with a parent foreign company	2.80	1.48	53
Our company was partly sold to a foreign company	2.06	1.22	59
Our company shares profits with our foreign company partner	2.80	1.47	53
Our company was totally bought by another foreign company leading to our new company name	2.17	1.41	65
The company shares risks and losses with our foreign company	3.15	1.41	45
Average	**2.64**	**1.42**	40
Overall	**3.31**	**1.25**	**40**

Source: Primary data (2019)

The results indicate that the most influential market entry strategy influencing organisational performance is contracting entry mode with a coefficient of variation (CV) of 24%, with an average mean score of 4.07 and average standard deviation of 0.97. The next is investment mode of entry with a coefficient of variation (CV) = 40%, an average mean score of 2.64 and average standard deviation of 1.42. Finally, export entry mode was the least influential market entry strategy influencing organizational performance with coefficient of variation (CV) = 45%, an average mean score of 3.14 and average standard deviation of 1.43.

Overall, export entry mode, contracting entry mode and investment mode of entry are good sub-constructs of market entry strategies in explaining organizational performance. This is explained by an overall mean score of 3.31 and CV results of 40%.

4.2 Relationship between Market Entry Strategies and Organisational Performance

The objective was to establish the relationship between market entry strategies and organisational performance. Respondents had been asked to indicate using a rating scale ranging from 1 (not at all) to 5 (to a very large extent) the extent to which market entry strategies contribute to organizational performance. Organizational performance was measured both in terms of financial performance and non-financial performance. To determine the relationship using financial performance parameters as the measure of organizational performance, the study developed the following hypothesis framed in alternative form:

H_{1a}: *There is a significant relationship between market entry strategies and organisational performance measured using financial performance indicators.*

Regression results for market entry strategies and organisational performance are indicated in Table 4.

Table 4: Regression Results for Market Entry Strategies and Financial Performance Parameters

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.648	.431	.381	.90209
a. Predictors: (Constant), investment mode entry, contracting entry mode, export entry mode				

Source: Primary data (2019)

Results in Table 4 indicate a correlation coefficient (R) of .648, coefficient of determination (R^2) = .431. Market entry strategies explained 43.1% of the change in financial organisational performance. The remaining 56.9% was explained by other factors not in the model.

Table 5 provides the results on the analysis of variance (ANOVA).

Table 5: ANOVA for Market Entry Strategies and Financial Performance Parameters

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	11845.812	3	3948.604	15.615	.000
	Residual	27563.551	109	252.877		
	Total	39409.363	112			
a. Dependent Variable: financial performance						
b. Predictors: (Constant), investment mode entry, contracting entry mode, export entry mode						

Source: Primary data (2019)

Results in Table 5 indicate that the overall model was statistically significant. In addition, the results imply that the market entry strategies are good predictors of financial performance. This was supported by an F statistic of 15.615 and the reported p=0.000 which was less than the conventional probability of 0.05 significance level ($F=15.615$, $P<0.05$).

Regression of coefficient results are presented in Table 6.

Table 6: Coefficients of Market Entry Strategies Using Financial Performance Parameters

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	-46.804	10.653		-4.393	.000
Export entry mode	2.820	1.140	.102	2.474	.034
Contracting entry mode	10.056	3.272	.320	3.073	.003
Investment mode entry	5.417	2.668	.216	2.031	.045
a. Dependent Variable: Financial performance					

Source: Primary data (2019)

The standardized beta coefficient in Table 5 shows that the market entry strategies contributes significantly to organizational performance measured using financial performance parameters. Export entry mode was found to be positive and significantly related to financial performance ($\beta=2.820$, $t=2.474$, $p<0.05$). Contracting entry mode was also found to be positive and significantly related to financial performance ($\beta=10.056$, $t=3.073$, $p<0.05$). Investment mode entry had a positive and significant

African Journal Of Business And Management
Volume 6, Issue 1, November 2020 http://aibumaorg.uonbi.ac.ke/content/journal
Pgs 52-66

relation with financial performance (β=5.417, t=2.031, p<0.05).

