

**A CASE STUDY OF DAVIS AND SHIRTLIFF'S RESPONSE TO
CHALLENGES OF EXPANSION TO REGIONAL MARKETS**

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DECLARATION

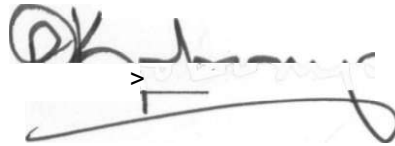
I declare that this project is my original work and has not been presented for a degree in any other University.

Signature ffi _____ Date 1 \ 1 n U ^

Anne Nyambura Gitau
D61/8319/2006

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

Signature



Date_

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DEDICATION

I dictated this Project to my parents, brothers and Frank.

ACKNOWLEDGMENT

I thank God for his goodness and giving me the strength to complete this project, my supervisor for his guidance and my colleagues for their assistance.

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ABSTRACT

In the current dynamic and highly competitive business environment, expanding beyond national border is a necessity not a luxury. The greatest market is outside the home country for any product; therefore expansion beyond national borders lies at the heart of each business that aspires to operate in foreign Markets. A firm follows a strategy that is intended to create a competitive advantage in the market place.

The objective of this study was to find out the challenges faced by Davis and Shirtliff in their regional expansion program and their strategic responses to these challenges. The study was case based and utilized both primary and secondary data collected from the organization staff and documents respectively. The study targeted the five General Managers at the head office in Kenya and ten Subsidiaries managers. The data was collected with the help of an interview guide and a questionnaire.

The data was analyzed using both statistical method and content analysis. The findings indicated low levels of disposable income, low pace of economic development, poor infrastructure, hostility of ethnic groups, tough tax laws, legal complexity, currency control, local people inability to learn new language, low labor quality, tough expatriate worker policies and tough investment laws posed a challenge to Davis and Shirtliff regional expansion program. The study also found that the organization responded to these challenges through stocking cheaper items, availing credit to their customers, closing big deals in forex, ensuring compliance with the regulations and undertaking staff training in the subsidiaries

CHAPTER ONE

INTRODUCTION

1.1 Background

In the current dynamic and highly competitive business environment, global market cannot be ignored; going global in terms of marketing an organization's product is a necessity and not a luxury (Paliwoda 1993). The process of finding new markets has promoted an increase in the number of firms developing strategies to enter and expand their markets outside home countries. The greatest market is outside the home country for any product and therefore internationalization lies at the heart of any business that aspires to operate in foreign markets (Sarkar & Cavuscul 1996).

A firm usually follows a strategy that is intended to create a competitive advantage in the market place which according to Ansoff and Mc Donnel (1990) is a set of decision making rules for guidance of organization behavior. Environmental developments such as liberalization and globalization have intensified competition in the local market. This development in the external business environment has resulted to firm's internationalization (Ansoff and Mc Donnel). Researchers have come up with many reasons why firms need to internationalize. Companies venture in global markets because of the desire to follow customers so as not to lose them. It is easier to serve customers who are familiar than new ones. Many of the companies that are going global are doing so due to the push of their competitors who have done

the same hence they fear that they will not be at par or they may lose an opportunity. This is more common with firms that are experiencing oligopolistic competition. Attack in the home market of the company may lead to retaliation by entering the competitor's home market thus forcing the competition to exit its market.

Technology has made the globe smaller with the development of Internet services, air and water transport etc. This has made the cost of operating in geographically dispersed countries; relatively cheap due to the large market gained by marketing products outside the domestic market. The organization therefore, is able to lower its costs since it will enjoy greater economies of scale. The need to counter the risk of depression or economy in one country, having markets in different countries, minimizes the effects of fluctuations in demand in that particular country as a result of spreading the risks of the firm. International markets provide market for obsolete products or surplus production without causing damage to the home market (Devesky,1997).

A firm's internationalization process is usually propelled by the combination of pull and push factors (Ellis and Williams, 1995). While pull factors usually exert pressure on the firm, to move away from its existing local position due to perceived attractiveness of other markets; push factors arise out of the perceptions that potential markets are not as problematic as existing ones.

