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Modes of market entry and motives for British and Chinese companies doing business in Kenya

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Abstract

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Going to the new target market companies needs to choose the right and most suitable entry mode in order to successful .There are various factors that affect entry modes in new foreign markets, and companies should do a thorough evaluation in order to be aware of these factors before they venture there. For instance choosing insufficient or wrong entry mode will have a greater impact to the company which can lead to financial losses.

The purpose of this study was to investigate which factors affect the market entry modes of Chinese and British companies doing business in Kenya. Further these studies investigated the motive behind internationalization of these companies, the challenges they faced when they entered the Kenyan market and the entry mode they used to enter the Kenyan market.

A quantitative approach was used where the information was gathered from the respondents from British and Chinese companies through web-survey.

The study findings from the British and Chinese companies doing businesses in Kenya suggest that the best entry mode recommended to use to enter the Kenya market is the use of foreign direct investment. Most companies favored this entry mode because incentives are provided by the Kenyan government for those companies who use this type of entry mode, there low political interference.
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Motives for internationalisation, market entry modes, Kenya

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1 Introduction

1.1 Background

Because of globalization the issue of expanding to the new foreign markets is becoming more and more important and relevant for companies all over the world.
For instance with the fading of trade barriers, investment opportunities and technological innovation, companies see new openings for increase profit and growth by expanding to this new foreign markets. As stated by Hollensen (2004) today companies can more easily expand to countries far away and many companies even engage in international business from the start, so called Born Global.

The processes globalization as stated by Czinkota (2005) has enabled the production and distribution of products and services on worldwide basis. It is a consequence of the phenomenon of convergence, which is a tendency for the tastes and preferences of people in different countries to become similar. Convergence is encouraged by global linkages that are network of individuals, institutions and countries which tie together trade, financial markets, technology and living standards more closely than any time in human history.

Globalization also can be defined as sourcing of goods and services from location around the globe to take advantage of national difference in the cost and quality of factors of production to lower their overall cost structure and improve the quality functionality of their product. (Hill 2005, 7.)

1.2 Research problem and the objectives of this thesis

The research objective of this studies is find out which are the most appropriate market entry modes that can be used by foreign companies that want expand to the Kenya market.

In more detail, the objective of this thesis was to answer the following questions:

What are the factors that affect the market entry mode choice of these companies in the Kenyan market? What are the challenges experienced by these companies when they entered the Kenyan market? And what are the motives behind the international expansion of these companies to the Kenyan market?

Table 1 Research cover matrix

Research questions	Theoretical framework chapter	Results chapter	Questions in questionnaire
Factors affecting entry mode	12, 13,14	27, 28, 30,31	40,41,42
Motives of expansion to Kenya	4,5	24,25	39,
Challenges		25,26	39,40
Most appropriate entry mode	6,7,8,9	29	39

1.3 Structure

The structure of this thesis is divided into six sections which consist of the following: introduction, theoretical discussion, empirical studies; methodology; presentation of findings and analysis; conclusions and recommendations.

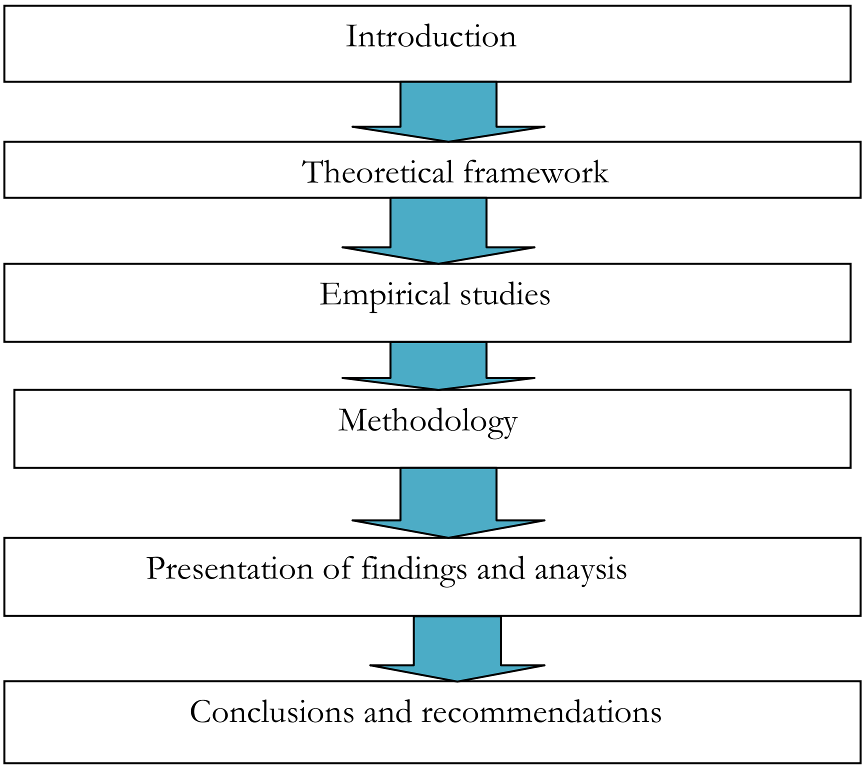

Figure1: Structure of the study

2 Theoretical Framework

2.1 Motives for internationalization

Globalization can be defined as business orientation based on the belief that the world is becoming more homogenous and distinctions between national markets are not only fading, for some products will eventually disappear.
(Czinkota & Ronkainen 2004, 398.)

Further motives for internationalization of firms can be divided into proactive and reactive (Czinkota et al. 2009, 218). Proactive are those which are firm initiated while reactive are those caused by the environment and lead to response of the company.

