ENTRY STRATEGIES USED BY CHINESE FIRMS IN KENYA

By

ELIJAH KIMATHI NTONJIRA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE REQUIREMENTS OF THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI.

NOVEMBER, 2013
DECLARATION
This research project is my original work and has not been presented for examination in any other university.

Signature.......................... Date..........................

ELIJAH KIMATHI NTONJIRA
D61

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

Signature.......................... Date..........................

DR.JOHN YABS
LECTURER,
SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI.
DEDICATION

To my parents Mr. and Mrs. Joseph Ntonjira for being my source of inspiration and taking me to school at my early years.

You are my pride and joy

To my siblings and friends for your support, patience and understanding when I was not available.
ACKNOWLEDGMENT

J would like to thank the Almighty God for his continued favour, strength, good health and guidance throughout the entire course.

My appreciation and heartfelt gratitude to my supervisor Dr. John Yabs for his immeasurable assistance and guidance throughout this research. I will remain indebted to him for his commitment and unwavering support.

To my family members, friends and classmates for their understanding and support through the entire period. You sacrificed so much to make my dream come true. I am so grateful.

Special thanks to the management of Wiseway logistics limited, Bisheng trading company, Chinese Hair Salon & Barbershop for finding time to respond to my research questions and also to all those who directly or indirectly contributed to this work.
Chinese products have entered the Kenyan market and are in every part of the country. A few years ago, our biggest trading partners were Europe and America. For the last ten years, the government has shifted its attention to the East in search of trade and development partners. Due to this, many Chinese business people have established their businesses in Kenya. Kenyans have also gone to China to buy products that they sell locally. China has also offered educational scholarship to bright Kenyans to study courses such as engineering through the ministry of Education. The president himself visited China and he secured funding over kes 16 billions. The Chinese have won many tenders in Kenya that were mainly a preserve of the European countries and America. The study examined the market entry strategies used by the Chinese firms to enter Kenyan market. This is because there are many Chinese firms operating in Kenya within a very short time and the number of investors is increasing day by day. Some counties have secured deals with China. A case in point is where Chinese investors plan to invest sh.61 billion in various projects in Nauru county. Dongfang Electric international corp. pledged to build a solar energy plant. (Daily Nation, October 13, 2013 pg 40).In order to achieve the objective of the study which was to determine the market strategies, primary data was collected from various Chinese businesses in Kenya through interview guide. Some of the firms interviewed were Wiseway logistics limited, Chinese hair and barber shop, Bisheng trading company. Content analysis was used to analyse the data collected. It was observed that many Chinese firms rent premises in Nairobi and import goods from China and sell them to Kenyans. Most of the businesses have employed Kenyans due to language barriers and Chinese who understand English language who work hand in hand with the Kenyans. In the course of the study, the researcher never came across a Chinese who speaks Kiswahili. The study also examined on the way the Chinese business can grow in Kenya. It was noted that it was important to employ Kenyans and not only as junior employees but also in senior positions. It was also noted that it’s important for the Chinese to learn English and Kiswahili languages that are the official languages in Kenya. This is a trend adopted by Indians doing business in Kenya.
# TABLE OF CONTENTS

DECLARATION.......................................................................................................................... ii  
DEDICATION............................................................................................................................ iii  
ACKNOWLEDGMENT ............................................................................................................... iv  
ABSTRACT ............................................................................................................................... v  
TABLE OF CONTENTS .......................................................................................................... vi

## CHAPTER ONE: INTRODUCTION ......................................................................................... 1

1.1 Background of the study ................................................................................................. 1  
  1.1.1 Concept of international business .......................................................................... 1  
  1.1.2 Factors to consider before going international ...................................................... 2  
  1.1.3 Reasons why firms go international ...................................................................... 4  
  1.1.4 Barriers to international business .......................................................................... 5  
  1.1.5 Reasons for trade barriers ...................................................................................... 7  
1.2 Research problem .......................................................................................................... 8  
1.3 Research objectives ...................................................................................................... 10  
1.4 Value of the study ........................................................................................................ 10

## CHAPTER TWO: LITERATURE REVIEW ........................................................................... 12

2.1 Introduction ................................................................................................................... 12  
  2.2.1 Advantages of a company going international or being a multinational ............ 14  
2.3 International business environment ............................................................................ 15  
  2.3.1 Geographical factors ............................................................................................ 15  
  2.3.2 Socio-cultural factors ........................................................................................... 15  
  2.3.3 Political and legal factors ...................................................................................... 16  
  2.3.4 Differences in currencies ...................................................................................... 17  
  2.3.5 Culture shock in international business ................................................................. 17  
  2.3.6 Entry strategies .................................................................................................... 17
CHAPTER THREE: RESEARCH METHODOLOGY ..........................................................20
3.1 Introduction ........................................................................................................20
3.2 Research design .................................................................................................20
3.3 Data Collection ....................................................................................................20
3.4 Data Analysis ......................................................................................................20

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS ..........21
4.1 Introduction .........................................................................................................21
4.2 What attracted the Chinese firms in Kenya? ......................................................21
    4.2.1 Problems encountered in doing business in Kenya ..................................22
4.3 Foreign direct investment (FDI) and imports ......................................................22
    4.3.1 Organisational structure ...........................................................................23
    4.3.2 Competitive advantage .............................................................................23
    4.3.3 How to make the Chinese business grow big .........................................24

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ..........25
5.1 Introduction .........................................................................................................25
5.2 Summary of the findings ....................................................................................25
5.3 Conclusions .........................................................................................................25
5.4 Recommendations ..............................................................................................26
5.5 limitations of the study .....................................................................................26
5.6 Suggestions for further research ......................................................................26