Firms are kept from going international by obstacles such as lack of resources, little knowledge about exporting and further, firms believe that linguistic and cultural differences are insurmountable (Gronroos 1999).

1.2 Davis & Shirliff Ltd.

Davis and Shirliff Ltd was founded in 1946 (CEO Davis & Shirliff Ltd,) by partners E C "Eddie" Davis and F R Shirliff. The company's original office was in Westlands in Nairobi. In 1955, nine years after Davis & Shirliff Ltd was established, the offices moved from westlands to their current location on Dunduri road in Nairobi's Industrial area. The company grew rapidly by providing water supply installation to the then burgeoning Kenyan economy.

The company started by focusing on the design and installation of water supplies equipment and maintenance of the same. It began importing pumps in 1965 (D&S Newsletter April 06). The first were from Grundfos of Denmark and Flygt of Sweden. Other suppliers include Davey and KSB Ajax of Australia, and Pedrollo/Linz of Italy. Latest addition to the list of suppliers is Yanmar (D&S Newsletter April 08).

The company has diversified its activities from just distributing water pumps to the distribution of water treatment equipment, swimming pools fittings and renewable energy product. The company has also expanded the distribution of its product in Kenya to the sub-Saharan region. Effective distribution is vital

if a large market share is to be achieved (Davis & Shirtliff Ltd 2008 company plan). To accomplish this, the company has opened branches in Mombasa, Eldoret, Kisumu, Nakuru and Westlands and opened pump centres in many major towns in Kenya to ensure that local distribution is efficient and timely. The company has also opened subsidiaries in Uganda (Kampala), Tanzania (Dar-es-Salam, Arusha, Zanzibar and Mwanza), Rwanda (Kigali), and Ethiopia (Addis Ababa) The newest addition is trading activities in Sudan. It is this network of branches and subsidiaries that has seen Davis & Shirtliff Ltd become a market leader in the distribution industry and is a nine time winner of the Company of the Year Award (Marketing Africa 08)

Davis & Shirtliff mission is to be a world class quality organization through the highest levels of corporate standards and professionalism. The commitment is to offer a comprehensive and competitive product range with regional availability and unrivaled technical support. The company recognizes that the provision of efficient water supplies is essential for the region's economic development and is committed to playing a major role in this vital industry

The company has been consistently successful over many years. The fundamental reason for this has been the evolution and pursuit of a consistent strategy that has been widely communicated and effectively applied.).

The company's key strengths are the wide product ranges and supply chain both of which are made possible through scale. The company is a one- stop for all water related products. These include: a wide range of water pumps,

water pumps spares, water pump accessories, water pump repair department, water treatment plants, chemicals and equipment, borehole pumps and maintenance services, solar products and installation services and a pool departments that offer pool related products.

The company has retail and wholesale departments all under one roof, making it one of a kind in the distribution of water related products in Kenya. This has given it a competitive edge over its competitors. Currently, it is the only company that distributes this whole range of products, while the competitors only distribute a few of the product range offered by Davis and Shirtliff. The company has a large warehouse which ensures that there is sufficient stock to meet its market across the borders. In deed it has stock of over KSH. 200Million (Davis & Shirtliff Ltd 2009 company plan) at any one time.

1.3 Statement of the Problem

As business opportunities[^] a given country diminish, some firms may decide to cross national borders as a competitive strategy. At the international level, companies need to adopt appropriate strategies to survive in a given international industry. The decision to internationalize requires that firms address issues such as production, marketing, creating brand awareness, among others. Hence, the study of the strategies used to overcome internationalization challenges is important to help gain a better understanding of the internationalization process and the challenges involved. With a good

understanding of these challenges a company can adopt strategies that will ensure success in the new international market.

Davis & Shirtliff Ltd has been in the distribution industry for over 60 years. It is one of the most successful firms in the region. It has the widest range of water related products and the largest distribution network both in Kenya and the sub-Saharan region. It was the first to expand to regional market successfully. The company has won 9 COYA awards: one of the awards given in 2006 for best supply chain management. Thus, the study of Davis & Shirtliff Ltd will help in finding out how they have successfully penetrated and remained competitive in the regional market, more so given the fact that there is a good deal of competition in these markets particularly from South African Companies. (Marketing Africa, 08)

This leads to the following research question: what challenges has Davis & Shirtliff faced in its externalization effort to the regional market and what strategies has it used to respond to them?

