International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 9, September 2015
http://ijecm.co.uk/ ISSN 2348 0386

THE INFLUENCE OF INTERNATIONAL MARKET ENTRY STRATEGIES ON FIRM FINANCIAL PERFORMANCE

A STUDY OF THE MANUFACTURING MULTINATIONALS IN KENYA

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Abstract

This study examined the influence of international market entry strategies on the financial performance of manufacturing multinationals in Kenya. 108 manufacturing firms which are located in Nairobi formed the population of the study. Questionnaire was used as the preferred data collection tool. Both descriptive and inferential statistics were utilized to facilitate data analysis. Results indicated that manufacturing multinationals used various international market strategies to venture into business. These strategies include licensing, whole owned subsidiaries, joint venture, exporting, direct investment and strategic alliances. Study findings also indicated that firms intending to go international do consider various factors when making a choice of a market entry strategy. These considerations include resources available, company competence, competition in the market, size of the host country, availability of possible partnering firms within host country, host country requirements and state of firm development. Regression results indicated that market entry strategies do influence firm financial performance (profitability and market share). The study concludes that manufacturing multinational firms use more than one market entry strategy to venture into the international arena and all market entry strategies have a positive and significant relationship with performance of firms. The study recommends that multinationals firms to invest in research to facilitate fact-based decisions on the choice of international market entry strategies.

Keywords: international, market entry, strategies, manufacturing, multinational, performance

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INTRODUCTION

When a firm is going to explore a foreign market, the choice of the best mode of entry is decided by the firm's expansion strategy. The main aim of every business organization is to establish itself in the global market. Thus, the process calls for developing an effective international marketing strategy in order to identify the international opportunities, explore resources and capabilities, and utilize core competencies in order to better implement the overall international strategies. The decision of how to enter a foreign market can have a significant impact on the results. Companies can expand into foreign markets via four mechanisms namely exporting, licensing, joint venture and direct investment All the marketing strategies have their advantages for the firm to explore as well as disadvantages which must be considered by the firm's top management. "What entry mode that a multinational company chooses has implications on how much resources the company must commit to its foreign operations, the risk that the company must bear, and the degree of control that the company can exercise over the operations on the new market" (Zekiri and Angelova, 2011)

Market entry strategies for Multinationals in Kenya

Multinational corporations (MNCs) operate in a global environment unfamiliar in political, economic, social, cultural, technological and legal aspects. Increased competition among multinational corporations and the entry of other players in the Kenyan market necessitate the design of competitive strategies that guarantee performance. MNCs in Kenya have adopted a number of strategies including: better quality, excellent customer service, innovation, differentiation, diversification, cost cutting measures, strategic alliances, joint venture, mergers/acquisitions and not forgetting lower prices, to weather competitive challenges (Murage, 2001).

Kinuthia (2010) suggests that Foreign Direct Investment (FDI) has risen in Kenya from the 1990s due to the liberalization of the economy. FDI is mainly concentrated in the manufacturing sector and is mainly greenfield in nature. Most of FDI in Kenya is export oriented and market seeking. The most important FDI determinants in Kenya and within the region include market size, and bilateral trade agreements between Kenya and other countries, political and economic instability in Kenya, crime and insecurity, institutional factors such as corruption, delayed licenses and work permits among other factors. Well-established and hitherto dominant multinational companies in Kenya are suddenly finding themselves sailing in turbulent waters. The latest multinational to leave the scene with a bloodied nose is the 200-year-old Colgate Palmolive, a global business concern. The list also includes, Johnson & Johnson, Agip, Unilever, Procter & Gamble, and recently, ExxonMobil, just to mention a few.

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Ndegwa and Otieno (2008) conducted a study on market entry strategies for a transition country. The focus was on motives to enter developing countries, the strategies used to enter developing countries, the factors influencing the decision of entry strategy, and finally problems facing companies entering developing markets experience. The study concluded that the most significant motive to enter developing countries is potential growth of the market, the most suitable entry mode strategy is joint venture, the most significant factor influencing the entry mode decision is the legal framework, and the largest problem experienced by companies investing in the country is bureaucracy.

Manufacturing Sector in Kenya

Kenya's sector has grown over time both in terms of its contribution to the country's GDP and employment. The average size of this sector for tropical Africa is 8 percent. Despite the importance and size of this sector in Kenya, it is still very small when compared to that of the industrialized nations. Awino (2007) argues that Kenya's manufacturing sector has been going through a major transition period largely due to the structural reform process, which the Kenya government has been implementing since the mid-eighties with a view to improving the economic and social environment of the country. The manufacturing industry in Kenya can be classified under three main sectors, namely, the agro-based industrial sector, engineering and construction industrial sector and the chemical and mineral industrial sector. There are 108 multinationals in the manufacturing sector in Kenya. The performance of manufacturing multinationals has improved over the last decade.