REFERENCES ........................................................................................................27

APPENDICES ........................................................................................................29
Appendix I .............................................................................................................29
Questionnaire ..........................................................................................................29
Appendix II .............................................................................................................31
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Business organizations do not operate in a vacuum. They are environment dependent. This is both internal and external environment. The firms are able to control the internal environment but they have to align their strategies to fit the external environment since they have no control over it. Porter (1998) says that organizations obtain their inputs from, and discharge their output to the environment through a process called value chain. The external environment will consist of factors such as economy, culture, political and legal factors. International business is the performance of trade and investment activities by firms across national borders (Cavusgil, 2008). China is in most African countries so is in Kenya. Chinese company, China Wu Yi, was contracted to build Thika super high in Kenya at a cost of Kes 30 billion which was launched by former president Mwai Kibaki, the third president of Kenya (Standard newspaper, 10th November 2012). China has also put an assembly for motor vehicles along Mombasa road called Foton East Africa. China has also been able to export cheap items in Kenya like mobile phones and other electronics. There was a demonstration by some Kenyan business people complaining that Chinese have taken over some businesses like hawking and putting up kiosks that can be done by Kenyans (The Star newspaper, 17th August 2012). Chinese business have encountered some problems in Kenya especially in relation to the standards of their products which most Kenyans feel they are substandard and are being dumped in Kenya. Still Kenyans feel that Chinese have taken over some businesses that should purely be left in the hands of Kenyans. There is also a challenge of the language barrier. Not many Kenyans are conversant with the Chinese language. It is just recent that the university of Nairobi and Kenyatta University started offering Chinese language. Businesses have also recruited individuals who can speak Chinese like standard chartered bank and co-operative bank of Kenya. Many businesses are now going international to make more profits and to spread the risks. China being the second biggest economy after America, is heavily investing in Africa to get raw materials for its industries. China has a population of over one billion people.

1.1.1 Concept of international business

The history of international business is fairly recent. It can be traced to the latter part of the nineteenth century between 1850 and 1900. International business developed from international
trade that has a longer history than international business. International trade history is as old as civilization of man (Yabs, 2006, p. 34). Globalization refers to the “increasing integration of economies around the world” (through reduction of trade barriers), particularly through the movement of goods, people, technology, services, and capital across borders (IMF, 2008). International business consists of all commercial transactions which include sales, transportation, and investments taking place between two or more countries. International trade occurs when there is export of goods or services to consumers in another country.

Global companies are organizations that attempt to standardise operations worldwide in all functional areas while multinational is an organization with multi-country affiliates each of which formulates its own business strategy based on perceived market differences. International company refers both to global and multinational firms (Donald, 1993, p. 24). Multinational is also an organization that has a worldwide approach to production and markets and has operations in more than one country. (Daniels p 63). Multinational is a corporation which controls, owns and manages premises in more than one country (Paliwoda, 1993, p. 25). Coca cola operates worldwide, language may change with the country concerned where there may be quite different environmental conditions of use, but still perhaps the bottle, the logo and that is normally associated with the product including taste, flavour, fragrance and lifestyle association will usually remain intact and instantly recognizable worldwide (Paliwoda, 1993, p. 27).

1.1.2 Factors to consider before going international
Before going international, there are factors that a firm needs to consider. These are external factors or those factors that a firm has no control over only to align its strategy with them. One of these factors is political situation of the country that a firm wants to invest. This will include political stability of a country, pronouncements made by political leaders. Some pronouncements can scare away investors like nationalisation of foreign firms and international relations with other countries.

There some countries that have sanctions and it’s not possible to trade with them. Countries like Sudan have sanctions from the international community since her leader is indicted by the
international criminal court, Iran has sanctions because its suspected to be developing nuclear weapons and firms dealing with such country are fined. Standard Chartered bank was fined $327 million by the US authorities for doing business with Iran. (http://money.cnn.com/2012/12/10/investing/standard-chartered-sanctions-iran/index.html).

International business is averse to quick turn of governments because of frequent changes in economic policies followed by each regime coming to power. Stability especially at the political level can give businesses confidence in the country of their location and can plan on a long-term basis. Frequent changes of regimes and constant quarrelling of those in power are a course for worry to international business. (Yabs, 2006, pg 83).

The second factor is economic. This will include inflation, interest rates which is the cost of borrowing, rate of development of a country and this is seen from the GDP and balance of payment and also the population. Countries with high inflation rate are not attractive to investors. There is so much money chasing too few goods. The value of money falls drastically. A case in point is Zimbabwe whose currency almost became valueless due to inflation and adopted the American dollar. Countries that have high GDP are attractive for investment. Balance of payment is a statistical statement showing the balance of exports and imports in a country. It can either be positive or negative. A country with a large population that has purchasing power and high propensity to spend and high disposable income are very conducive for investment.

Socio-cultural is also a factor to consider. Culture is the way of life for a group of people. This is seen in institutions such as the school, families, health institutions and religion. Some religions like Muslim does not allow eating of pork and therefore you cannot sell pork in countries like Saudi Arabia which is predominantly Islam. Beef is not eaten in India and Macdonald had to ensure there food do not contain any beef when it opened its branches in India. Due to culture, gestures have different meaning in different countries.

Another factor to consider is legal environment. Countries that have a sound Judiciary are attracting to investors. This is because they have faith in the Judiciary and feel they can seek redress in case their rights are infringed. Some countries have laws that attract foreign investors like foreign investment protection Act, giving tax holidays to investors, availability of credit to
companies, reduction of bureaucracy and delays. Kenya is trying to have foreign investors issued with only one license to reduce the number of licenses and bureaucracy. Some government put a restriction on the amount of profits to be repatriated and employment of experts. Negative laws include those that limit or restrict the freedom of firms in their activities. These include such laws as minimum wages, price controls, social security, working time and hours to be worked and strong labour unions.

A firm needs to consider the ecological environment of a country. Some countries like Japan experience earth quake and the US has poor weather that results to storms. Countries have established national authority to carry out audit of every company to show their efforts in ensuring no harm is caused to the environment. In Kenya we have national environment and management authority (NEMA).

Technology is also a factor to consider. Some countries have a deliberate policy to apply new technology while others use preconditioned technology. The speed of adopting new technology can influence the rate of economic development of a country.