1.4 Objective of the Study

To determine the challenges faced by Davis & Shirtliff Ltd. In its regional expansion program.

To determine the strategies used by Davis & Shirtliff Ltd. to respond to the challenges of regional expansion.

1.5 Importance of the Study

The study will contribute to the understanding of challenges of expansion across the national boundaries and the strategies for addressing them. It will also stimulate more research on challenges and strategies of expansion across the national borders. Other organizations intending to externalize will find the results of the study useful in determining the various strategies for dealing with challenges of externalize.

CHAPTER TWO

LITERATURE REVIEW

2.1 The concept of Internationalization

According to Johanson and Weidersheim-Paul (1975) internationalization usually refers to either attitude towards foreign activities or the actual carrying out of activities abroad. The Process through which a firm enters and begins to operate in foreign markets is called internationalization. Internationalization has been defined as the process of increasing involvement in international operations, which requires adaptation of the firms' strategy, resources structure to international environment. Divestments, growth and expansion form part of internationalization (Welch & Loustarinen, 1988)

The internationalization process is the outcome of the interactions of both external and internal drivers of change (Ellis & Williams, 1995). The combination of these factors shapes a company's strategy. Many enterprises continue to have restricted national market scope, believing that their markets are not threatened by international competition but some multinationals view the 'global village' as their market. Therefore, firms have to reckon with the ever evolving global challenges by formulating strategies that result to competitive advantage both in domestic and other markets.

The current theories of internationalization do not adequately explain or predict companies' internationalization behavior. As explained by the existing models of internationalization attempt to explain firms increasing commitment

to overseas markets, ranging from non exporters through to those with high international market involvement. Although the models depict firms movement from one state to another there is no agreed explanation with the literature about factors influencing changes in firms export development (Crick and Chaundhry,1997).

2.2 Challenges of Expansion Across the Borders

Establishing business operations effectively beyond the borders is not an easy task. There are numerous factors that are unfavorable for operating business. These factors can be social, legal, economic, political and technological (Doole and Lowe, 2004). These factors can facilitate or hinder international business operation depending on their precise nature, which may be favorable or unfavorable to foreign business in a country (Lessard, 1990).

A company operating in a foreign country will be faced with issues like the exchange rate differences, balance of payment and regional and international groupings. Most countries use flexible exchange rates monitored by central bank ore reserve banks, these are hard currencies of strong countries such Euro, US Dollar, Pound among others. Common currencies are also used in regional trading blocks (Lessard, 1990). Foreign companies want payment in hard currency with profit repatriation rights, but these rights are not available in all markets (Lessard, 1990). Tariffs, or import duties, are taxes levied on imported goods primarily for the purpose of raising their selling prices in the importing nation's market to reduce competition for domestic products. If an

organization can achieve lower tax burden than its competitors, it can lower prices than its competition thus gaining a competitive advantage (Ball & McCullough, 1993).

Inflation is an important challenge to multi-national organizations as there are difference inflation rates for different countries. Higher inflation rate can cause the price of goods and services produced or offered by a country to rise and thus the goods and service become less competitive (Ball & McCullough, 1993).

A company expanding to regional markets is faced with the challenge of the laws of the firm's home country. Certain home country laws may impose constraints on the extent to which a firm can participate in business activities in foreign market; for example, such laws are export controls and antitrust laws making it difficult for the firm to freely exploit foreign market opportunities (Flaherty, 1990). The firms also have to deal with the firms host country laws in regards to the product content, labeling, packaging, promotions, distribution, pricing, labor laws and regulations. Finally the firm has to factor in the international and regional laws, this include bodies such as IMF (International Monetary Fund), WTO (World Trade Organization) and ISO (International Standards Organization) (Flaherty, 1990). The legal environment across borders is very complicated since it has three dimensions: local domestic law in the host country, international law and domestic law in the

firm's home base. These laws will affect the market mix in terms of product prices, distribution and promotional activities (Ball and Mc Culluch, 1993)