The proactive motivations can be described by the following factors: First the major reason companies expand internationally is to gain better profits because foreign markets are often seen as source of higher profits. Also another factor to enter foreign markets is due to the unique product and service that the company has. When a product or a service is not widely available from other international competitors it can motivate a company to venture into that foreign market. From this perspective a company will take advantage of this foreign market that is not available for other competitors. The other factor is the use of tax benefits; some countries use tax concessions to encourage exports to the country that means export activities are more profitable than domestic activities, and that will motivate companies to enter that foreign market. (Czinkota 2009, 217-218.)

The reactive motivations can be described by the following factors: First the major reactive motivation to enter international market is the competitive pressure. Always companies look for market in other areas when they find that they cannot compete effectively in that area, and that means foreign markets can offer a better alternative. Another reactive motivation for international expansion is overproduction.
For example when a company has excess capacity the domestic market will get small hence the need for international markets. Also saturated and declining domestic

market can force the company to enter international markets in order to survive and to continue operating. (Czinkota 2009, 217-218.)

Table 2 Motives to internationalize Czinkota (2009, 217)

Proactive motivations	**Reactive motivations**
Profit advantage	Competitive pressures
Unique products	Overproduction
Technological advantage	Declining domestic sales
Exclusive information	Excess capacity
Tax benefits	Saturated domestic market
Economies of scale	Proximity customers and ports

2.2 Entry modes

As stated by Root (1987), “an entry is an institutional arrangement that make possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country.

The range of entry modes

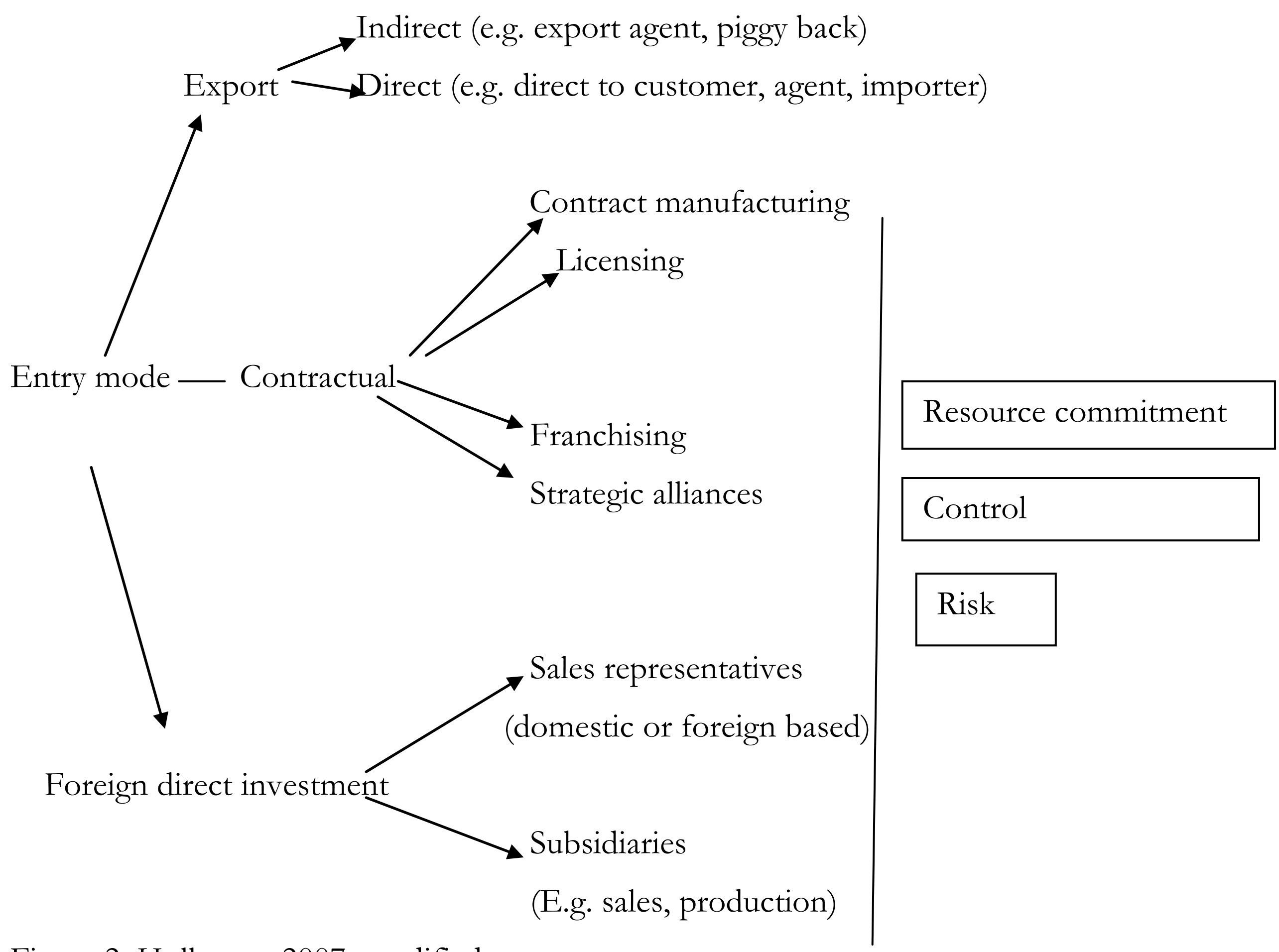

Figure 2: Hollensen 2007, modified

In figure 2 it depicts the range of entry modes a foreign company can choose from when entering a foreign country. There are different implications for each entry mode a Multinational Corporation (MNC) chooses. And it depends on degree of the risks involved, the control they exercise over the foreign operation, the resources committed.