Statement of the problem

The choice for a particular entry mode is a critical determinant in the successful running of a foreign operation. Decisions of how to enter a foreign market can have a significant impact on the results. There are several strategies that manufacturing firms can select from when they want to gain entry to a new international market such as exporting; licensing and franchising; strategic alliances; and wholly owned foreign subsidiaries. Studies on the relationship between the choice of international market entry strategy and firm performance are abundant at global level. These include Taylor and Zou (1998, 2000); Zekir and Angelova (2011) Studies on the choice of international market entry strategy and firm performance seem to concentrate on the developed and emerging countries. Within the Kenyan context, there is scarcity of studies on the marketing strategies techniques used by firms in Kenya and in particular those that attempts to examine the relationship between international market entry strategies and performance of manufacturing multinationals in Kenya, hence the focus of this study.

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The main objective of this study was to assess the influence of market entry strategies on performance of manufacturing multinationals in Kenya. In order to address this objective objectively, efforts were directed to: identify the international market entry strategies used by manufacturing multinationals in Kenya, establish factors influencing choice of market entry strategies by manufacturing multinationals in Kenya and finally examine the influence of market entry strategies on the performance of manufacturing multinationals in Kenya.

LITERATURE REVIEW

Theoretical Review

Foreign market entry strategies

International market entry modes can be classified according to level of control, resource commitment, and risk involvement (Hill, Hwang and Kim, 1990). For example, in a study of the international operations of service firms in the United States, Erramilli and Rao (1993) classify market entry modes into two categories based on their level of control—full-control (i.e. wholly owned operation) and shared-control mode (i.e. contractual transfer or joint venture). The classification system adopted by Kim and Hwang (1992) is three fold: licensing, joint ventures and wholly owned subsidiaries. Kim and Hwang believe that these methods provide three distinctive levels of control and require different levels of resource commitment.

When multinational enterprises (MNE) plan to expand overseas, they face several entry modes. Root (1994) defines an international market entry mode as an "institutional arrangement that makes possible the entry of a companys product, technology, human skills, management, or other resources into a foreign country." Entry modes can be classified into three categories: Export entry mode, contractual entry mode and investment entry mode (Root, 1994). Agarwal and Ramaswami (1992) suggest that the most commonly used entry modes are exporting, licensing, joint venture and sole venture. These methods involve varying levels of resource commitment. Based on the location of products produced, Terpstra and Sarathy (2000) divide market entry methods into three major categories—indirect exporting, direct exporting and foreign manufacturing.

Many forms of market entry strategy are available to firms to enter international markets. One classification first distinguishes between equity and non-equity modes. Equity modes involve firms taking some degree of ownership of the market organizations involved, including wholly owned subsidiaries and joint ventures. Non equity modes do not involve ownership and include exporting or some form contractual agreements such as licensing or franchising (Wilkinson and Nguyen, 2003). Caves (1982) identified four basic ways to expand

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internationally, from the lowest to the highest risk: exporting; licensing and franchising; strategic alliances; and wholly owned foreign subsidiaries.

Cateora and Graham (2002) stated there are six basic strategies for entering a new market: export/import, licensing and franchising, joint venturing, consortia, partially-owned subsidiaries, and wholly-owned subsidiaries. Generally, these represent a continuum from lowest to highest investment and concomitant risk-return potential. In choosing a particular strategy, a company constructs a fit between its internal corporate risk “comfort level” and the externally-perceived risk level of the target entry market. Two companies may perceive different risks as they evaluate the same market and therefore choose different entry modes. Two companies also may perceive the same risks in a country but still choose different strategies because of their firm’s differing tolerances of risk. More specifically, the different market-entry strategies can be encapsulated as follows.

Karkkainen (2005) suggest that the initial classification of different international entry modes is founded on two separate characteristics; the location of manufacturing facilities, and the percentage of ownership the firm desire in foreign investment. Entry in the foreign markets can occur in two ways based on the location of the manufacturing facilities. The firm can either export its products to the target country from production facilities outside that country (exporting strategies), or the firm can transfer its resources in technology, capital, human skills, and enterprise to the foreign country, where they may be sold directly to users or combined with local resources to manufacture products for sale in local market (non exporting strategies). The second characteristic (percentage of ownership) offers three different options; none, partly or wholly owned investment.

Osland and Cavusgil (1996) suggest that the different entry strategies are: exports, contractual agreements (such as licensing agreements), equity joint ventures, partial and wholly owned foreign acquisitions, and Greenfield startup investments. Nonequity- based entry strategies offer better protection against country risks and transactional hazards than equity-based strategies but non-equity strategies, such as export and contractual agreements, enable less organizational learning. Barkema, Bell and Pennings (1996) suggest that low commitment entry strategies may be preferred to overcome unfamiliarity with the host country environment For example, the establishment of a subsidiary through the acquisition of a local firm permits fast access to foreign firms' knowledge (e.g., market or technological knowledge), and access to an already established market position. An acquisition also provides some degree of immediate embeddedness and allows the firm to enter a network of ties to suppliers, clients and agents in the host country.