A company operation in a foreign market also faces the challenge of language barriers both by the language symbols used and by the denotative connotative meaning of such symbols (Tayeb, 1998). The business operation most affected by language is: promotional techniques, PR activities and corporate image. International business is also affected by aesthetics; this refers to cultures ideas concerning beauty and good taste (Tayeb, 1998). Aesthetics also involves appreciation of colour and form, it therefore has significant implication in the design, colours, music and brand names that an international company will use for promotions to reach the foreign market. Understanding the foreign people's attitudes and values is also important for effective marketing and branding operation of the regional company (Tayeb, 1998)

The social and cultural influences across borders are immense. Differences in social conditions, religion and material culture all affect consumers' perception and patterns on buying behavior. Culture determines the attitudes, values, and behavioral standards in individuals and organizations, which are barriers for the organization to serve a particular market (Doole and Lowe, 2004).

2.3 Response Strategies to Challenges Externalization

A joint venture where the international company and a local partner invest together, with the multinational company providing its firm's specific advantage and the local firm providing knowledge of the host country's environment. This strategy helps overcome the challenges of hostility from the local market and gives a sense of belonging to the local people (Deversky, 1997).

A firm expanding to regional market can respond to challenges it faces in the process of expansion through different strategies, national responsive strategy can be used where a firm allow subsidiaries much more autonomy to respond to local market. (Deversky, 1997). The ability to respond to differing preferences and regulatory changes across countries gives the nationally responsive firm an advantage through times response to any changes occurring in their respective market. In case of nationals responsive strategy, the international company decision and control is centered in the branches (Deversky, 1997)

An international company may also use the centralized strategy, where the decision making and control are centralized in the headquarters. This allows for more effective coordination, uniformity and may help in lowering cost. A world wide integration strategy can be used which allows subsidiaries to specialize in those activities or functions that they can be more efficient in and

then rely on other subsidiaries for other things which they cannot produce or do. (Deversky, 1997)

Semi-autonomous branches are a middle ground between centralized and decentralized branches/subsidiaries. This structure helps a firm to exploit the benefits of global integration as well as those of local adaptation. In this strategy, national subsidiaries serve the needs of their own national markets but also explore opportunities for specialization in those aspects of product development and manufacture that best suit their capabilities (Deversky, 1997)

Direct export is another strategy of overcoming the challenges of regional expansion. In direct export the company does not involve the home country middle men; rather it directly handles the responsibility of shipping and marketing the product. Through In-house clearing a company is able to ensure that the regulation at the border and correct documentation has been done to be able to overcome the challenge of corrupt officials at the border and also ensuring the clearing process at the borders is done effectively and efficiently, hence saving time (Gregory, Taylor and Zau, 2001).

2.4 Factors Influencing Company's' Decision to Expand Beyond their National Borders

The age and size of a firm influences its decision and process to expand and venture in to the regional markets (Ellis & Williams, 1995). The process of venturing in to foreign markets is complex and risk inherent more so for smaller firms. Smaller firms substantially incur larger risks and resource commitment than larger firms. However that is not to say that the ability of a firm to operate in foreign markets is necessarily related to its size (Cooper and Weinschmidt, 1985)

The personal characteristics of the owner or/and management of a firm influences the decision and process of a firms regional expansion decision and process (Cooper and Weinschmidt, 1985)). The experience of the entrepreneur can be seen as antecedents to participation in international new ventures. On developing an export behavior model (Ellis & Williams, 1995) identified significant differences among firms in various stages with respect to a number of top management attributes such as personal characteristics, orientation to planning foreign activities and attitude towards international business.

It has been observed that the uniqueness of a product will influence the export behavior. Competitive advantage drawn from a unique product or product specialty has been positively linked to export performance (cooper and

Weinschmidt, 1985). (Letebvre and Letebvre, 2001) states that the industry structure is important as it influences firm size and export intensity.

Technology capability refers to the firms' current ability and its future potential to apply firm-specific technology to solve technical problems and enhance the technical function of its production process (Letebvre and Letebvre, 2001) the level of development in areas of production, transport and technology can be a determining factor in the regional expansion and internationalization process of a firms.