2.3 Choice of market entry mode

The most strategic decisions in international business are the mode of entering foreign market. On one extreme, a company may do a complete manufacturing of the product domestically and export it to foreign market. On the other extreme, a company may do by itself, the complete manufacturing of the product to be marketed in the foreign market there itself. There several alternatives in between the two extremes. The choice of the most suitable alternative is based on the relevant factors related to the company and the foreign market. However in some cases, the alternatives available may also be limited. For example, the policy of some governments may not be very positive towards foreign investments. Several governments have definite preferences for joint ventures over complete foreign ownership. (Cherunilum 2010, 438.)

Further we can see that the choice of an entry mode is an important aspect of the internationalization processes of any company. Market entry mode is an important step as it decides the degree of company's control over the selected markets and the devotions they will affect every aspect of the business. (Albaum 1994, 146.)

Range of market entry modes includes:

2.3.1 Sales agent

Market entry mode through sales agent by a foreign company is the cheapest and easiest way to penetrate any potential market. An agent can be defined as an individual or organization doing operations in the host country. An agent can work on a commission basis for a product and services they deal in for a foreign firm based on the terms of contract between the foreign firm and the sales agent in the international market. Sales agents are not employees of the local company; rather they provide services in selling the products of the parent organization in the market and get certain percentage on sales of the product. (Hollensen 2004, 289-299.)

2.3.2 Exporting

As stated by Cherunilam (2010, 154), "this channel is perhaps the most traditional mode of entering foreign market, is quite a common one even now".
Exporting is the appropriate strategy when one or more of the following conditions prevail:
The volume of business is not large enough to justify production in the foreign market; cost of production in the foreign market is high, the foreign market is characterized by

production bottlenecks like infrastructural problems and problems of material supply, when contract manufacturing or licensing is not better alternative, when there are political or other risks of investment in the foreign country and when foreign investment is not favored by the foreign country concerned.

Further this theory explains that exporting is attractive than other modes particularly when underutilized capacity exist. Even when there is no excess capacity, expansion of the existing facility may sometimes be easier and less costly than setting up production facilities abroad**.**

Exporting has minimal effect on the operations of the company, and the risks involved are less than other alternatives. There are two forms of exporting; direct exporting and indirect exporting. These two forms are distinguished on the basics of how exporting company manages the transactions flow between itself and the foreign importer or the buyer. In indirect export manufactures utilizes the service of various types of independent marketing organizations that are located in the home country**.** (Albaum 2005, 254.)

The advantages of exporting as stated by Foley (1999, 344) includes: speed of entry; minimize risk and investment, use of existing facilities while the disadvantages of exporting as stated by Foley (1999, 344) includes: trade barriers and tariffs add to the costs, transport costs, limited access to local information, company viewed as outsider.

The conditions favoring exporting as stated by Foley (1999, 344) includes: limited sales potential in the target country, little product adaptation, liberal import policies, high political risks.

2.3.3 Joint Ventures

A joint venture entails establishing a firm that is jointly owned by two firms or more otherwise independent firms (Hill, 2007). One important advantage of a joint venturing is that it permits a company with limited resources to enter foreign markets than might be possible under a policy of forming wholly owned subsidiaries

(Cherunilum 2010, 158).

Joint ventures are used to enter international markets with the ultimate aim to gain access to finance, managerial and employee competencies, technology, site facilities, marketing and distribution systems, and a favorable institutional arrangement or partner ability to negotiate acceptable regulatory and public policy provisions. (Geringer 1991, 45.)

The advantages of joint venture as stated by Foley (1999, 344), includes combination of resources of two companies, less investment required, viewed as an insider, over-come ownership restrictions and cultural distance while the disadvantages of joint venture as stated by Foley (1999, 344), includes greater risk as compared to exporting and licensing, difficult to manage dilution of control.

The conditions favoring joint ventures as stated by Foley (1999, 344), includes: large cultural distance, import barriers, assets cannot be fairly priced, high sales potential, some political risks, government restrictions on foreign ownership, local company can provide skills, distribution network and brand name.

2.3.4 Foreign Direct Investment

According to Rao (2000, 30), firms undertake foreign direct investment to achieve three objectives:

Market seeking

Firms invest in countries where they see large and rapidly growing market; for example, recent investment in China and India.

Efficiency seeking

Firms invest in countries where they can achieve efficiency in cost reduction due to lower operating costs: for example, recent investments by Philips and other consumer's electronics products in Malaysia and Singapore.

Resource seeking

Firms invest in countries in order to gain access to raw materials or other inputs; for example, investments by oil companies in the Middle East or investment by textiles industries in India and Pakistan.

Foreign direct investment is the direct ownership of facilities in the target country; it involves the transfer of resources including capital, technology and personnel. A number of factors like trade barriers, difference in production and other costs, government policies encourage the production of facilities in the foreign market. (Cherunilum 2010, 157.)

Through foreign direct investment a company can establish its owned manufacturing facility in the target market in two ways. The company can set up new operation in that country often referred as green –field venture, this means establishing a subsidiary from scratch. The second option is to acquire an established company in the target country and use that company to promote its products. Generally acquisition is the speedy way to enter the international market. It allows the acquirer to get access to the skilled human and other resources of the acquired company. (Cherunilum 2010, 158.)

The advantages of foreign direct investment as stated by Foley (1999, 344), includes: greater knowledge of the local market, can better apply specialized skills, minimizes knowledge spill over, and viewed as insider while the disadvantages of foreign direct investment as stated by Foley (1999, 344), includes: high risks than other entry modes, require more resources and commitment, may be difficult to manage local resources.

The conditions favoring foreign direct investment as stated by Foley (1999, 344), includes: small cultural distance, assets cannot fairly priced, high sales potential, low political risks.

2.3.5 Licensing

Licensing and franchising is an entry mode which involves little commitment of resources (Cherunilum 2010, 152).

Licensing is where a company in one country permits a company in another country to use its intellectual property such as patents, trademarks, copyrights, technology, technical know-how, marketing skill or some other specific skill.