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Expansion into foreign markets can be achieved via the following mechanisms: Exporting, Licensing, Franchising, Joint Venture, Direct Investment (Kim and Hwang,1992; Agarwal and Ramaswami,1992; Root, 1994; Erramilli and Rao,1993). Exporting is the marketing and direct sale of domestically-produced goods in another country. Exporting is a traditional and well-established method of reaching foreign markets. There is no need for the company to invest in a foreign country because exporting does not require that the goods be produced in the target country. Most of the costs associated with exporting take the form of marketing expenses. Therefore, exporting is appropriate when there is a low trade barrier, home location has an advantage on costs and when customization is not crucial (Kim and Hwang, 1992).

A license arrangement is a business arrangement where a licensor using its monopoly position and right such as a Patent, a Trade Mark, a design or a copyright that has exclusive right which prevents others from exploiting the idea, design, name or logo commercially. The licensee pays a fee in exchange for the rights to use the intangible property and possibly for technical assistance (Erramilli and Rao, 1993). Franchising is a similar entry mode to licensing. By the payment of a royalty fee, the franchisee will obtain the major business know-how via an agreement with the franchiser. The know-how also includes such intangible properties as patents, trademarks and so on. The difference from the licensing mode of entry is that the franchisee must obey certain rules given by franchiser. Franchising is most commonly used in service industries, such as McDonald’s, etc. (Hill, Hwang and Kim, 1990). Joint ventures represent an agreement between two parties to work together on a certain project, Operate in a particular market, etc. Some of the main common objectives in a joint venture: Market entry; Risk and reward sharing; Technology sharing and joint product development, etc. (Kwon and Konopa, 1993)

Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It involves capital, technology, and personnel. FDI can be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment, and the market in general. However, it requires a high level of resources and a high degree of commitment (Root, 1994). Acquisitions can be defined as a corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are often made as part of a company's growth strategy whereby it is more beneficial to take over an existing firm's operations and niche compared to expanding on its own (Investopedia.com, 2011)

Green field can be defined as a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities

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from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees (Investopedia.com, 2011). The main advantages of setting up a new company: normally feasible, avoids risk of overpayment, avoids problem of integration, Still retains full control. The main disadvantages of setting up a new company: Slower startup requires knowledge of foreign management, high risk and high commitment. Acquisition is appropriate when the market is developed for corporate control, the acquirer has high absorptive capacity, and when there is high synergy, whereas Green field entry is appropriate when there is lack of proper acquisition target, in-house local expertise, and embedded competitive advantage (Agarwal and Ramaswami, 1992).

Empirical Literature

Foreign market entry strategies

Kinuthia (2010) suggests that Foreign firms in Kenya since the 1970s have invested in a wide range of sectors. Most notably they played a major role in floriculture and horticulture, with close to 90 percent of flowers being controlled by foreign affiliates. In the Manufacturing sector FDI has concentrated on the consumer goods sector, such as food and beverage industries. This has changed in the recent years with the growth of the garment sector because of African Growth and Opportunities Act (AGOA). Of the 34 companies involved in AGOA 28 are foreign most of them concentrated in the Export Processing Zones (EPZs). FDI is also distributed to other sectors including services, telecommunication among others. 55 percent of the foreign firms are concentrated in Nairobi while Mombasa accounts for about 23 percent, thus Nairobi and Mombasa account for over 78 percent of FDI in Kenya. The main form of FDI establishment has been through the form of green fields establishments and Kenya has in total more than 200 multinational corporations. Taylor and Zou (1999) conducted a study on foreign market entry strategies for Japanese MNCs. Zekir and Angelova (2011) conducted a study on factors that influence choice of entry mode strategies in foreign markets. Chung and Enderwick (2001) conducted an investigation of Market Entry Strategy Selection: Exporting vs Foreign Direct Investment Modes—A Home-host Country Scenario.

Agarwal and Ramaswami (1992) suggest that the most commonly used entry modes are exporting, licensing, joint venture and sole venture. These methods involve varying levels of resource commitment. Tallman and Fladmoe-Lindquist (2002) suggest that joint ventures have also been noted as vehicles for learning since cooperation with a local partner provides the focal firm an opportunity to utilize the partner's local market knowledge and social and business ties. In addition, joint ventures allow technological advancement through the transfer of technologies among partners. In contrast, contractual agreements (i.e., licensing, R&D contracts, alliances,

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etc.) often involve explicit descriptions of technologies intended to be learned by one party. Finally, a Greenfield entry strategy essentially consists of the replication in a foreign target of home country operations. This strategy is based on full control over the foreign subsidiaries and pretty much an ethnocentric orientation whereby directives emanate from corporate headquarters. While this strategy is appropriate when seeking to protect proprietary resources and technologies it is also the one that imposes higher degrees of "foreignness" in the host market. When multinational enterprises (MNE) plan to expand overseas, they face several entry modes.