2.5 Entry modes to Foreign Markets

There are various modes that a firm can use to enter and operate in a foreign market; a firm can use different modes for different products, depending on competitive advantages that may be gained. Similarly for a given product a firm can use different modes in different countries depending on the competitive advantages to be gained. A Firm can enter a foreign market through exporting which either can be direct where the firm will perform the task by itself rather than delegation it to others, or through indirect exporting where the firm delegated the task of exporting to others (Cooper and Weinschmidt, 1985)

Another mode that a firm can use to enter foreign market is through assembly where all or most of the product's components or ingredients are manufactured in the domestic plants or in other countries before they are

transferred to the particular foreign market for final assembly (Flaherty, 1990). Contract manufacturing is also a mode of entering foreign markets where a firm's product is manufactured in foreign markets by another producer under contract (Flaherty, 1990). Licensing which can be seen as an extension of contract manufacturing since it covers a longer term and involves the licensee in wider sphere of responsibility and activities. Licensing entails the sale of a patent, manufacturing know how, technical advice and assistance, or the use of trade mark or trade name on a contractual basis. The licensor is paid royalties in return by the licensee. (Cooper and Weinschmidt, 1985).

Joint ventures are a project in which two or more parties invest. A joint venture agreement results in the formation of a new company in which the parties have shares. The international firm has enough equity to have a voice in management but not enough to completely dominate the venture. Mergers are another foreign market entry model where two corporations in which only one company survives and the merged corporation goes out of existence (Flaherty, 1990).

Wholly owned foreign subsidiary is the greatest commitment to foreign market. A firm can obtain wholly owned foreign subsidiaries in the following ways; acquisition i.e. by buying out an existing company or new investment where the company builds or develops its own facilities from scratch.

CHAPTER THREE

RESEARCH METHODOLOGY

The study was about challenges faced by Davis & Shirtliff Ltd in their externalization process and their response strategies to these challenges. Primary and secondary data was collected to meet the objective of the study

3.1 Research Design

A case study method was used; it enabled the researcher to collect in depth data on the challenges faced by Davis & Shirtliff Ltd in their externalization process and how they responded to this challenges. The case study approach was considered appropriate because of the unique nature of the phenomenon under study.

3.2 Data Collection

The personal interview and questionnaires method was used for primary data collection. An interview "guide was used to conduct the interview which consisted of open-ended questions. The interview was conducted by the researcher personally and targeted the five general managers at the head office in Nairobi. A structured questionnaire was be used to collect data from the managers at each of the 10 subsidiaries in Uganda (Kampala, Kampala downtown, Tanzania, (Mwanza, Arusha, Zanzibar, Da el salaam), Rwanda, Zambia, Ethiopia, Sudan. The questionnaires consisted of parts A and B. Part A collected data on the personal attributes of the respondent in the

subsidiaries. Part B focused on the operational challenges faced by the subsidiaries and the strategic responses to the challenges.

3.4 Data Analysis

The data was analyzed through statistical methods and content analysis in accordance with the objective of the study. The data obtained from interview and the questionnaire was integrated to address to the research objective.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 introduction

The chapter contains summaries of data findings and their possible interpretation. The chapter will also include the analysis of the challenges faced by Davis and Shirtliff Ltd as it expanded in to the region. The strategic responses used by the company to counteract the challenges will also be analyzed.

The study targeted 15 respondents, 5 are the general managers who are at the head office and 10 are the subsidiary managers. 4 of the general managers were interviewed while one of them was away of leave and hence could not be reached as he was outside the country. 8 of the subsidiaries managers responded to the questionnaire hence the response rate was 80%.

The challenges affecting Davis and Shirtliff were economic, physical, political, legal, social, cultural, labor and other factors. The respondents were requested to rate on a scale of 1-5 to which extent the factors posed a challenge to Davis and Shirtliff Ltd. The scale points were interpreted as follows.