The advantages of licensing as stated by Foley (1999, 344), includes: minimal risk and investment, speed of entry, able to circumvent trade barriers, high return on investment while the disadvantages of licensing as stated by Foley (1999, 344), includes: lack of control over the use of assets, licensee may become a competitor, knowledge spill over, license period is limited.

The conditions favoring licensing as stated by Foley (1999, 344) includes: legal protection in the target environment, import and investment barriers, low sales potential in the target country, large cultural distance, licensee lack the ability to become a competitor

2.3.6 Strategic alliances

According to Child, Faulkner & Tallman (2005), Strategic alliances are cooperative strategies between companies that are carried out with purpose of increasing the market of partners, to tap each other's specialized resources and strategic assets, further alliances can be considered a real option to invest under conditions of uncertainty in the new market and new technology or ultimately an acquisition. Faulkner (1995) classified motives for alliance formation into internal and external ones. The internal motives are: motives stemming from resource dependency perspective for example need for specific assets or capabilities not currently possessed, to minimize transaction costs, the need of speed entry to the market not achievable by other means and to spread financial risks. And the external motives are: because firms are concerned with international turbulence and uncertainty, the need for vast financial resources to cope with fast technological change and the shortening of product life cycles.

2.4 Factors affecting entry mode choice

2.4.1 International experience of the firm

As stated by Hollensen (2004, 281.), "another aspect that firms need to consider during their international processes is their experience in the market, and this can be knowledge of the business environment of the target market". With these experiences it will lead to reduction of cost and uncertainty in the international market.

2.4.2 Size of the organization

Small and medium sized companies' organizations choose less risky market entry modes such as exporting or contractual mode because of their resource limitations, they prefer to select less risky mode (Hollensen 2004, 280).

On the other hand multinationals organizations that are much larger in size and resources prefer to use foreign direct investment mode. This will give them full control over their operations and they will solely face the risk alone in the new market. (Hollensen 2004, 280.)

2.4.3 Product characteristics

As stated by Hollensen (2004, 281), "the characteristics of a product also has a big effect on determining the cost of the product and provide advantages in determining the price in the international market".

2.4.4 Trade barriers

Trade barriers are the regulations of a certain country in which the government regulates the imports of foreign products and services to protect and encourage and boost local organization as well as FDIs. As stated by Subba (2010, 44), "the companies planning to enter global market should know the trade policies, general legal and political environment of the foreign market".

Companies may establish manufacturing facilities in foreign countries rather than exporting owing to high tariffs and restriction in foreign countries. Another factor is that some of the countries impose a legal condition that the foreign companies can enter only the country by operating joint venture with a local company. Also seeing the tax policies of various countries, some countries impose high tax rates in case of foreign companies, while other provides incentives.

2.4.5 Social and cultural environment

Culture can be defined as a system of learned behavior patterns that distinguish characteristics of the members of different societies. Because culture resist change and fosters continuity, problems may arise when person from another culture needs to adjust to another culture. (Czinkota & Ronkainen 2010, 92-94.)

Companies must also consider social – cultural factors carefully while deciding to go abroad. Often companies focus their initial internalization efforts in countries similar to their domestic market in order to minimize the social cultural risks.
(Subba 2010, 45.)

Business organizations should understand the process of gradual change in values and attitudes and be prepared to satisfy the changing need of consumers.

The values and attitudes that have changed include: The leisure which is increasingly becoming a big part of many people's lives has prompted business to respond with a wider range of leisure related goods and services. The changing role of women and men in society as men and women share expectations in employment and household responsibilities. A variety of green consumer products is gaining more attention among many environmental concern groups. (Palmer & Hartley 2009, 9.)

2.4.6 Market potential

The company has to access the market potential, based on the following factors: size of the population of the target market, GDP of the country and per capita GDP, urban areas/Rural areas and purchasing power. (Subba 2010, 42.)

As stated by Hollensen (2004, 282), "firms select the market entry modes according to the market size and its growth rate". When the market size is small, having less demand for the products and services, the firms choose the entry mode with least capital and risk factor involved.

2.4.7 Country risk and uncertainties

Companies have no certainty that the future will follow the recent past pattern. However it is quite easier and cheaper for small companies to adapt to change than it is for big companies. There are number of risks which are faced by companies and it includes; new better resourced competitor, unfavorable legislations and high taxes, new government may come with unfavorable political agenda, consumer disposal income may change badly, failure to recruit skilled employees. (Palmer, & Hartley 2009, 29.)

2.4.8 Economic situation

Household's disposal incomes vary with economic cycles and that consumption of goods and services increases during the boom time and decline during the recession periods. It also states that the actual distribution of spending power among the population influences the pattern of demand of specified goods and rise of unemployment may encourage low wages hence favoring the labor intensive service companies. (Palmer & Hartley 2009, 13.)

3 Introducing Kenya

Here is the analysis of Kenya as the target market for foreign companies, we are going to look where this country is located, the overview of its economic outlook.

Republic of Kenya is located in Eastern Africa, bordering Uganda to west, the Sudan and Ethiopia to the North, Indian Ocean and Somalia to the east and Tanzania to the south (world atlas 2012.)

Figure 2 Map of Kenya

Kenya is the most developed economy in Eastern Africa. With a nominal gross domestic (GDP) of USD 32.417 billion, it is also the economic, commercial, and logistical of the entire region. Kenya's estimated population is 39.08 million. Kenya enjoys an extensive (if uneven) infrastructure, a large portion of the population that is extraordinary educated, English speaking and multi-lingual and strong entrepreneurial tradition. It also a very young country with almost 70% of the population is under the age of 35. A high growth will however depend on improved infrastructure, economic governance and greater economic reform. (Doing business in Kenya 2012).