Factors influencing choice of an entry strategy

Because many factors influencing the choice of market entry modes have been suggested in the literature, The influence of location factors on the choice of market entry modes has been specifically or partially examined in a number of studies (e.g. Kwon and Konopa, 1993; Brouthers, Brouthers and Werner, 1996; Hill, Hwang and Kim, 1990; Kim and Hwang, 1992; Terpstra andYu, 1988). Prior studies have offered a number of subthemes for examining the impact of host country location factors on the market entry decision. As these items have been reviewed and reported thoroughly in several recent studies (Sarkar and Cavusgil, 1996; Tatoglu and Glaister, 1998), a complete review on this literature might seem to be redundant. Past studies have suggested that the choice of FDI modes is related to a firm’s familiarity with the host market (Gatignon and Anderson, 1988; Sarkar and Cavusgil, 1996; Kim and Hwang, 1992). It has been found that firms which have prior host market experience are more likely to choose a FDI mode (Kim and Hwang, 1992).

Although it has not yet been included in the market entry mode literature, the immigrant effect has been widely discussed in the general business literature (e.g. Gould, 1994; Lever-Tracy et al., 1991). These studies suggest that immigrants from the host market are likely to act as a bridge between the foreign firm and the host market. Immigrants often have significant knowledge about their country of origin and understand the culture of the host market well. The findings of previous studies’ (Gould, 1994; Lever- Tracy et al., 1991) have implied that the immigrant effect could be considered as a location endowment of a firm. In this study, this variable is suggested as a factor of location-specific endowment in the FDI literature. A number of studies assert that target country market characteristics affect the choice of market servicing modes. Research has indicated that the size of the host country is an important attraction to foreign direct investment (Agarwal and Ramaswami, 1992; Kwon and Konopa, 1993; Root, 1994; Terpstra and Yu, 1988).

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Partnership and networking resources of various kinds are less important for entering institutionally mature countries, such as those of the European Union or the U.S. because these countries already have well-established institutions that facilitate internationalization (Henisz, 2000).

Developed countries possess well-structured, highly specialized and effective institutions, which smooth the process of MNEs' entry. In addition, because these countries have more sophisticated markets and more developed firms (both domestic firms and subsidiaries of foreign MNEs), it is likely that foreign firms entering these countries will base their advantage on some form of intangible resource (e.g., knowledge) or capability (Kogut and Zander, 1992; Dunning, 1998). Thus, it is important for MNEs to internally guard their firm-specific advantage(s) to compete in host countries. As a result, these MNEs are more likely to prefer wholly-owned subsidiaries to protect their advantages (Buckley and Casson, 1976; Dunning, 1998). In contrast, MNEs are more likely to select collaborative entry strategies to uncover the possible hazards of embedded rules and hidden norms when they enter an institutionally primitive market from an institutionally mature market (Johanson and Mattson, 1988; Chen and Chen, 1998).

Foreign entry strategies are also determined by the degree of conformity to internal pressures Internal pressures include existing organizational structure, corporate mission, vision and goals of MNEs, norms and values, management and dominant coalitions and organizational culture. For example, MNEs favoring a high degree of control and coordination of subsidiaries are more likely to favor wholly-owned strategies over other foreign entry strategies (Davis, Desai, and Francis, 2000) as the means of parental isomorphism to better override internal disruptions and inefficiencies. Tallman and Yip (2003) argue that absolute adaptation to the host country would reduce the MNEs "to a loose collection of autonomous businesses that enjoy little synergy while incurring the overheads of a large MNE." Specifically, we may expect acquisition of existing firms to be more likely to cause disruption in the overall organization's stability and dominant culture (Prahalad and Bettis, 1986). Conversely, Greenfield startup entry strategy permits fuller replication of the internal structures and normative values, with less internal disruption.

Relatively small investments in foreign market entries are less likely to have a major internal impact on firms, and hence, may be more easily realized through greenfield investments as opposed to the acquisition of a local firm. On the contrary, collaborative entry strategies are more likely to introduce internal disruptions because participation in equity joint ventures or alliances imposes increased coordination, control and management demands. Partnership entry strategies not only permit a better fit with existing host institutional pressures than, for example,

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Greenfield entries, but they also offer partial control over the subsidiary's operations and provide the subsidiary with autonomy for local action. Greenfield subsidiaries allow MNEs to maintain full control over its foreign operations but may be less responsive to host institutional pressures: "as parents exercise increasing control, pressures to maintain internal isomorphism may override pressures for isomorphism in the external environment" (Davis, Desai, and Francis, 2000). Hence, MNEs are more likely to select export or Greenfield entry strategies to minimize internal disruptions. Conversely, MNEs are more likely to utilize acquisition of incumbent firms or entering into international alliances when internal pressures toward conformity are less salient.