The hypothesis was tested using t-statistic. The acceptance/rejection criteria was that, if the p value is greater than 0.05, the test fails to reject the $\mathbf{H_{1a}}$ but if it is less than 0.05, the $\mathbf{H_{1a}}$ is rejected. The results in Table 4.6 show that the p-value is 0.000 which is statistically significant. The hypothesis that there is a significant relationship between market entry strategies and organisational performance measured using financial performance indicators was thus supported.

The regression model explaining variation in financial performance as a result of market entry strategies is stated as follows:

$FP_1 = \beta_{01} + \beta_{11}X_1 + \beta_{12}X_2 + \beta_{13}X_3 + \epsilon$

$FP_1 = -46.804 + 2.820X_1 + 10.056X_2 + 5.417X_3$

Where:

FP_1 = Financial Performance

X_1 = Export entry mode

X_2 = Contracting entry mode

X_3 = Investment mode entry

ϵ = Error term

The regression equation above shows that a unit change in export entry mode causes an increase of 2.820 units in financial performance, a unit change in contracting entry mode causes an increase of 10.056 units in financial performance while a unit change in investment mode entry causes an increase of 5.417 units in financial performance. This results indicate that market entry strategies have an effect on organizational performance. Market entry strategy has a strong effect on a company's performance especially using financial measures.

To determine the relationship between market entry strategies and organisational performance using non-financial parameters, the study developed the following hypothesis framed in alternate form:

$\mathbf{H_{1b}}$: *There is a significant relationship between market entry strategies and organisational performance measured using non-financial performance indicators.*

Results in Table 7 indicate regression results for Market entry strategies and organizational performance measured using non-financial parameters.

Table 7: Regression Results for Market Entry Strategies and Non-Financial Performance Parameters

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.725	.525	.512	.46556
b. Predictors: (Constant), investment mode entry, contracting entry mode, export entry mode				

Source: Primary data (2019)

Results in Table 6 indicate a correlation coefficient (R) of .725, coefficient of determination (R^2) = .525. Market entry strategies explained 52.5% of the variance in organizational performance measured using non-financial parameters. The remaining 47.5% was explained by other factors not in the model.

Table 8 further provides the results on the analysis of the variance (ANOVA).

Table 8: ANOVA for Market Entry Strategies and Non-Financial Performance Parameters

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	26.130	3	8.710	40.186	.000
	Residual	23.625	109	.217		
	Total	49.755	112			
a. Dependent Variable: non-financial performance						
b. Predictors: (Constant), investment mode entry, contracting entry mode, export entry mode						

Source: Primary data (2019)

Results in Table 8 indicate that the overall model was statistically significant. Further, the results imply that the market entry strategies are good predictors of organizational performance measured using non-financial parameters. This was supported by an F statistic of 40.186 and the reported p=0.000 which was less than the conventional probability of 0.05 significance level (F=40.186, P<0.05).

The regression coefficient results is presented in Table 9.

Table 9: Coefficients of Market Entry Strategies Using Non-Financial Performance Parameters

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.697	.312		2.235	.027
Export entry mode	.231	.092	.236	2.516	.013
Contracting entry mode	.384	.096	.343	4.003	.000
Investment mode entry	.241	.078	.271	3.088	.003
a. Dependent Variable: non-financial performance					

Source: Primary data (2019)

The standardized beta coefficient in Table 8 shows that the market entry strategies contributes significantly to organizational performance measured using non-financial performance parameters. Export entry mode was found to be positive and significantly related to non-financial performance parameters (β=.231, t=2.516, p<0.05).

African Journal Of Business And Management
Volume 6, Issue 1, November 2020 http://aibumaorg.uonbi.ac.ke/content/journal
Pgs 52-66

Contracting entry mode was also found to be positive and significantly related to financial performance (β=.384, t=4.003, $p<0.05$). Investment mode entry had a positive and significant relation with financial performance (β=.241, t=3.088, $p<0.05$). The hypothesis was tested using p value. The acceptance/rejection criterion was that, if the p value is less than 0.05 the study accepts the hypothesis. The relationship was thus statistically significant and therefore the hypothesis is supported.