3.1 Assessment of the Kenya using PESTLE framework

3.1.1 Economic environment

The move to liberalize the economy laid the ground work for an investment friendly environment. The economic recovery strategy as set out in vision 2030 is targeted at industrialization and at creating over 500000 jobs annually. In addition to this Kenya is a member of East Africa community and COMESA and is one of the signatories of the East Africa Custom Union creating a common external tariff for goods coming outside the region. This has made it attractive to foreign investors and companies looking to access the East and Central African markets. Kenya also enjoys a relatively well developed financial market, with the Nairobi stock exchange and the Capital Markets Authority opening up more listings on the stock markets by giving incentives to companies that want list their shares. The Capital Market Authority has also enhanced investments by foreigners by allowing them to participate in the Nairobi stock exchange which has boosted most of the share trading and has helped push the prices up. (Business environment of Kenya 2012.)

Kenya economy has been growing at a rate of 5.6% since 2010 exceeding forecast. Growth was strong across all sectors and quarters. This recovery was due to various factors, including a rebound in agricultural and industrial production, a range of tax treaties and investment protection and protection agreements. A stable pro-investment government, business regulatory reforms, a large pool of skilled English enterprising workers, fully liberalized economy, preferential market, access within the region the E.U., America and Asia and the full implementation of the fiscal stimuli. Kenya economy depends on agriculture and tourism. (Doing business in Kenya 2012.)

Kenya is a natural hub for regional services and regional headquarters due to its high quality manpower and its amenities. Many foreign investors in based in Kenya sell services to the region. (Doing business in Kenya 2012.)

Export- led agribusiness has developed international competitiveness, in significant part due to FDI. The port of Mombasa is the most important deep-water port in the region, supplying the shipping needs of more than a dozen countries.
(Doing business in Kenya 2012).

Nairobi is the undisputed transportation hub of Eastern and Central Africa and the largest city between Cairo and Johannesburg. The Port of Mombasa is the most important deep-water port in the region, supplying the shipping needs of more than a dozen countries despite stubborn deficiencies in equipment, inefficiency, and corruption. (Doing business in Kenya, 2012).

Kenya's financial and manufacturing industries, while relatively modest, are the most sophisticated in Eastern Africa. Its tourism industry, one of the most successful in the world, continued to expand until early 2008 when the growth was disrupted by the disputed presidential election but the industry has managed to catch up, and is now the third largest industry in Kenya after agriculture and horticulture. While Kenya’s mineral resources are limited, it is a potentially important source of valuable materials such as titanium, and some oil exploration is taking place off the Indian Ocean coast.
(Doing business in Kenya 2012.)

In road and housing construction exists, important opportunities for exporters in the supply of new and used construction equipment (light and heavy earth-moving equipment, loaders, crawlers, excavators, compactors, graders, and quarry mining equipment), low cost housing construction technology and know-how.
(Doing business in Kenya 2012.)

3.1.2 Political environment

Kenya suffered political violence when incumbent President Mwai Kibaki declared victory in the December 2007 elections and the opposing political party also claimed victory. Shortly thereafter violence erupted. Eventual intervention by high-level Africa Union and United Nations leaders resulted in a power sharing agreement that left Mwai Kibaki has president but established a Prime Minister position for opposition

Raila Odinga, in addition to doubling the number of Cabinet-level positions. The political crises disrupted every sector of the economy, and while the analysts estimate losses in the Billions of dollars, the true cost may never be fully understood. In spite of the 2008 violence, Kenya 27 billion dollars economy is still the largest and most diversified in the region 2007 GDP estimate. (Doing business in Kenya 2012.)

3.1.3 Social and cultural environment

Kenya social-cultural environment can be divided into the following education, adequate standard of living, good health facilities and right to cultural activities.
In the last two decades, Kenya has recorded a lot of growth in the educational sector. The number of public universities has grown from three to more than six and more than seven private universities and many accreditations from universities outside the country. The impact on business has been enormous.
(Business environment of Kenya 2010.)

There are new requirements that companies need to comply with that are the strict health and safety standards, corporate social responsibility expectations, labour laws and affirmative action. This has had an impact on most companies' bottom lines as their objectives have to include more than just profit maximization. Other development include the rise of woman to positions of power and this has led companies to reconsider amount of time given to nursing mothers, with some companies providing nursing lounges for their employees.
(Business environment of Kenya 2010.)

3.1.4 Legal environment

In Kenya there is a new commitment to supporting commercial courts, charter for business regulation and inspections, enhanced transparency in tax administration and issuing of business visas. There is a focus update on the legal framework and supervision of legal institutions and implementation of a program in legal sector aimed at protecting economic transactions. (Doing business in Kenya 2012.)

Kenya, s people and private companies cannot rely on the judicial system to apply the law equitably, based solely on the merits of a case and the law that applies. Legal recourse is slow and expensive. Popular wisdom supposes that government decisions are often more closely related to the personal incentives affecting judges and bureaucrats than the letter of the law. While there are many honorable and honest judges and civil servants, on balance there is considerable cynicism about the objectivity of executive and judicial branch decisions. This is especially damaging to companies who refuse to pay bribes. (Doing business in Kenya 2012.)

Widespread violations of intellectual property rights (IPR) for videos, music, software, and consumer goods continue to cause for some companies. The uncontrolled entry of counterfeit and substandard goods has caused deaths and injured consumers, and severely damaged brand names, sales and viability of many consumers packaged goods companies, both in Kenya and neighboring countries. In Kenya a common complaint is that it only takes too long to get anything done but that is particularly painful judicature. Cases drag for years or end in courts of law due to limited capacity. This is not encouragement to business and losses usually run into billions of shillings.
(Doing business in Kenya 2012.)