Influence of market entry strategies on the performance of multinationals

Review of literature also suggests that the company's motives to enter a new market include; economic growth, demand, closeness, size of the market, flexible workforce, and general attitude (Ndegwa and Otieno, 2008). Ndegwa and Otieno indicate that factors Influencing Entry Strategy Decision include; Access to quality material, Local Government Attitudes, Bureaucracy, Local Infrastructure, Desired degree of Control, Level of Technology Needed, Costs and Legal Framework. Kwon and Konopa (1993) indicate that each foreign market entry mode is associated with advantages and disadvantages in terms of risk, cost, control, and return. Their study was designed to examine the impacts of a series of determinants on the choice of foreign production and exporting adopted by 228 U.S. manufacturing firms. Kwon and Konopa (1993) indicate that each foreign market entry mode is associated with advantages and disadvantages in terms of risk, cost, control, and return. Their study was designed to examine the impacts of a series of determinants on the choice of foreign production and exporting adopted by 228 U.S. manufacturing firms. The choice of entry mode has become a crucial strategy decision for firms wishing to enter international markets, as it will have an important influence on their future business success (Peinado and Barber, 2006). Market entry strategies affect business performance in the context of manufacturing industries (Kirca, 2005). Choosing the right entry strategies is one of the key points in international marketing. These strategies have an effect on performance and duration of it through determining the method and allocating essential and sufficient resources (Ekeledo and Sivakumar, 1998).

Sadaghiani, dehghan and Zand (2011) conducted a study on the impact of international market entry strategy on export performance and concluded that their results depict that the entry strategy affects the export performance of the Iranian export companies. Also, Sadaghiani, dehghan, and Zand concluded that the variable share of entry strategy in anticipation and changes in export performance of the export companies is approximately 48%. Mushuku (2006)

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conducted a study on modes of market entry and strategies for South African companies doing business in Kenya. Entry mode performance is defined in terms of efficiency or profitability. Profitability depends on costs and revenues (Wilkinson and Nguyen, 2003). Furthermore, some of the researches indicate that entry strategies affect export performance by determining the control level, risk level and company share in foreign markets and end up with the success or failure of the company (Kouck et al 2003, Karkkainen 2005, Shi et al 2002). Westhead (1995), during his cross-sectional study of new firms in Great Britain, focused upon the performance of firms engaged in manufacturing and producer services activities. He found that exporting firms recorded significantly higher levels of absolute growth since the businesses had received their first orders than did non exporting firms (Westhead et al, 2001).

Taylor, Zou and Island (1998) did a study on a transaction cost perspective on foreign market entry strategies of USA and Japanese firms and established that several transactions costs affected the decision making of market entry mode for the US firms but did not affect the market entry mode for Japanese firms. Stiegert, Ardalan, and Marsh (1997) conducted a study on foreign market entry strategies in the European Union where the study utilizing intra-firm, socio-cultural, geographical-proximity, and political-stability variables to explain bimodal foreign direct investment (FDI) patterns by agri-food and beverage multinational companies into and within the European Union.

Conceptual framework

For purposes of this study, the dependent variable is the performance of manufacturing multinationals while the independent variables are the market entry strategies (exporting, licensing, joint venture and sole venture).

Performance Measures are quantitative or qualitative ways to characterize and define performance. They provide a tool for organizations to manage progress towards achieving predetermined goals, defining key indicators of organizational performance and Customer satisfaction. Established financial indicators such as turnover and profit before tax are outcome indicators.

Profitability measures the extent to which a business generates a profit from the factors of production: labour, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business (Gilbert and Wheelock, 2007). According to Crane, (2011) four useful measures of firm profitability are the rate of return on firm assets (ROA), the rate of return on firm equity (ROE), operating profit margin and net firm income.

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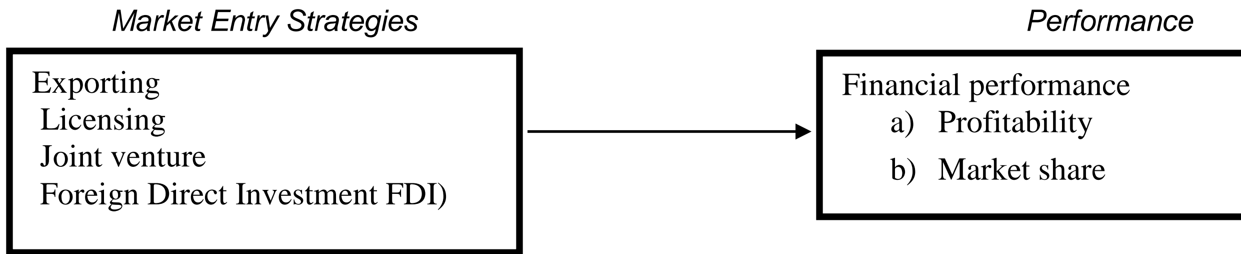
Figure 1: Relationship between foreign market entry strategies and firm performance



RESEARCH METHODOLOGY

This study was conducted through a descriptive survey study. According to Kothari (2004), a descriptive study is undertaken in order to describe the general characteristics of the study population and be able to describe the characteristics of the variable of interest in a situation. The choice of research design was justified since the study aimed at identifying the general characteristics of MNCS. Similar studies that have used this approach include Ndegwa and Otieno (2008), Mushuku (2006), Zekir and Angelova (2011). The target population of this study was the multinationals in the manufacturing sector in Nairobi. There are 213 Multinational Corporations in Kenya. Out of the 213 Multinational Corporations, 108 firms are in the manufacturing sector and are located in Nairobi and this forms the study population.