1.1.3 Reasons why firms go international

There are various reasons why a company may go international or get involved in international business. One of these reasons is the need to enter into new markets. Managers are always under pressure to increase sales and profits of their firms. The shareholders want to reap the maximum benefits possible from their investment. When managers face a mature and concentrated market at home, they begin to look for new markets abroad to obtain greater profits. In Kenya, some banks have established branches in other countries like Uganda, Rwanda and South Sudan these banks are Co-operative bank, Kenya Commercial Bank and Equity Bank. The second reason is trade barrier or protectionism. Although many countries have sought to lower their barriers of trade generally Daniel (2000), when a government sees that local industry is being threatened by imports, it may put import barriers to stop or reduce them. Even threats to do this, can be sufficient to induce the exporter, to invest in production facilities in the importing country. Kenya has been placing import barriers on wheat and sugar to protect the local industry.
Another reason why a firm may go international is guaranteed supply of raw materials. Few developed nations possess sufficient domestic supplies of raw materials. Japan and Europe are almost dependent on foreign sources. The industrialized nation sends manufactured goods to the developing nation in return for raw materials (Donald, 1993, p. 60). Technology is another reason. Countries such as Japan have participated in international business due to their technology. Through the production of motor vehicles, they have established assemblies in different countries like Kenya we have Toyota East Africa along Mombasa road and also the Chinese have established Foton motors along Mombasa road.

Another reason is geographic diversification. Business management have chosen geographic diversification as a means of maintaining stable revenue when the home economy goes into a slump (Donald, 1993, p. 60). A case in point is during the economic recession in Europe and America, banks like Standard Chartered and Barclays were sustained by the profits made in Africa and Asia. Availability of cheap labour is another factor. Some firms have located their business to countries that have cheap labour. Standard Chartered Bank has taken some of its operations to Chennai in India where labour is cheaper than in Kenya.

Profit advantage is another reason. Some business makes more profit from overseas markets than from the home country. Standard chartered bank makes more profits from Asia and Africa more than in London. Even if the profits made in foreign countries is not more than the profits made in the home country, it goes along the way in increasing the profitability of the firm (Francis, 2010). Lastly, to satisfy management’s desire for expansion, Stockholders and financial analyst also expect companies to continue growing and those firms operating only in the home market have found it difficult to maintain that expectation. Being able to claim that a firm is a “multinational” creates the impression of importance, which can influence its customers, and potential customers. To be a majority player in the market, one has to be internationally recognized (Donald, 1993, p. 61).

1.1.4 Barriers to international business

Barriers can be tariff or non- tariff. Tariff barriers directly affect prices and non- tariff barriers may directly affect either price or quantity. A tariff, also called a duty, is the common type of
trade control. Tariff is a tax imposed by a government on imported products effectively increasing the cost of acquisition for the customer. Tariff could be ad valorem, which is a percentage of the value of the imported product or specific tariff. This is a flat fee or fixed amount per unit of the imported product based on weight, volume or surface area. Tariffs may be used in generating revenue or discouraging the importation of goods or for both reasons. (Cateora, 1996, pg 45). Some of the non tariff barriers include subsidies. This is direct assistance to companies, making them more competitive. The American government gives subsidies to farmers. The other one is quotas. This is limiting the quantity of commodities that can be exported or imported in a given time frame. An embargo is another example of non-tariff barrier. This prohibits all trade. Governments impose embargoes in an effort to achieve political goals. Boycott is another barrier. This is a restriction against the importation of some goods from other countries. Nestle products were boycotted by a citizens group that considered the way nestle promoted baby milk formula misleading to the third world mothers and harmful to babies (Cateora, 1996, pg 47).

Local content requirement: these are requirement that some specific fraction of a good be produced locally (Charles, 2001, pg 203). This means a manufacturer include a minimum percentage of added values that is derived from local sources. This discourages imports of raw materials, parts, components and supplies. Nigerian government requires that products and services used by foreign firms in the oil industry must contain 50% Nigerian content.

Another non-tariff barrier is administrative policies. These are bureaucratic policies designed to make it hard for imports to get into a country. Some analysts argue that the Japanese are masters of this trade barrier (Charles, 2001, pg 203). Antidumping policies are another barrier. Dumping is defined as the sale of goods in a foreign market below their cost of production in that market. Another barrier is retaliation. Some argue that governments should use threat to intercede in trade policy as a haggling tool to help open foreign markets and force trading partners to “play by the rules of the game”. The US government has used the threat of punitive trade sanctions to try to get the Chinese government to enforce its intellectual property laws (Charles, 2001, pg 206). Blockage is refusing to allow importers to exchange national currency for the seller’s currency. These barriers impede international business.
1.1.5 Reasons for trade barriers

One of the reasons for barriers is national defence. Certain industries need protection from imports because they are vital to the national defence, and must be operating even though there are comparative disadvantages with respect to foreign competitors. If competition from foreign firms drives these companies out of business and leaves the country on imports, those imports may not be available in wartime.

Another reason for barriers is to protect infant industries. Advocates for the protection of an infant industry, claim that in the long run, the industry has a comparative advantage but needs protection from imports. This is until labour force is trained, production techniques are mastered and the firm achieves economies of scale. When these objectives are achieved, import protection will no longer be necessary, without the protection, they argue the firm will not be able to remain in the market because cheaper imports from more developed foreign competitors will under price in its local market. The protection is meant to be temporary but, realistically, a firm will rarely admit it has matured and no longer needs this assistance. Protected from foreign competition by high import duties, the company’s managers have little reason to improve efficiency or product quality.

Another reason is to protect domestic jobs from cheap foreign labour. To ensure fair competition, is another reason for trade barriers. Supporters of this say that they believe in fair play in the market. They want an import duty which brings the cost of imported goods up to the cost of domestically produced products. This will eliminate any “unfair” advantage that a foreign competitor might have because of superior technology, lower raw material costs, lower taxes or lower labour costs. Retaliation is another reason for trade barriers. Representatives of an industry whose exports have had imports restrictions placed on them by another country may request their government to retaliate with similar restrictions. Protecting consumers is another reason for barrier. Many governments have regulations to protect consumers from unsafe products. The indirect effects of such regulations often limit or ban the importation of such products. In 2003, many countries, including South Korea and Japan decided to cancel importation of American beef after a certain case of mad cow disease that was found in Washington State (Charles, 2001).
Countries also place barriers so as to promote import substitution. This may be practised by less developed countries to create jobs and reduce trade balance deficit. Also, countries place barriers to reduce reliance on foreign supplies. This enables countries from being taken over by foreign political or military power. When a country heavily relies on another country, it may become powerless, and the other country may dictate to it on people to elect and policies to adopt. Therefore, a country tries to produce locally as much goods and services to avoid overdependence on foreign supplies. Tariffs and non-tariffs are used to encourage the replacement of imported goods with locally produced goods. Foreign countries wishing to supply goods in a certain country have to establish their assembly in such a country, therefore creating jobs, improving infrastructure and providing investment capital and transfer of technology.