Title to land is uncertain, reducing the borrowing capacity of families and businesses and constraining Kenya's ability to broaden its capital base. Land reform is decisive and emotional issue, complicated by tribal traditions and perceived historical injustices, which Kenya's young democracy has been unable to resolve to date.
(Doing business in Kenya 2012.)

The government has been unable to provide a secure environment for businesses and families, especially in urban settings. Property crime and violence are major concerns in the cities and normally but avoidable cost for companies. Kenya is therefore seen as insecure state whose investment environment is judged as risky, this limits capital inflow. (Doing business in Kenya 2012.)

3.1.5 Technological environment

The last two decades have seen rapid development in technology. Mobile phone technology that was unheard two decades ago. Now there are four mobile phone companies in Kenya that is Safaricom, Essar, Zain and Orange, with fixed telephony quickly fading in favor of wireless telephones. (Business environment of Kenya 2012.)

The demand for telephone receivers and cellular telephones is expected to continue growing at a high rate following the removal of all duties for these product categories. Growth in Kenya's mobile telephony sector since 1998 has been phenomenal (from just over 10, 000 subscribers to about 20 million in 2010), and will continue to provide demand for telecommunication technologies including 3G modems. Best sales prospect include computers, data terminals, modems, payphone terminals, routers, broadband equipment. Fibre cable will also be on demand as fibre backbone spread throughout the country. (Doing business in Kenya 2012.)

Three fibre optic cables (Seacom, Eassy, Teams) landed in Kenya 2009, and another (Lion2 by France Telcom) arrived in 2010. Internet access, which previously has been limited to satellite transmissions, will see very rapid growth available bandwidth. Hardware and software solutions that enable competitors to undercut historically high internet costs could precipitate a shakeout among current ISPs. Kenyan industry hopes to competitive in business process outsourcing (BPO) based on dramatically low internet cost. (Doing business in Kenya 2012.)

4 Methodology

4.1 Research approach

According to Bryman & Bell (2007), quantitative research can be constructed to entail a deductive approach to the relationship between theory and research, in which the accent is placed on the testing theories.

4.2 Research objective

The objective of this study was to analyze the factors that affect the entry mode of choice of Chinese and British companies doing business in Kenya. Further the study was to analyze the motives behind the international expansion of these companies to the Kenya market, the operational challenges they faced when they entered the Kenyan market and lastly the entry modes they used to enter Kenya. This approach would help in building theoretical framework on how international company would succeed on entering this business environment.

4.3 Respondent selection

From Kenya state law office I obtain a list of Chinese and British companies doing business in Kenya upon requesting and signing up. In the list I chose 100 companies which are well established, and for equitable distribution I chose 50 Chinese and 50 British companies. I contacted these companies through telephone by explaining to them why I am doing this research and asked them if they could participate in the survey, further I asked for their emails so that I can send them the survey. Answers were collected from 25 Chinese companies which is a respond rate of 50% and 40 British which a respond rate of 80%.

4.3.1 Non – response analysis

There were 25 Chinese companies which didn't answer the survey, which translate to none respond of 50% and there were 10 British companies which didn't answer the survey send to them, which is a non- respond of 20%.

4.3.2 Reasons for non-response (Chinese companies)

15 companies had agreed to participate in the survey earlier but when I send the survey to them they did not answer. Six companies also said that company data we asked in the survey are confidential and said they will not fill the survey. Four companies that answered the survey were disregarded because the survey was not filled properly.

4.3.3 Reason for non-response (British companies)

Three companies said that the person involved in the establishment of that company in Kenya no longer works there that why they did not answer the survey. Five companies that had agreed to participate in the survey earlier did answer when the survey was send them .Two companies that answered the survey were disregarded because the survey was not filled properly.

4.4 Measurements

The survey was made of multiple choice questions and ranking questions. In ranking questions the respondent had an option to choose one answer in one question and more answers in certain questions. And ranking questions the respondent had to rank questions in scale of 1-5 whereby 1 is low and 5 high.

4.4.1 Validity

Validity according to Bell (2007) can be defined as a certain measures or describe what you want measure. The survey questions has been formed in order to answer the following questions: what are the motives behind internationalization of these companies to Kenya market; what are the challenges did these companies faced when they entered the Kenya market; what affect their entry mode choice in the Kenya market and lastly what is the most appropriate market entry mode to enter the Kenya market. According to Saunders (2007) when ranking questions you need to ensure instructions are clear and well understood by the respondent.

4.4.2 Reliability

Reliability according to Bell (2007) is a measure of in what extent an instrument gives the same results at different point in time with same general circumstances. It is important to explain clearly and concisely why you want the respondent to complete the survey (Saunders et al., 2007). So the questions were constructed carefully not put two questions in a single question, and also not include leading questions in order to minimize misinterpretations and lastly the questionnaire should look attractive for the respondent. According to Saunders et al., (2007) it is important pilot test the questionnaires so that the respondents will no problem in answering the questions and thereby recording the data. I therefore tested the survey 4 times until I ensure its functioning properly.

5 Results and conclusions

5.1 Findings

Table 3: Findings on the motives of Chinese companies' international expansion to Kenya

Reasons for Chinese companies expansion to Kenya	Number of companies that were motivated by that reason	%
Seeking new markets for growth	10	**40**
Securing natural resources	8	**32**
Intense competition in the domestic market	4	**16**
Acquiring new technology	2	**8**
Diversification of risks	1	**4**
Total	25	**100**

In the survey as seen in table 3, I found that that seeking new markets for growth and securing raw materials were the major motives for Chinese companies' expansion to Kenyan market and the least of the factors was diversification of the risks.