Table 1: Population sampling stratification and according to sector

Sector	Number	Sample size
BUILDING, CONSTRUCTION & MINING	3	1
CHEMICAL & ALLIED	12	6
ENERGY, ELECTRICAL AND ELECTRONICS	7	4
FOOD & BEVERAGE	8	4
MOTOR VEHICLE & ACCESSORIES	4	2
PAPER & BOARD	13	7
PHARMACEUTICALS & MEDICAL EQUIPMENT	*4*	*2*
PLASTIC & RUBBER	24	12
LEATHER & FOOTWEAR	2	1
METAL & ALLIED	18	9
TEXTILES & APPARELS	10	5
TIMBER, WOOD & FURNITURE	3	1
Total	**108**	**54**

The study used both primary data and secondary data. Primary data was collected through the questionnaire about preferred market entry strategies. Secondary data constituted the financial performance of the multinational manufacturing firms for a period of 5 years (2010- 2014). The study used a questionnaire as the preferred data collection tool. Structured questions were

therefore used in an effort to conserve time and money as well as to facilitate an easier analysis as they are in immediate usable form; while the unstructured questions were used so as to encourage the respondent to give an in-depth and felt response. The questionnaire had both open ended and close ended questions.

This study employed both descriptive and inferential statistics to facilitate data analysis. Inferential statistics included regression modeling, t-test and Analysis of Variance (ANOVA). The tool for data analysis was Statistical Package for Social Sciences (SPSS). The choice of the data analysis technique was justified and informed by the study objectives. The study objectives sought to establish the influence of international market entry strategies on the performance of manufacturing multinationals in Kenya. To establish the "influence" regression analysis was appropriate. The regression model for profitability is as follows.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Y= profitability

X1=Licensing

X2=joint venture

X3=Foreign Direct Investment

X4=Exporting

e=error term

$b_1;b_{2,}b_{3,}b_{4=}$ regression coefficients

The regression model for market share is as follows.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Y= Market Share

X1=Licensing

X2=joint venture

X3=Foreign Direct Investment

X4=Exporting

e=error term

$b_1;b_{2,}b_{3,}b_{4=}$ regression coefficients

EMPIRICAL FINDINGS AND DISCUSSION

A total of 38 responses were received out of a possible 54 questionnaires, representing an overall response rate of 70%. According to Mugenda & Mugenda (2003), a response rate of 50% or more is adequate. Majority of the respondents (60%) indicated that their firms have

existed over 10 years, 24% of the respondents indicated their firms have existed between 6 and 10 years, 16% of the respondents indicated their firms have been in operation for a period of 2 to 5 years with regard to international business. The findings imply that the organizations had existed for a long period and hence they have enough experience on the use of market entry strategies.

Descriptive statistics

International market entry strategies used by manufacturing multinationals

The study sought to establish foreign market entry strategies pursued by manufacturing multinationals in Kenya. Findings reveal that firms use different market strategies. Seventy four (74%) of the respondents indicated that they have used licensing as the market entry strategy while 82% of the respondents indicated they have used whole owned subsidiaries, 87% of the respondents indicated that they used joint venture while 89%, 84% and 76% of the respondents indicated that they use exporting, franchising and strategic alliances respectively as foreign market entry strategies. The findings agree with those in Agarwal and Ramaswami (1992) who suggested that the most commonly used entry modes are exporting, licensing, joint venture and sole venture. The findings also agree with those in Caves (1982) who identified four basic ways to expand internationally, from the lowest to the highest risk: exporting; licensing and franchising; strategic alliances; and wholly owned foreign subsidiaries. The findings also agree with those in Cateora and Graham (2002) who stated there are six basic strategies for entering a new market: export/import, licensing and franchising, joint venturing, consortia, partially-owned subsidiaries, and wholly-owned subsidiaries. The finding also imply that manufacturing firms in Kenya do not rely on only market entry strategies since there are gains to be made and advantages to be exploited when sing different market entry strategies. This finding is presented in table 2 below.

Table 2: Market entry strategy

Foreign market entry strategy	No	Yes
Licensing	26%	74%
Whole Owned Subsidiaries	18%	82%
Joint venture	13%	87%
Exporting	11%	89%
Franchising	16%	84%
Direct Investment	26%	74%
Strategic Alliances	24%	76%

The study also sought to determine the extent to which each of the above market entry strategies have been used. Results are presented in Table 3 below:

Table 3: Extent to which the marketing entry strategies are used

	N	Minimum	Maximum	Mean	Std. Deviation
Licensing	38	1	5	3.79	1.580
Whole Owned Subsidiaries	38	1	5	4.00	1.208
Joint venture	38	1	5	3.89	1.226
Exporting	38	1	5	4.29	.768
Franchising	38	1	5	3.66	1.341
Direct Investment	38	1	5	3.71	1.431
Strategic Alliances	38	1	5	3.74	1.288
Valid N (listwise)	38				

This finding is based on responses on a likert-type scale of between 1 and 5, where 1 and 5 represents to a very small and very large extent respectively

As illustrated in Table 3, licensing attracted a mean of 3.79 to show that respondents agreed it was used to a large extent. Whole owned subsidiaries attracted a mean of 4.0, Joint venture had a mean of 3.89 and exporting attracted a mean of 4.29. In addition, franchising got a mean of 3.66, direct investment had a mean of 3.71 and strategic alliances attracted a mean of 3.74. These findings imply that the use of whole-owned subsidiaries and exporting is utilized more compared to other market entry modes by firms in Kenya.