1.2 Research problem
All companies start locally then go international. No one has written on the strategies used by Chinese to enter the Kenyan market, and my research seeks to fill this gap. This study will help in answering the question of how Chinese firms have entered the Kenyan market. China has established foreign direct investment in Kenya by establishing a motor assembly in Mombasa road and restaurants to sell Chinese food. It is truly significant for a business that wishes to venture in a different country to consider the entry strategies. There are various entry strategies and each has its advantages and disadvantages. Every county has its laws on how to deal with items from other countries. It is also useful for managers to study how different countries will react to their products. Some countries may consider some items illegal. Tanzania considers miraa business illegal while it is a legal business in Kenya. Netherlands banned trading of miraa in their country. One cannot export pork to countries that are dominantly Muslim like Saudi Arabia. Some countries could have restriction on repatriation of profits like in China; there could be issues on employing experts from other countries. Kenyans have entered South Sudan to do business since it gained independence (Kieti, 2006).

In today’s economy, it is not possible for a business to grow and thrive within the confines of its domestic market as noted by (Riad, 2006) we live on a global economy (Scott, 2010). A business should go international or become an international business which is a business that crosses national boundaries. In international business, goods and services leave or enter the country as
imports or exports (Riad, 2006). International trade takes place when a country has an abundance of certain goods or services it has to look for opportunities (Scott, 2010). As an economy develops, it will be stocked with goods from different countries and of different choices (Francis, 2010). To be an active participant in the global economy, a firm should be global in production and marketing. International business is a business that transcends borders (Francis, 2010). International business is not new it has been around for over two thousand years though its importance, methods and forms are constantly evolving (Riad, 2006). The industrial revolution encouraged international business. The world is moving towards capitalism which may lead to free market where the motive of the business is to make profits.

It is essential to consider the external environment of a country. Some countries could be having strong patriotism and may not buy items from outside their country when the same product is produced in their country, or it has a substitute that is produced locally. In Kenya, we have a slogan like Buy Kenya, Build Kenya. Some leadership could nationalise business owned by foreigners like what happened in Zimbabwe where the president took land belonging to the white and distributed it to the blacks. Some countries may demand a joint venture with the local citizens like in Southern Sudan. Before National rainbow coalition (NARC) took over leadership in 2002 from Kenya African National Union (KANU) which was in power since independence, Kenya's main trade partners were American and the Europe. The new government developed trade ties with China and the East in general. The government started importing police and military vehicles from China, Stantech motors have won a contract to import police vehicles worth billions of shillings from China and previous government used to import the same from Britain. Chinese company has also won a contract to expand Jomo Kenyatta Airport worthy fifty one billion (Kes 51b). Chinese have also won other lucrative deals like construction of Thika Superhighway at a cost of thirty one billion (Kes 31b) which stretches from Thika town to Nairobi city. This is sighted as one of the legacies that president Kibaki will be remembered for. It has eased the traffic.

The Chinese government does not interfere with the internal affairs of her trading partners or countries. This could be the main reason why most African countries are ready to do business with China as compared to American and the European countries that are vocal on corruption
and human rights and democracy. Many African countries have a poor record on fighting corruption, observing human rights and democracy. They feel secure having a trading partner who does not raise issues of poor governance. China too has poor human rights record, and may lack the moral authority to question other countries. There are several Chinese businesses in Kenya like China Wu Yi that was contracted to build Thika Superhighway; they have a motor assembly along Mombasa road called Foton which serves East Africa countries. There are other businesses like Chinese restaurant, Chinese place, Huawei. The Chinese have been able to cut a niche in Kenyan market because their items are cheaper. China does not have stringent laws on copyright and therefore are able to produce many items produced by other countries. More than fifty per cent of Kenyans live below the poverty line and are only able to afford such cheap items. Many Kenyans have also started going to China to explore business opportunities and find goods to import, though there is a language barrier, some end up hiring interpreters to make communication possible. The research question was what are the strategies used by Chinese firms to enter Kenya?

1.3 Research objectives

The objective of this study was to determine the entry strategies used by Chinese firms operating in Kenya. As noted earlier on, there are different strategies to enter new markets and there are several factors to consider before choosing one.

1.4 Value of the study

The study will be of exceptional significance to Kenyan business people who wish to venture in other countries. They will be able to learn the strategies used to enter the Kenyan market and use them to enter foreign markets. The Kenyan government will find this study useful especially to assist Kenyans to enter in the international business and how to deal with trade barriers especially as we look forward to East Africa Integration.

The study will also be useful to foreign investors who wish to enter the Kenyan market. Each entry strategy has the conditions favouring it, which is very important for a firm that wants to go international. The study has provided the entry strategies, conditions favouring them, their
advantages and disadvantages. This is very important for investors who wish to move to another country to expand their business.

The study is also important to organizations and individuals who need to know the reasons for firms going international. The reasons for going international are numerous and the study has expounded on the need of firms to go international especially now that the world has become a global village and the competition is getting stiff. The study will also be important to students who will venture in international business courses. Research in international entry strategies has not been undertaken by many researchers and this study will fill the gap. There is a lot of interest in students to pursue international business as a course in our higher instructions of learning. This study will help Kenyans know how Chinese firms have entered Kenya. There have been complains that Chinese have taken some businesses that should be left in the hands of Kenyans like hawking and putting up kiosks.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature on advantages of a company going international, the international environment which will include factors such as political-legal, geographical, socio-cultural, differences in currency and culture shock. It will also review literature on market entry strategies.