1-Not at all

2-To a least extent

3-To moderate extent

4-To a great extent

5-To a very great extent

The mean scores were interpreted as follows

Mean score of: 0 < N.E ≤ 1.5 --No effect

1.6 < L.E ≤ 2.5-Little effect

2.6 < M.E ≤ 3.5-Moderate effect

3.6 < G.E ≤ 4.5-Great effect

4.6 ≤ E.E ≤ 5.5-Extreme effect

4.2 Challenges faced by Davis and Shirliff in their regional expansion.

Economic factors that were found to pose a challenge to the company are listed as per below

Table 4.1: Mean scores for Economic factors

ECONOMIC FACTORS	MEAN SCORE
Low levels of disposable income	3.50
Low pace of Economic development	3.00
Poor Infrastructure	2.80
Instability of exchange rate	2.60
Population size	2.60
Instability of interest rates	2.50
Lack of credit	2.10

According to Table 4.1, levels of disposable income mean=3.50, low pace of economic development mean= 3.1, poor infrastructure mean=2.8, instability of exchange rate mean= 2.6 and population size mean=2.6 where the factors that moderately posed a challenge to Davis and Shirtliff while instability in interest rates mean= 2.5 and lack of credit mean=1.2 indicated least challenges.

Physical factors that were found to pose a challenge to the company are listed as per below.

Table 4.2: Mean scores for Physical factors

PHYSICAL FACTORS	MEAN SCORE
Poor political relation with its neighbors	2.30
Poor economic relation with its neighbors	2.30
Lack of natural resources	2.10
Harsh climate	2.10

According to Table 4.2, poor political relations with neighbors mean=2.3, poor economic relation with its neighbors mean=2.3 lack of natural resources mean=2.1 and harsh climate mean=2.1 they all posed little challenge.

Political factors that were found to pose a challenge to the company are listed as per below.

Table 4.3: Mean scores for Political Factors

POLITICAL FACTORS	MEAN SCORE
Hostility of ethnic groups	2.60
Insecurity	2.50
Instability of government	2.30
Instability of government policies	2.10

According to Table 4.3, hostility of ethnic group mean=2.6 moderately posed a challenge to the company while insecurity mean=2.5, instability of government mean=2.5, instability of government mean=2.3 and instability of government policies mean=2.1 posed little effect.

Legal factors that were found to pose a challenge to the company are listed as per below.

Table 4.4: Mean scores for Legal Factors

LEGAL FACTORS	MEAN SCORE
Tough tax laws	3.60
Legal complexity	3.40
Wage, price and currency control	2.80
Lack of business/industrial regulation	2.10

According to the above table tough tax laws mean=3.6 posed a great challenge while legal complexity mean=3.4, wage, price and currency control mean=3.4 posed moderate challenge and lack of business/industrial regulation mean=2.1 posed little challenge for the company.

Social and cultural factors that were found to pose a challenge to the company are listed as per below

Table 4.5: Mean scores for Social and Cultural Factors

SOCIAL AND CULTURAL FACTORS	MEAN SCORE
Local people inability to learn new language	2.80
Low levels of education	2.60
Unfamiliar local language	2.60

According to Table 4.5, social cultural factors posed moderate challenge to the organization.

Labor factors that were found to pose a challenge to the company are listed as per below

Table 4.6: Mean scores for Labor Factors

LABOR FACTORS	MEAN SCORE
Low labor quality	3.80
Tough expatriate worker policies	3.60
Strong labor movement	1.5

According to Table 4.6, Low labor quality mean=3.8 and tough expatriate worker policies mean=3.6 posed a great challenge for the organization while strong labor movement mean=1.5 posed not effect.

The following factors posed a challenge to the company as indicated below.

Table 4.7: Mean score for other Factors

CHALLENGES	MEAN SCORE
Tough foreign investment laws	2.80
Davis and Shirtliff financial capacity	1.50
Davis and Shirtliff capability of management team.	1.30

According to Table 4.7, Tough foreign investment laws mean=2.7 posed moderated challenge while financial capacity of Davis and Shirtliff mean=1.5 and Davis and Shirtliff capability of management team mean=1.3 posed little challenge for the company.