Motive behind the choice of market entry strategies by manufacturing multinationals

One of the study objectives was to establish the motive behind the choice of market entry strategies by manufacturing multinationals in Kenya. Findings reveal that 58%, 66%, 58%, 61%, 66%, 61%, 61% and 61% of the firms consider resource availability, company competence, competition in the market, size of the host country, availability of possible partnering firms with host country, host country requirements and state of firm development respectively in making a choice of foreign market entry strategy. The findings agree with those in (Agarwal and Ramaswami, 1992; Kwon and Konopa, 1993; Root, 1994; Terpstra and Yu, 1988) who asserted that the size of the host country is an important attraction to foreign direct investment and target country market characteristics affect the choice of market servicing modes. This finding imply that the motives for choosing market entry strategies are informed by the macro environmental forces such as host country requirements and size of host market, industry specific forces such as competition in the market and firm specific factors such as company competences and capacities and resources available. These finding are shown in table 4 below.

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Table 4: Factors for Choosing Particular Market Strategy

	No	Yes
Resources available	42%	58%
Company competences and capacities	34%	66%
Competition in the market	42%	58%
Size of host country market	34%	66%
Availability of possible partnering firms with host country	39%	61%
Host country requirements	39%	61%
State of firm development	39%	61%

Influence of market entry strategies on the performance of manufacturing multinationals

The study confined itself to establishing the influence of market entry strategies on the financial performance of manufacturing multinationals in Kenya (using indicators profitability and market share). First the study examined the influence of market entry strategies on the profitability of manufacturing multinationals. Results are presented in Table 5 below.

Table 5: Influence of Market Entry Strategies on Profitability

	N	Minimum	Maximum	Mean	Std. Deviation
Exporting	38	2	5	3.13	1.298
Licensing	38	2	5	3.26	1.201
Wholly owned subsidiaries	38	2	5	4.34	.847
Franchising	38	3	5	4.29	.611
Joint Venture	38	2	5	3.50	.923
Direct Investment	38	2	5	3.39	1.152
Strategic Alliances	38	2	5	3.39	1.220
Valid N (listwise)	38				

This finding is based on responses on a likert-type scale of between 1 and 5, where 1 and 5 represents to a very small and very large extent respectively

Results indicate that market entry strategies had influence on profitability of manufacturing firms in Kenya. This evident by the means that the marketing strategies attracted. The responses reflect mean scores for exporting, licensing, whole-owned subsidiaries, franchising, joint venture, foreign direct investment and strategic alliances as 3.13, 3.26, 4.34, 4.29, 3.50, 3.39 and 3.39 respectively. The findings imply that market entry strategies had an effect on the profitability of the firms

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The influence of market entry strategies on market share of manufacturing multinationals was also examined. Results are presented in Table 6 below. Study findings indicate that exporting attracted a mean score of 3.11, licensing attracted a mean of 3.24 and wholly owned attracted a mean of 4.34, franchising attracted a mean of 4.29, joint venture had an average mean of 3.45, direct investment had an average mean of 3.39 and strategic alliances attracted an average mean of 3.29. These findings imply that market entry strategies had an effect on market share of the firms.

Table 6: Influence of Market Entry Strategies on Market Share

	N	Minimum	Maximum	Mean	Std. Deviation
Exporting	38	2	5	3.11	1.311
Licensing	38	2	5	3.24	1.218
Wholly owned subsidiaries	38	2	5	4.34	.847
Franchising	38	3	5	4.29	.611
Joint Venture	38	2	5	3.45	.978
Direct Investment	38	2	5	3.39	1.152
Strategic Alliances	38	2	5	3.29	1.293
Valid N (listwise)	38				

This finding is based on responses on a likert-type scale of between 1 and 5, where 1 and 5 represents to a very small and very large extent respectively

Inferential Statistics

Multivariate Regression of Market Entry and Profitability

Regression analysis was conducted to empirically determine whether strategic alliances were a significant determinant of profitability. Regression results indicate the goodness of fit for the regression between strategic alliances and profitability is satisfactory. An R squared of 0.322 indicates that 32.2% of the variances in profitability are explained by the variances in strategic alliances

Table 7: Model Fitness of Market Strategies and Profitability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.567[a]	.322	.163	10822930099.555

a. Predictors: (Constant), Strategic Alliances, Joint Venture , Wholly owned subsidiaries, Franchising, Direct Investment, Exporting, Licensing

ANOVA statistics indicate that the overall model is insignificant. This is supported by an F statistic of 2.031 and p value of 0.084. The reported probability was more than the conventional probability of 0.05 (5%) significance level. This statistics is shown in table 8.