2.2 Theoretical foundation

There are theories on international business. One of the theories is mercantilism. This is a philosophy based on the belief that nations wealth depends on accumulated treasure, usually gold. To increase wealth, government policies should promote exports and discourage imports. Though the mercantilist era ended in the late 1700s, its arguments live on. A “favourable” trade balance still means that a nation exports more goods and services than its imports. In balance of payment accounting, an export that brings dollars to a country is called positive, but imports that cause dollar outflow are labelled negative. Today there are many governments in various countries of the world that consider legitimate the intervention of state in external trade of the country. The major reason advanced for such intervention is to ensure that a surplus or a positive or favourable balance of payments is realized for their country. Various writers have termed this economic situation as neo-mercantilism or economic nationalism or outright high technology mercantilism. (Yabs, 2006, pg 53).

The other theory is called absolute advantage. This is the capacity of one nation to produce more of a good with the same amount of input than another country. Adam Smith said that under free, unregulated trade, each nation should specialize in producing those goods it could produce most efficiently. Some of these would be exported to pay for the imports of goods that could be produced more efficiently elsewhere. He also stated that the real wealth of a country consists of the goods and services available to its citizens rather than its holdings of gold. This theory holds that different countries produce some goods more efficiently than others and questions why the citizens have to buy domestically produced goods when they can buy them more cheaply from abroad.
The other theory is theory of comparative advantage. David Ricardo demonstrated in 1817 that even though a nation held an absolute advantage in the production of both goods, trade could still take place between two countries with advantages for each as long as the less efficient nation was not equally less efficient in production of both goods. He noted that even if a country has no natural resources or is not well endowed by nature to have minerals or good climate, such a country has at least one economic activity that it can exploit. There is no country that is so poor that it has nothing to offer to the rest of the world. (Yabs, 2006, pg 55).

Theory of factor endowment is another theory explaining emergence of international business. International and interregional differences in production costs occur because of differences in the supply of production factors. Those goods that require a large amount of abundant but less costly-factor will have lower production costs, enabling them to be sold for less in international markets for example, China, relatively endowed with labour compared to Netherlands, ought to concentrate on producing labour intensive goods. The Netherlands should specialize in capital intensive products. When these countries trade, each will obtain the goods that require large amounts of the production factor in relatively short supply at a lower price and both will benefit from the transaction.

The other theory is international product life cycle. This theory explains why a product that begins as a nation’s export eventually becomes its import. Black and white television is an example of such a product that used to be produced in the US but it imports them now.

There is also theory of natural advantage. A country has a natural advantage in producing a product or service because of climatic conditions, access to certain natural resources or availability of certain labour forces. Countries located in various parts of the planet earth have varied natural advantages emanating from their geographical position. Oil deposits are found in large quantities in the Middle East, DR.Congo is also endowed with minerals and Nigeria with oil.

The theory of acquired advantage. This theory states that some countries can improve their capabilities in participating in international business by developing certain advantages based on
their available resources. Countries can organize these advantages by exploiting or developing education (Yabs, 2006, pg 56). Countries can train their labour and be able to export or use such labour to produce goods. Japan is not endowed with minerals but it has a high skilled labour.

The other is theory of country size. This theory states that countries with large landmasses like Russia, Canada, and China can use the same land to feed its citizens and exports to other countries.

Leontief paradox theory. American prominent economist, Wassilie Leontief, wanted to further the theory of factor endowment proposed by Heckscher and Ohlin to prove that countries that have plenty of a certain factor of production would export goods produced by using that plentiful factor. Leontif studied the American economy between 1945 and 1954. At the end of his study, Leontief found out that USA was actually a net exporter of labour-intensive goods and not the other way round. This was a paradox to what he had set to proof. (Yabs, 2006, pg 63).

2.2.1 Advantages of a company going international or being a multinational

Widespread use of technology gives the firms a competitive advantage. This leads to production of low priced goods but of high quality, which will have an upper hand in the market, due to their high quality and low price they are affordable by many. Examples of companies that have leveraged on technology are IBM and Microsoft in the area of computers. By expanding and going international, a firm is able to enjoy economies of scale. The high production volumes lower the fixed cost per unit (Riad, 2006). Producers who produce in smaller quantities must price their goods higher so as to cover the fixed costs compared to the firm that is producing in large quantities. Such situations are relevant in capital intensive firms like those involved in motor production. A firm can shift its production base to countries where it is cheaper. In countries where raw materials are available, it reduces the cost of transporting raw materials, and leads to reduction of the cost of the product to the consumer. It also helps a company to move its production where labour is cheap. Some companies have moved their production base to China and India where there is high population and labour is cheap. Due to their large size, they can always bargain good rates for loans and banks give them many incentives so as to retain them. With low rates of lending, it increases the firm’s competitive strength (Riad, 2006). Many
multinational companies are well known for their product quality, performance and value. They standardize their products in different countries where they operate. For example, the bottle for Coca-Cola is the same worldwide and the content is the same.

2.3 International business environment
Before entering a new market, a company needs to consider the business environment. These are factors that are beyond the control of the business. The companies should align their strategies to fit with the external environment. International business is essential to supply raw materials and make available products and services from other countries (Scott, 2010). It also provides investment opportunities and leads to improved political relations.

2.3.1 Geographical factors
These will include the terrain, weather and the natural resources of a country. These will determine the type of business the country will be engaged in. In mountainous countries, there is limited land for agriculture, but it could offer opportunities in mining. A country with many rivers may offer opportunities for shipping products to other countries compared to landlocked countries. Countries like Uganda and Rwanda depend on the port of Mombasa for shipping of goods. Countries endowed with minerals like Congo or with oil like Nigeria they will participate in international business by selling their natural resources. Countries with vast land like USA and China use them to produce food crops, which are exported to other countries.