The regression model explaining variation in organizational performance using non-financial parameters as a result of market entry strategies is stated as follows:

$NFP_1 = \beta_0 + \beta_{11}X_1 + + \beta_{12}X_2 + \beta_{13}X_3 + \epsilon$

$NFP_1 = .697 + .231X_1 + .384X_2 + .241X_3$

Where:

NFP_1 = Organizational performance using Non-Financial Parameters

X_1 = Export entry mode

X_2 = Contracting entry mode

X_3 = Investment mode entry

ϵ = Error term

The regression equation shows that a unit change in export entry mode causes an increase of .231 units in organizational performance using non-financial parameters, a unit change in contracting entry mode causes an increase of .384 units in organizational performance using non-financial parameters while a unit change in investment mode entry causes an increase of .241 units in organizational performance using non-financial parameters. This implies that market entry strategies have an effect on organizational performance. Market entry strategy has a strong effect on a company's performance especially using non-financial measures.

The current study results support the hypothesis (**H_1**) that there is a significant relationship between market entry strategies and organisational performance.

5. Discussion

The objective of the study was to establish the relationship between market entry strategies and organisational performance. Organisational performance was broken down into financial performance and non-financial performance. The effect of market entry strategies on organisational performance was thus established by separately considering financial performance parameters and non-financial performance parameters. The study established that market entry strategies explained 43.1% of the variance in organizational performance measured using financial performance parameters. When organizational performance was measured using non-financial parameters, market entry strategies explained 52.5% of the variance in organizational performance. It is fundamental to note that market entry strategies had a greater influence on non-financial performance (52.5%) compared with financial performance (43.1%).

The results of the study support the assertion that a choice of market entry has a lasting effect on a firm's performance, thereby supporting Kotler's (1997) argument that the selection of the wrong market entry strategy has far reaching negative effects on performance. The findings are also consistent with Kirbua and Benjamin (2007) who pointed that the multinational corporations can succeed in international new markets by merging with an existing firm in the new market, creating subsidiaries, or by acquiring an existing firm.

The results concur with the following studies; Sukali (2014) who posits that market entry strategies has an influence on performance of a firm, Akande and Khadka (2018) who concluded that market entry strategies are very important when entering new markets, Rasheed, (2005) who argued that the choice of foreign market entry is a key determinant of the success of the foreign entity and Jamshid, (2005) who noted that selection of an appropriate entry strategy is a critical and indispensable component of the strategic decision a company has to make when investing overseas.

The study hypothesised that market entry strategy has a significant effect on organisational financial performance (**H_{1a}**), the results indicated that contracting mode of entry had the highest influence (10.056), followed by the investment entry mode (5.517) then export mode (2.820). When non-financial parameters (**H_{1b}**) were adapted to measure organisational performance the results indicated that contracting mode of entry was still greater (.384) followed by investment mode (.241) and then export mode of entry (.231). In both approaches the results indicate that contracting mode of entry had the greatest influence on organisational performance. The hypothesis that there is significant relationship between market entry strategies and organisational performance was thus accepted (**H_1**). These findings are consistent with Koch (2010) who established that entry choices are key determinants of business success or failure as they affect the performance of foreign subsidiaries. In addition, the results agree with Zekiri and Angelova (2011) assertion that any market entry strategy that a foreign company chooses is likely to have an impact on the performance of the organization. The findings are in agreement with international marketing theory as Malhotra *et al*. (2013) observed that globally, many organizations are seeking markets for their businesses in foreign countries in order for their growth in sales and market share.

6. Conclusion

The study results showed that market entry strategies has a positive and significant influence on organisational performance. The overall mean results for market entry strategies was 3.31 implying that the respondents were in agreement with statements concerning the influence of market entry strategies on organisational performance. From the foregoing, it can be concluded that effective market entry strategies of export entry mode, contracting entry mode and investment mode of entry affect organizational performance. This is because these MNCs seek to exploit international markets through market entry strategies that determine their level of performance.

When the management of these MNCs determine the best market entry modes it influences the utilization of some benefits, affects business partnership and enables some level of controlling business activities.

These features of MNCs are key factors that later affect how they perform.

Market entry modes constitute critical strategies by MNCs that determine their performance. Market entry modes that allow use of particular benefits like brand names, procedures and processes tend to enhance more organisational performance. Going by the focus of the study, a positive and significant relationship exist between the market entry strategies and organisational performance. Therefore the issue of market entry strategies should be planned carefully and should never be neglected by MNCs in their planning.

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