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Table 8: ANOVA for Market Strategies and Profitability

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.665E+21	7	2.379E+20	2.031	.084[b]
	Residual	3.514E+21	30	1.171E+20		
	Total	5.179E+21	37			

a. Dependent Variable: Av_Profitability

b. Predictors: (Constant), Strategic Alliances, Joint Venture , Wholly owned subsidiaries, Franchising, Direct Investment, Exporting, Licensing

Regression results also indicate that the relationship between profitability and licensing, joint venture is positive and significant while positive and insignificant with direct investment and strategic alliances. These results are presented table 9 below. The findings agree with those in Kirca, (2005) who asserted that market entry strategies affects business performance in the context of manufacturing industries and choosing the right entry strategies is one of the key points in international marketing. The findings also agreed with those in Ekeledo and Sivakumar, (1998) who argued that these strategies have an effect on performance and duration of it through determining the method and allocating essential and sufficient resources. However there is negative and insignificant relationship between Exporting, Franchising, Wholly owned subsidiaries and profitability. This finding contradicts those in Westhead who during his cross-sectional study of new firms in Great Britain, focused upon the performance of firms engaged in manufacturing and producer services activities and asserted that exporting firms recorded significantly higher levels of absolute growth since the businesses had received their first orders than did non exporting firms (Westhead et al, 2001).

Table 9: Regression Coefficients for Market Strategies and Profitability

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5957630307.440	36324187511.358		-.164	.871
	Exporting	-1031801093.454	2330398091.807	-.113	-.443	.661
	Licensing	8985343860.330	3143934411.446	.912	2.858	.008
	Wholly owned subsidiaries	-5559651689.444	2632088854.774	-.398	-2.112	.043
	Franchising	-4647469565.357	4134601344.760	-.240	-1.124	.270
	Joint Venture	6780153598.909	2923245420.487	.529	2.319	.027
	Direct Investment	3162755638.705	2763714125.907	.308	1.144	.262
	Strategic Alliances	42981057.213	1671525019.536	.004	.026	.980

a. Dependent Variable: Av_Profitability

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Multivariate Regression of Market Strategies and Market Share

Regression analysis was conducted to empirically determine whether strategic alliances are a significant determinant of profitability. Regression results indicate the goodness of fit for the regression between strategic alliances and market share is satisfactory. An R squared of 0.246 indicates that 24.6% of the variances in market share are explained by the variances in market entry strategies

Table 10: Model Fitness of Market Strategies and Market Share

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.496[a]	.246	.071	.038655863

a. Predictors: (Constant), Strategic Alliances, Joint Venture , Wholly owned subsidiaries, Franchising, Direct Investment, Exporting, Licensing

ANOVA results in Table 11 indicate that the overall model is insignificant. This is supported by an F statistic of 1.402 and p value of 0.241. The reported probability is more than the conventional probability of 0.05 (5%) significance level.

Table 11: ANOVA for Strategies and Market Share

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.015	7	.002	1.402	.241[b]
1	Residual	.045	30	.001		
	Total	.059	37			

a. Dependent Variable: market
b. Predictors: (Constant), Strategic Alliances, Joint Venture , Wholly owned subsidiaries, Franchising, Direct Investment, Exporting, Licensing

Regression results indicate that the relationship between market share and licensing is positive and significant while positive and insignificant with direct investment, joint venture and exporting.

The findings agree with those in (Kouck et al 2003, Karkkainen 2005, Shi et al 2002) who indicated that entry strategies affect export performance by determining the control level, risk level and company share in foreign markets and end up with the success or failure of the company. However there is negative and insignificant relationship between Franchising, Wholly owned subsidiaries, strategic Alliances and market share. Table 12 presents these statistics.

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Table 12: Regression Coefficients for Strategies and Market Share

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.042	.130		-.326	.746
	Exporting	.000	.008	-.009	-.034	.973
	Licensing	.026	.011	.770	2.288	.029
	Wholly owned subsidiaries	-.014	.009	-.306	-1.540	.134
	Franchising	-.011	.015	-.164	-.728	.472
	Joint Venture	.019	.010	.436	1.813	.080
	Direct Investment	.011	.010	.315	1.111	.275
	Strategic Alliances	-.002	.006	-.063	-.346	.732

a. Dependent Variable: market

CONCLUSION AND RECOMMENDATIONS

The study concludes that manufacturing multinational firms use more than one market entry strategy to venture into foreign markets. Firms in Kenya use licensing and direct investment to a very large extent and wholly owned subsidiaries, joint venture, franchising and strategic alliances to a large extent. Firms consider various factors before choosing the market entry strategy to use. These factors are resources available, company competence, competition in the market, size of the host country, availability of possible partnering firms with host country, host country requirements and state of firm development. It was possible to conclude that all market entry strategies had a positive and significant relationship with firm profitability and market share.

The study recommends that multinationals firms should carry out research on prospective foreign markets to inform the choice of foreign market entry strategies. This is to ensure they use the appropriate entry strategy to enhance the organization performance. The study also recommends that MNCs management should evaluate factors influencing the choice of market entry modes. This is to ensure that they choose the best entry mode.

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