2.3.2 Socio-cultural factors
Culture is the way of life; it is the accepted behaviours, customs and values of a society (Scott, 2010). Education, religion, language, and customs are the biggest attributes of culture. Due to religion, Muslims do not eat pork, and Hindu does not allow its members to eat beef. Gestures too have different meanings in different countries. In western countries, hugging people of the opposite sex even though not married to them is considered ok but it is not allowed in Muslim countries. Muslim countries do not allow women to travel alone unless accompanied by their spouse or a male relative. Family relationships are also part of the culture. In Europe and America, family relations in business are weak, but in Asia it is highly strong. In Asia, it is
possible for the whole family to be working in the family business as opposed to the West; it is difficult to separate business and family in Asia.

Education includes both formal and informal. Families provide education and school provides formal education. Religious organisations are mostly involved in the provision of education and in the process teach their doctrines. Companies also provide education through on the job training. Countries have different systems of education and in others; access is limited due to poverty or religious belief. America is successful because it has a well educated population. In most African countries, access to higher education is difficult, and it is a preserve for the rich. Language is important in international business. English is widely used in international business (Scott, 2010). Body language communicates a lot in international business. In the United States, it is of concern to maintain an eye contact with the person one is communicating with as opposed to South Korea (Scott, 2010). In Arab countries, people hug and kiss as they discuss business, but such conduct would be considered inappropriate in the West for a business discussion. Numbers have also different meaning. In the United Kingdom, first floor ordinarily refers to the floor above ground floor, but in the United States of America it refers to the ground floor. In many western countries, the number 13 is considered unlucky, and in Asia the number 11 is considered to come with luck (Scott, 2010). Some countries due to the culture have different views on technology. In the western countries, technology is highly embraced but in countries like China has restrictions, some contents are not available since they are considered inappropriate. India ensures technology does not interfere with spiritual belief and displace people from their menial tasks (Scott, 2010). Time is highly observed in developed countries as opposed to the developing countries.

2.3.3 Political and legal factors
There are restrictions on fair advertisement that do not offend the host country or considered to be immoral. There are laws to fight against corruption and bribery, There is inspection of goods to ensure they meet the required standards. The political and legal environment in a foreign country is different from the home country (Francis, 2010).
2.3.4 Differences in currencies
Different countries have different currencies and have different values. Kenya has Kenya shilling and USA as the US dollars. The currency unit vary from one nation to another. This may cause problems in converting one currency to another and also there could be different rules on currency exchange in different countries (Francis, 2010).

2.3.5 Culture shock in international business
When getting involved in international business, it is highly powerful to understand the culture of the country one is dealing with to avoid culture shock. This is important since different countries have different cultures. This is important especially when one is to locate to a foreign country. One has to seek information on the country he is locating to such as food, transport industry, dressing and schools. As noted earlier, different countries have different system of education but still in the same country other systems of education are offered. In Kenya, we have 8:4:4 but we still offer the British education in schools like Hillcrest and Brook house. When someone is in a different country, it is highly significant to respect their culture since no culture is superior to the other. One needs to avoid ethnocentrism. Reverse culture shock happens when one gets back to his native country after staying in a foreign country for long. One needs to start adjusting slowly to the new culture, and with the help of friends one is able to adjust within one year after staying in a foreign country for a long time.

2.3.6 Entry strategies
There are several ways of getting into a foreign market. One of these ways is through Exports. Exporting is selling some of a firm’s regular production overseas. It requires little investment and it is relatively free of risks. Direct exporting is the selling of goods and services produced by the same firm to a foreign market due to economies of scale. Another entry strategy is foreign direct investment. This occurs when a firm invests directly in facilities to produce or market a product in a foreign country. (Charles 2001, pg, 232).Greenfield investment is the establishing a new operation in a foreign country. Foreign direct investment is expensive because a firm must bear the costs of the establishing production facilities in a foreign country. It is risky operating in a new culture. The advantage with this to the host country is that it leads to employment, transfer of capital and technology. The third mode is foreign manufacturing. This can be through wholly
owned subsidiary. This where the company that own an outside subsidiary can start by building a new plant, acquire a going concern or purchase its distributor, thus obtaining a distribution network familiar with its products. In this case, of course, production facilities will have to be built (Donald, 1993, p. 62).

The other one is a joint venture. This is a co-operative effort among organizations that have a common interest in an investment or undertaking (Donald, 1993). A case in point is the recently formed joint venture by coca-cola and nestle in the coca-cola and nestle refreshments Company, which will make and sell ready to serve coffee, tea and chocolate drinks worldwide. Experts say that by combining nestles well known trademarks with coca colas massive global distribution system, the joint venture will bring coffee and tea products to worldwide markets much faster than either company could do alone (Donald, 1993, p. 63). When the government of the host country require organizations to have local participation, foreign firms must involve in a joint venture with local owners to do business in that country. Strong nationalism can cause a foreign firm to lose its identity by colluding with local investors. Some countries like South Sudan and Japan restricts on 100% foreign ownership. Other factors that influence managements to enter joint ventures are the ability to acquire expertise that is lacking, special tax exemptions some governments extend to corporations with local partners or the need for more capital and expertise. Some firms enter joint ventures to reduce investment risk. The firm gets assistance from the knowledge of the locals of the host country’s competitive conditions, culture, language and political systems. Research suggests joint investments with locals face no risk of being subject to nationalism or other forms of adverse political interference.

The disadvantage of joint ventures is that the profits must be shared, and if the foreign company does not own more than 49%, it may lack control. To avoid this, many foreign firms require management contract. This is an arrangement where companies provide managerial knowledge in some functional areas to another company for a fee that ranges from 2 to 5 per cent of sales, e.g. Hilton Hotel provides management for non-owned overseas hotels that use the Hilton name (Donald, 1993, p. 65). The firm also risks losing control of its technological asset to its partner. The other entry strategy is licensing. This is a contractual agreement in which a firm allow access to its trade secrets, technology, and patents to another for a fee. This has gained ground
because courts are upholding patent infringement claims more than they used and patent holders are more vigilant in suing violators. In the fashion industry, a number of designers license the use of their names. Pierre Cardin, the largest such licensor, has 840 licences worldwide on everything from skis to frying pans. These earn him $75m annually, including $12 m from 32 American licensees. Even Russia pays him $0.75m every year (Donald, 1993, p. 66). The advantage with licensing is that the licensee contributes most of the capital needed to get the overseas operation going, and it is also used by firms wishing to participate in a foreign market, but it is restricted from doing so by barriers to investment.