Table 4: Findings on the Motives of British companies' international expansion to Kenya

Reasons for British companies global expansion	Number of companies that were motivated by that reason	%
Securing natural resources	15	37.5
To be profitable	14	35
Intense competition in the home market	7	17.5
Decline demand in the home market	3	7.5
Surplus production	1	2.5
Total	40	100

From the survey as seen in table 4, I found that securing natural resources and profitability was the major motives for international expansion to Kenya by British companies. And the least of the factors was surplus production in the home market.

Table 5 Findings on the challenges faced by Chinese companies when they entered the Kenyan market

Type of the challenge	Number of companies that encounter that challenge	%
Lack of manpower with managerial and technical skills	1	4
Poor infrastructure and remote sites	10	40
Supply chain and logistic problems	2	8
Lack of personnel with international experience	8	32
High oil prices	2	8
Language problems and different cultural practices	2	8
Total	25	100

From the survey as seen in table 5, poor infrastructure was the most challenging problem for the Chinese companies followed lack of personnel with and the least was lack of manpower with managerial and technical skills.

Table 6 Finding on the challenges faced by British Companies when they entered the Kenya market

Type of challenge	Number of companies that encounter that challenge	%
Poor infrastructure and remote sites	20	50
Lack of manpower with managerial and technical skills	3	7.5
High oil prices	5	12.5
Supply chain and Logistic problems	10	25
Lack of personnel with international experience	2	5
Total	40	100

From the survey as seen in table 6, poor infrastructure and remote sites was the most challenging problem experienced by British companies when they entered the Kenyan market, followed by supply chain and logistic problems and the least of the challenging problem is lack of personnel with international experience.

Comparing the challenges encountered by both Chinese and British companies
As seen in both table 5 and table 6, poor infrastructure and remote sites was the key challenge faced by both Chinese and British companies.

Table 7 Findings on attractiveness aspect of Kenya market by Chinese companies

Attractive aspect of Kenya	Ranking in the scale of 1-5 low is 1 and high is 5				
	1	2	3	4	5
Size of the market	-	-	-	-	+
Strategic position	-	-	-	+	-
Wealth of consumers	+	-	-	-	-

From the survey as seen in table 7, Chinese companies said that Kenya market size is what attracted them most followed closely by its strategic position in the region, but the wealth of consumers had little effect on their entry mode choice.

Table 8 Findings on attractiveness aspect of Kenya market by British companies

Attractive aspect of Kenya	Ranking in the scale of 1-5 low is 1 and high is 5				
	1	2	3	4	5
Size of the market	-	-	-	-	+
Strategic position	-	-	-	-	+
Wealth of consumers	-	-	+	-	-

From the survey as in table 8, Kenya market size and its strategic position in the region is what affected the entry mode choice of British companies at the highest; however they were also moderately affected by political risks of Kenya.

Table 9 Findings on effects of country risks on entry mode choice
(Chinese companies)

Type of risk-	Ranking of the risks in the host country in the scale of 1-5 low is 1 and 5 is high				
	1	2	3	4	5
political risks	-	-	+	-	-
Currency risks	-	-	+	-	-
Legal risks	-	-	-	-	-+

As seen in table 9, Chinese companies said that legal risks is what affected their entry mode choice at the highest, but political and currency risk affected their entry mode choice moderately.

Table 10 Findings on effects of country risks on entry mode choice
(British companies)

Type of risks	Ranking of the risks in host country in the scale of 1-5 low is 1 and 5 is high				
	1	**2**	**3**	**4**	**5**
political risks	**-**	**-**	**+**	**-**	**-**
Currency risks	**+**	**-**	**-**	**-**	**-**
Legal risks	-	-	-	-	+

As seen in table 10, British companies said that legal risks is what affected their entry mode choice most followed moderately by political risks , however currency risks had a little effect on their entry mode choice to the Kenyan market.

Table 11 Findings on entry mode used by Chinese companies to enter Kenya

Entry mode used	Number of companies that used that entry mode	%
Sales agents	1	4
Exporting	8	32
Joint ventures	2	8
Licensing and Franchising	2	8
Wholly owned manufacturing facilities	12	48
Total	25	100

As seen in the table 11, Chinese companies preferred wholly owned manufacturing facilities and exporting than the other entry modes to enter the Kenya market.

Table 12 Findings on the entry mode used by British companies to enter Kenya

Entry mode used	Number of companies that used that entry mode	%
Sales agents	2	5
Exporting	1	2.5
Joint ventures	15	12.5
Licensing and Franchising	2	5
Wholly owned manufacturing facilities	20	75
Total	40	100

As seen in the table 12, British companies favored wholly owned manufacturing facilities and joint ventures compared to other entry modes to enter Kenya market.

Table 13 Findings on how the following aspects of cultural distance between Britain and Kenya affected the entry modes choice of British companies

Aspect of cultural distance	Ranking 1 (low) and 5 (high). How British companies rank cultural distance between Kenya and Britain				
	1	2	3	4	5
Religion	+	-	-	-	-
Language	+	-	-	-	-
Education level in the host country	+	-	-	-	-
Business practices	+	-	-	-	-

As seen in table 13, British companies experienced less cultural distance when they entered the Kenya market**.** The low cultural distance between Kenya and Britain is due to the fact that Kenya has been Britain colony since the beginning of 19th century, and this helped to bridge the gap of cultural difference between the two countries. Till now Kenya use the British business practices thus making easier for British companies to venture into Kenya.

Table 14 Findings on how the following aspects of cultural distance between Kenya and China affected the entry mode choice of Chinese companies

Aspect of cultural distance	Ranking 1(low) and 5 (high). How Chinese companies rank cultural distance between Kenya and China				
	1	2	3	4	5
Education level in the the host country	-	-	+	-	-
Language	-	-	-	-	+
Business practices	-	-	-	-	+
Religion	+	-	-	-	-

As seen in table 14, Chinese companies were affected most by cultural distance when they entered the Kenyan market.