4.3 Strategic Responses to the challenges of regional expansion applied by Davis and Shirtliff.

The data collected for this section was qualitative. Therefore the analysis is presented in a narrative form rather than figures

The economic challenges faced by Davis and Shirtliff Ltd had a moderate effect on its regional expansion program. The company availed credit arrangement to the customers and stocked cheaper items. The company also kept abreast with forex changes and ensured all large orders deals were in forex. It further negotiated for best interest rates and kept track with the changes and were factored in the company's business plan.

The Physical factors did not pose much of a challenge to the organization.

Political factors posed a moderate challenge to the company and the company concentrated its business in the politically stable parts of the countries to avoid getting caught up in the conflict which could lead to property loss.

Legal factors posed a great challenge to the organization although the company complies with the law to avoid suctions and penalties which can be very expensive for the organization.

Labor factors posed a moderate challenge to the organization and due to low quality of management competencies in the neighboring countries; the

company hired top managers from Kenya and then posted them to run the subsidiaries outside Kenya. This was obviously expensive but was the only feasible option available. The local staff in the subsidiaries were also sent to the head office in Kenya for training which helped improve their skill and competent. High labor turnover is still a challenge.

Proper planning and open credit given by the company's head office to its subsidiaries help overcome the challenge of financing, Davis and Shirtliff is strong in the market and have not experience a situation where they are unable to finance the supply for projects

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The chapter discusses the findings gathered from the analysis of the data as well as the conclusions reached. The chapter incorporates the various suggestion and comments given by the respondent in the questionnaire and the interviews. Findings have been summarized alongside the objective of the study; conclusions have been drawn from the study and recommendation for the action given.

5.1 Summary, Discussion and Conclusion

The study was undertaken with two objectives, to find out the challenges of regional expansion faced by Davis and Shirtliff and the company's strategic response to these challenges. The study found out that the challenges were tough expatriate labor policies high labor turn over, low labor quality, tough tax laws, and low levels of disposable income and low pace of economic development.

The study also found that the company faced the challenges of legal complexity. The frequent changes in the legal requirement for the different countries it trading terms and taxes posed a challenge to the company and the company had to keep abreast with these changes.

On the question of strategic response, the study found that the company had put in place measures like training and development of staff to raise the quality of labor, and abiding by the laws and regulations of each country.

The organization also resulted to hiring top management from Kenya a position made difficult by the tough expatriate labor laws.

While it was not apparent from the study, it is likely that success in regional market would be a precursor for future plunge in to the continental markets.

5.2 Limitation of the study

A number of targeted respondent were not able to respond to the questionnaire. The study also lumped the various regional markets in to one. It therefore assumed that they posses similar characteristics and can be judged wholesomely. However in reality each country has unique characteristics affecting business activities and hence the challenges and strategies differ.

5.3 Suggestion for Further study

Whereas the study focused on challenges and strategic responses no attempt was made to pass a value judgment of the strategy. A study can be done to study the appropriateness of the strategies. The extent at which each of the challenges is likely to impede growth can also be studied. This are questions can give rise to future studies. Since the study was based on a case, the study can be done for non-distributing company or a cross section of sector such a study would highlight other factors that are unique to the sectors.

5.4 Recommendation for Policy and Practice

The company can introduce staff exchange program between the Subsidiaries employees and the employees at the head office in Kenya to help raise the quality of labor in the other subsidiaries. It would be a good idea to reconsider some of the entry modes to some of the country where the tax laws are unfriendly to foreign traders. For some countries the company should consider exit strategies.

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APPENDIX 1

Questionnaire for Davis & Shirliff Subsidiary Managers

My name is Anne Nyambura a student at the University of Nairobi conducting a research on the challenges of externalization and strategic responses to these challenges. The purpose of this questionnaire is purely academic. Your assistance by filling this questionnaire is highly appreciated.

Section A

Kindly indicate your country of operation

UGANDA TANZANIA SUDAN

ZAMBIA ETHIOPIA RWANDA

In which country is your subsidiary?

What is your Nationality?

How long have you worked for Davis & Shirliff Ltd?

How long have worked at the subsidiary ? _____ PART B

Have you worked out side Kenya before your current assignment

? If so in which country?