Franchising is another market entry strategy. This is a form of licensing in which one firm contract with a different firm to operate the business under an established name according to certain rules. Turnkey project is another strategy. The contractor agrees to carry on each detail of the program for a foreign customer, including training operating personnel. Lastly is a contract manufacturing strategy. This is an agreement in which one firm gets into an agreement with another to produce to its specifications but assumes responsibility for marketing. At times, the international company lend capital to the foreign based contractor in the exact way that as global multinational companies lend money to its subsidiary
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
This chapter presents overall research methodology that was used in study. This will include research design, data collection and data analysis method.

3.2 Research design
The researcher adopted a cross-sectional survey of Chinese entry strategies in Kenya. Cross-sectional survey provides detailed information, which would not have been possible, using other methods. The results of a cross-sectional survey can be applied to the general population. Research on market entry strategies have been done successfully by past researchers like Ndegwa (2008) and Kieti (2006) among others. This cross-sectional survey will help in getting in-depth information on the strategies used by Chinese companies to enter Kenya. The Kenyan market is flooded with goods from China as opposed to the days we had goods imported from Europe and America. Chinese have won many contracts that used to be done by the former colonial master, Britain.

3.3 Data Collection
Data collection was done through primary and secondary data collection method. Primary data was collected through a structured questionnaire sent to senior managers in Chinese restaurant, China Wu Yi, the company that constructed Thika Superhighway, gave invaluable information. Still I got information on entry strategies from Jiangxi Engineering Ltd, Wiseway logistics, Chinese hair salon and barbershop and Bisheng Trading Company. This was done through interviews guided by structured questionnaire. This method helped in extracting in-depth information that a questionnaire may not be possible. Existing reports from research done in the past, newspaper were of exceptional help.

3.4 Data Analysis
After collection of both primary and secondary data was properly completed, it was analyzed through content analysis. This involved reading the interview responses to get the similarities and differences.
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction
This chapter discusses the data findings, analysis and interpretation. This research was a cross-sectional study which was aimed at establishing the entry strategies used by Chinese firms to enter into Kenyan market. Primary data was collected from various Chinese firms that operate in Kenya. Such firms included Wiseway logistics limited, Bisheng trading company, and Chinese hair salon and barber shop.

4.2 What attracted the Chinese firms in Kenya?
The study showed that most Chinese firms came to Kenya due to the cordial relationship between the two countries. The relationship has seen tremendous growth in trade and political relations. There has been interest in trading and investing in Africa shown by China. This is partly because it requires raw materials for its industries and its emerging an economic giant after America. The other reason cited by all the firms interviewed was that Kenya is a beautiful country and it has a good climate compared to China.

The study also showed that there was availability of raw materials for their business, political stability and availability of labour. The study showed that the Chinese firms have mostly employed Kenyans as opposed to hiring expatriates from their own country or other countries. Kenyans have shown a lot of interest in Chinese products. One of the reasons is that Chinese products are cheap; this is the case with electronics products. Kenyans also import furniture from China. The study also revealed that Chinese find Kenyans hospitable and welcoming something that they admired. The study also revealed that there is intermarriages between Chinese and Kenyans. There freedom in Kenya has also attracted the Chinese since Kenya is highly democratic and the reforms in the judiciary has built confidence in foreign investors that the judiciary is independent and can solve trade disputes. Kenyans also have a lot of interest in imported goods and therefore Chinese are capitalising on the same.
4.2.1 Problems encountered in doing business in Kenya
The study showed there is an increase in Chinese investments since 2002, though it has not all smooth for them. The businesses have encountered problems. One of the problems is language barrier. Many of the Chinese in Kenya are not conversant or eloquent in the two official languages in Kenya, which are English and Kiswahili. In the course of study, I never met a Chinese who would speak Kiswahili. In some cases, there are clients who may not speak Chinese language or English but only Kiswahili. The Chinese firms have employed Kenyans so as to handle such clients. Some firms have employed Kenyans who can also speak mandarins.

The study also revealed that many firms faced the problem of capital. They cited that its expensive to set up business in Kenya. Another problem cited by all the firms interviewed was insecurity. The threat posed by militant groups like Al shabab and al Qaeda scare investors. The study noted that the level of security was worrying. Heavy taxation was another problem the study revealed. Corruption was a problem that some businesses encountered in the process of settling in Kenya. Lack of clients by some business was another problem. Some firms, especially in the service industry, where mostly frequented by Chinese only. They are yet to receive many clients who are Kenyan. But all firms agreed that they will continue operating in Kenya in the foreseeable future.

The study showed that there is little assistance given to the Chinese firms to establish their businesses in Kenya. The businesses also give prices in both English and mandarins to cater for all clients.

4.3 Foreign direct investment (FDI) and imports
The study established that most Chinese firms used foreign direct investment strategy to enter Kenyan market. Most of all the firms interviewed have their head offices in China. The study also revealed that most firms have employed Kenyans who work hand in hand with their Chinese counterparts. Some firms import products from China and they have rented premises in Nairobi from where they sell them to Kenyans. Most of the firms interviewed have been operating in Kenya for at least five years. Other firms have entered Kenya through participating in contracts such as constructing of the Thika Superhighway and expansion of the Jomo Kenyatta Airport.
The Kenyan government also import military and police vehicles and other facilities from China which the government used to import from Britain and America. With time, Chinese businesspeople will be operating in counties as opposed to now where they are mostly based in Nairobi. There are is a Chinese motor assembly along Mombasa road to serve the East Africa Market. Chinese have made great investments in Kenya probably because it’s the strongest economy in East Africa.

4.3.1 Organisational structure
The study revealed that in most Chinese firms, the Chinese hold high ranks and in most cases, Kenyans hold the lower ranks. They are the ones who serve the clients and act as the interpreters in the service industry. The study found out that there is great relationship between Kenyans and the Chinese and also noted great team work. If a client wanted to talk to any of the Chinese, the Kenyans working there would direct you to the one who knows English since there are those who are eloquent in English, others have little understanding of English and there are those who do not know English at all.