5.2 Conclusions

The result of the survey shows that host country government restrictions actually affect entry mode decision. Foreign direct investment were highly favored by both British and Chinese companies because the government of Kenya has imposed certain restrictions on the other entry modes, also there are tax- breaks and low tax for those companies who use FDIs since they want to encourage them to invest in Kenya.

Cultural distance adversely affected Chinese companies in the choice of entry mode because cultural distance is large, because Chinese executives and personnel need to learn new business practices in Kenya. However cultural distance has very little effect on the choice of entry mode of British companies because Kenya has been a British colony before it got its independence, so Kenya adopted British business practices, British education system since independence.

Legal risks to large extent had effect on the choice of entry mode of Chinese and British companies as compared to other country risks such as currency risks and political risks.

Poor infrastructure and remote sites was the most challenging problem faced by both British and Chinese companies to the large extent since Kenya doesn't have a well-developed transport network. However Kenya government is now embarking on vision 2030 which among the new major projects is the building of new infrastructure which includes new roads and rail which will help to cut down the cost of doing business in the country thus attracting new investment. (Vision 2030 Kenya 2010)

Kenya market size and it, s strategic position in the region are factors that affected that affected their entry choice at the most.

The study finds that both the British and Chinese companies are motivated to expand to Kenya not only for single reason but a set of multiple motives.

There is need to train executives, managers and other company employees before they venture into real world of business. The training should not only impart the necessary information pertaining to the industry and the competition but also help the trainee understand the effects of cultural differences on everyday business transactions.

6 Recommendations

6.1 Limitation and Suggestion for future studies

First this study did not achieve 100% response rate because of high non- response among the target companies especially the Chinese companies, restrictive policies and reluctance of the target companies' respondents not to fill in the online survey send to them nevertheless they had agreed earlier to answer the survey.

Secondly because of limited time and resources, efforts of obtaining more responses were greatly hampered. It is therefore suggested that a similar study be carried out targeting companies that never responded and compare results with those of current study.

Future researchers should look into the area that was not dealt in this research that is finding out the entry modes that were used by companies from U.S.A, South Africa, Germany and India in order to conclusively determined the mostly widely used entry modes to enter Kenya. Further researchers should do an assessment of the regional blocks such as E.A.C and COMESA since this can have major implications for those companies who are already in the Kenyan market for example when conflict interest arises within the regional blocks companies should know what to do.

6.2 Implications to the managers

Managers should take much consideration in evaluating advantages and disadvantages of each entry before making a decision.

They should have room for change in their entry mode strategy when the need arises for example change in government policies concerning ownership restrictions and taxation can change overnight.

The study has provided evidence that host country factors such trade barriers, social and cultural, country risks and uncertainties', economic and market potential affect the entry mode choice of companies. Therefore these results imply that companies' executives, managers and other decision makers should adequately monitor the country host factors before they decide which entry mode to use.

6.3 Own reflections of the thesis writing process

During my thesis writing process I faced some difficulties in the following areas: collecting the information from the respondents of Chinese companies due to secretive nature in which these companies operate. Most of the respondents had to seek permission from the upper hierarchy of the company and it took me a long time before I receive the respondents feed-back from the survey I send to them, and that partly delayed my thesis writing process. However collecting information from the British companies was an easy task partly due to the open nature of these companies and also due little communication problems because English language that I used in writing the survey is their mother tongue, so it was easier for them to understand the content of the survey unlike the Chinese respondents which had difficulties on the language because they didn't understand English well.

Another difficulty that I encountered in the thesis writing process was in the area of the literature review for example it was difficult to find books and internet sources that talks about the challenges companies face in Africa in this case foreign companies in Kenya.

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ATTACHMENTS

Attachment 1. List of tables and figures

Attachment 2. Questionnaire

1. What type of entry mode did your company use to enter Kenya?
   choose only one answer

- 1. Strategic alliances
- 2. Joint ventures
- 3. Wholly owned manufacturing facilities
- 4. Sales agents
- 5. Licensing
- 6. Franchising
- 7. Exporting

2. What are the motives behind internalization of your company to Kenya?
   you can choose more than one answer

- 1. Securing natural resources
- 2. To be profitable
- 3.Seeking new markets for growth
- 4.Decline demand in the home market
- 5. Surplus production
- 6. Diversification of risks
- 7. Acquiring new technology
- 8.Intense competition in the home market

3. What challenges did your company experience in the Kenyan market?
   you can choose more than one answer

- 1.Lack of personnel with international experience

- 2. Distribuution problems
- 3. Poor infrastructure
- 4. Supply chain and logistic problems
- 5. Language difficulty
- 6. Fluctuation of oil prices

4. What factors affected your entry mode choice in Kenya?

you can choose more than one answer

- 1. Country risks and uncertainties
- 2. Trade barriers
- 3. Market potential
- 4. Social and cultural environment
- 5.Economic situation of the country

5. How the following host country risks affected your entry mode choice?

ranking scale (low) 1-5 (high)

	1	2	3	4	5
1. Political risks	○	○	○	○	○
2. Currency risks	○	○	○	○	○

3. Legal risks ◯ ◯ ◯ ◯ ◯

6. How the following host country market potential affected your entry mode choice?
ranking scale (low) 1-5 (high

	1	2	3	4	5
1. Kenya strategic position in the region	◯	◯	◯	◯	◯
2. Size of the market	◯	◯	◯	◯	◯
3. present wealth of consumers	◯	◯	◯	◯	◯

7. How the following cultural aspects in Kenya affected your company entry mode choice ranking scale (Low) 1 -5 (high)

	1	2	3	4	5
1.Education level in the host country	◯	◯	◯	◯	◯

2. Language

3. Religion

4. Business practices

8. Fill in your contact

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Lastname

Mobile

Email

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ZIP code

City

Country

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Company / Organization

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