Section B

Kindly tick the appropriate answer for the below questions where

1-Not at all

2-To a least extent

3-To moderate extent

4-To a great extent

5-To a very great extent

Kindly explain to what extent the following economic challenges affected Davis & Shirliff Ltd in its operations in your subsidiary

7a. Low levels of disposable income

1 2 3 4 5

7b Response to above challenge?

8a Low pace of economic development

1 2 3 4 5

8b Response to above challenged ?

9a. Lack of credit

1 2 3 4 5

9b Response to above challenged?

10a. Population size

1 2 3 4 5

10b. Response to above challenged?

11a. Instability of exchange rate

1 2 3 4 5

11b Response to above challenged?

12a. Instability of interest rates

1 2 3 4 5

12b. Response to above challenge?

13a. Poor infrastructure development

1 2 3 4 5

13b. Response to above challenge?

Kindly explain how the following physical factors have posed challenges to Davis & Shirliff Ltd operations in your subsidiary.

14a. Poor political relation with its neighbors

1 2 3 4 5

14b. Response to above challenge?

15a. Poor economic relationship with its neighbors

1 2 3 4 5

15. Response to above challenge?

16a. Lack of natural resources

1 2 3 4 5

16b. Response to above challenge?

17a. Harsh climate

1 2 3 4 5

17b. Response to above challenge?

Q3. Kindly explain how the following political factors have posed challenges to Davis & Shirliff Ltd operation in your subsidiary.

18a. Government ownership of the business

1	2	3	4	5
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18b. Response to above challenge?

19a. Insecurity

1	2	3	4	5
---	---	---	---	---

19b. Response to above challenge?

20a. Instability of government

1	2	3	4	5
---	---	---	---	---

20b. Response to above challenge?

21 a.Instability of government policies

1 2 3 4 5

21b. Response to above challenge?

22a. Hostility between ethic groups

1 2 3 4 5

22b. Response to above challenge?

Kindly explain how the following legal factors have posed a challenge to Davis
& Shirliff Ltd operation in your subsidiary.

23a. Legal complexity

1 2 3 4 5

23b. Response to above challenge?

24a. Tough tax laws

1 2 3 4 5

24b. Response to above challenge?

25a. Wage, price and currency controls

1 2 3 4 5

25b. Response to above challenge??

26a. Lack of industrial/business regulation

1 2 3 4 5

23b. Response to above challenge?

Kindly explain how the following social and cultural factors have posed a challenge to Davis & Shirtliff Ltd operation in your subsidiary.

27a. Unfamiliar local language

1 2 3 4 5

27b. Response to above challenge?

28a. Local people inability to learn new language

1 2 3 4 5

28b Response to above challenge?

29a. Low levels of education

1 2 3 4 5

29b. Response to above challenge?

Kindly explain how the following labor factors have posed a challenge to Davis & Shirliff Ltd operation in your subsidiary.

30a. Low labor quality

1 2 3 4 5

30b. Response to above challenge?

31a. Low labor quantity

1 2 3 4 5

31b Response to above challenge?

32a. Tough expatriate worker policies

1 2 3 4 5

32b. Response to above challenge?

33a. Strong labor movement

1 2 3 4 5

33b. Response to above challenge?

Kindly explains how the following factors pose a challenge to Davis & Shirtliff

Ltd operation in your subsidiary.

34a. Tough foreign investment controls

1 2 3 4 5

23 b. Response to above challenge?

35a. Davis & Shirtliff financial capacity

1 2 3 4 5

36b Response to above challenge?

37a. Davis & Shirtliff capability of management team

1 2 * 3 4 5

37b. Response to above challenge?

APPENDIX 2

Interview guide for General Manager. Based in the Head Office in Nairobi

Section A

What division do you head at Davis and Shirtliff?

How long have you worked for Davis & Shirtliff Ltd?

How long have you worked as a General Manager?

Have you worked outside Kenya? _____ If so in which country? --

Section B

Q1. What are the major reasons for pursuing regional expansion?

Q2. Could you enumerate the challenges the company has encountered in the pursuit of regional expansion.

Q3. What was the response you applied to counter the challenges enumerated above.