4.3.2 Competitive advantage
The study established that the Chinese goods are popular with Kenyans due to their price which is more affordable compared to products from other markets. The products are also of different varieties and Kenyans have a wide variety to choose from. Though some products may not be of high quality, they are preferred by Kenyans where more than 50% live below poverty line. In many households in Kenya, there are items from China either as furniture, Phones or other electronics.

The local firms in Kenya have also taken advantage of presence of Chinese business people in Kenya by employing some Chinese as relationship managers especially in the banking sector to tap on the investments from China. There has been rise in interest of Chinese language in Kenya and colleges have come up to offer the same and the local universities have not been left behind. Universities like Nairobi and Kenyatta University have already started offering the course.
4.3.3 How to make the Chinese business grow big
The study revealed that if Chinese know English and Kiswahili, they would make more sales because they would be able to interact with their clients one on one and therefore understand the clients and have products and services that are tailor made to meet the need of the clients. In most business, the Chinese use Kenyans as the intermediaries to negotiate with the customers. Sometimes the message that would be conveyed by the owner of the business may not be the exact message conveyed by a third party.

It would help the businesses if Kenyans are also included in top management of the business. This would motivate them and bring healthy competition among the staff as they try to rise to top management. This would also be a way of rewarding performance. Still by having items of high quality especially phones and electronics will make Kenyans have faith in the products.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter represents the summary of the findings; conclusions and a recommendation of the study. It also show the limitation of the study and concludes with suggestions for further studies.

5.2 Summary of the findings
The overall objective of this study was to determine how Chinese firms entered the Kenya market. From the study, most of the Chinese firms have been operating in Kenya for a period of between five to ten years and are willing to continue their operations in the foreseeable future. The study also revealed that there are a number of factors that have attracted the Chinese firms to Kenya. These factors include availability of raw materials, labour, political stability and good climate.

Still, the study also established that the Chinese firms have encountered problems when establishing their firms in Kenya. Such problems encountered included corruption, high taxation, insecurity, language barrier, lack of customers and high cost of doing business. To counter the language problem, the study established that many Chinese firms have employed Kenyans especially those who know mandarins. The study established that Chinese rent premises and import products from China and sell to Kenyans. The study established that some businesses are owned by Chinese who do not speak English or Kiswahili. In the course of the study, the researcher never came across a Chinese who speaks Kiswahili.

5.3 Conclusions
The study concludes that many Chinese firms have entered the Kenyan market and there is a possibility that more will come according to the feedback received during the interview. Chinese are ready to do all types of business. Some of the firms interviewed and managed by Chinese are supermarkets, groceries and barbershops that many Kenyans feel they should be left in their hands.
5.4 Recommendations
This study was a cross-sectional where I interviewed a number of Chinese firms in Kenya on the strategies they used to enter the Kenyan market. The researcher would recommend that any business entering a new market needs to do a research to know the easiest and cheapest entry strategies. The firms can start with exports that are cheaper compared to other entry strategies. The Chinese mostly import products from their country and sell them to Kenyans.

5.5 limitations of the study
There were many limitations that were encountered. One of the limitations was language barrier. In some firms I was not able to communicate with the managers since they did not understand English language and their interpreters were not around. Another limitation was fear. Some managers were not willing to respond to my inquiries. In other cases, the managers were so busy and gave me little time to get detailed information.

5.6 Suggestions for further research
This study focussed on the entry strategies used by Chinese firms to enter Kenyan market. There are other foreign investors who have business in Kenya. The researcher suggests that further research should be conducted in other foreign investors operating in Kenya on the strategies they used to enter Kenya, the challenges they faced and their solutions.
REFERENCES


APPENDICES

Appendix I

QUESTIONNAIRE

1. What is the name of your company? .................................................................
2. Where is the head office of your company? ....................................................
3. In which country did the company start operations? ....................................... 
4. In how many countries does your company operate? Kindly list them ..........

....................................................................................................................................
....................................................................................................................................
....................................................................................................................................
....................................................................................................................................
  5. In a scale of 1 to 5 rate the Kenyan market attractiveness to foreign investors compared to other countries where you operate where 1 is least attractive and 5 the most attractive country
     (a).1 (b) 2 (c).3 (d).4 (e).5
  6. Which is the most important factor do you consider before investing in a country? 
     You can choose more than one. 
  7. What is your position in the company? ...........................................................
  8. How long have you been in Kenya? .................................................................
  9. How did your business get into Kenyan market? ............................................
 10. What problems did you encounter in entering Kenya and doing business in Kenya?.
 11. How long do you plan to continue operating in Kenya? ............................
 12. Are there any incentives you got from government in establishing your business in Kenya? 
    Such benefits would include tax holidays, fewer licences, less bureaucracy etc
13. Does the government restrict on what you import or export? If yes, give details

14. Have you employed expatriates from other countries or your country of origin? If yes, did you encounter any problem in getting work permit?

15. Does Kenya has a conducive environment to attract foreign investors? If yes, give examples of what attracts foreign investors in Kenya?

16. Would you recommend Kenya as a place for investment to your friends, family and other investors?

17. Have you worked in another country? If yes, which one and how does it compare to Kenya in terms of attracting foreign investors?
Appendix II

List of Chinese Firms in Kenya

1. CHINA WU YI
2. CHINA JIANGXI
3. CHINA AVIATION SUPPLIERS
4. CHINA AVIATION SUPPLIES
4. CHINA FUSHUN
5. CHINA PETROLEUM PIPE
6. CITIC INTERNATIONAL CONSTRUCTION COMPANY
7. SHENGLI ENGINEERING CONSTRUCTION COMPANY
8. CHINESE RESTAURANT IN NAIROBI
9. CHINESE PLATE RESTAURANT
10. BISHENG TRADING COMPANY
11. CHINESE HAIR SALON AND BARBER SHOP
12. WISEWAY LOGISTICS LIMITED