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Kenya's Outward Foreign Direct Investments in East Africa: Challenges and Prospects

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Abstract
FDIs, from emerging economies, continue to play an important role in world economic activities. Studies on the nature, the number, and factors that drive their growth have not received adequate research attention from scholars both within East Africa and elsewhere. Studies on outward FDIs in East African countries of Burundi, Kenya, Rwanda, Tanzania and Uganda, are very scanty. This study, conducted between 2013 and 2017, was aimed at finding out symbiotic influence of entrepreneurial initiatives, and business environmental factors that have led to the expansion of Kenya's outward FDIs in Eastern African Region. The study was anchored on internationalization trade theory, and specifically, on John Dunning's eclectic paradigm theory, and Michael Porter's competitive advantage of nations. Field work was conducted in 10 Kenyan outward FDI operating in EAC countries. Investigations carried in the five member states of EAC, indicated that there were factors that were specific to particular locations and country. Kenyan firms that were started from infancy and grew through intermediate stages had matured to become OFDIs. The study was aimed at finding out the relationship between entrepreneurial initiatives and the role of environmental factors that led to an increase of Kenya's outward FDIs within the EAC region. Results of the study showed that there was a direct correlation between entrepreneurial initiatives and the increase of Kenya's outward FDIs in the host countries of EAC. It is concluded that successful growth of Kenya's outward FDIs in EAC countries, although attributable to several factors, were mainly influenced by entrepreneurial aggressive nature of Kenyan businessmen and environmental factors that played a big role in enabling Kenyan OFDI businesses to thrive.
Keywords: Entrepreneurial initiative, outward FDI, Emerging Economies, Eclectic paradigm, Internationalization, Preferential treatment.

1. Introduction
Since the establishment of the new East African Community (EAC) in 2009, Kenyan firms have spread rapidly to other EAC countries, taking the advantage of relatively developed Kenya economy within the sub region (World Bank Report 2011: Defragmenting Africa). Continued evolvement of EAC and its growing importance and influence in trade and investment matters within the African continent, has called for attention of scholars to inquire: what factors have influenced this successful trend of Kenyan firms spreading into the neighboring EAC countries?

A number of scholars and writers have predicted that this may have been influenced by the well-known theories of attracting and repelling forces prevailing in a particular location (Dunning J.1985). Others have based their argument on the natural factors as posited by Adam Smith and developed by Heckscher and Ohlin and recently developed further by Michael Porter in his Competitive Advantage of Nations. (Porter M.1987). Recent research by scholars (Buckley P. et al, 2011) has indicated that there are unique factors and circumstances that favor international firms emanating from emerging economies that contribute to the success of such outward foreign direct investment (OFDI). Theoretical underpinnings of OFDI are routed in globalization and internationalization of firms' activities in the value chain from production to consumption of goods and services. Globalization, as understood to mean interconnectedness of world economies, has brought about closeness of EAC economies. Advancements in telecommunication technologies have made it easier for Kenyan firms to establish foot-hold in Rwanda, Uganda and in Tanzania.

2. Internationalization of Kenyan firms in EAC.
Internationalization of firm's activities continues to expand in every country fuelled by globalization processes. Every activity and function of a firm today has an international bearing. Because of globalization, every firm in every country must take into consideration the international connection element of their stake holders such as shareholders, employees, customers and government agencies. A firm can therefore be established in one country and grow from infancy to maturity in international business arena. This growth involves passing through different stages and levels of maturity conditioned by guaranteed successes at every stage to reach maturity. Only successful firms in their local national economies can venture into overseas or other neighboring countries. This in turn depends on the level of the economic development of the home country and the intensity of completion in the local market. Such economic situations help firms to get prepared for an aggressive external competition when it moves to other countries. Only successful firms will mature into multinational corporations (MNCs).

Multinational corporations (MNCs), emanating from developing countries, are beginning to exert themselves in the world business arena. Those originating from Africa are being noticed in African continent, more so in different economic regions of West Africa, East Africa, North Africa, and in Southern African countries. MNCs that succeed in the economic regions of Africa tend to expand into neighboring countries because of proximity and similarity of consumption patterns. This study focuses on the reasons and factors that influence the success of Kenyan firms that move to establish operations in East African Region.

3. Kenya's Foreign Direct Investment in East African Region

East African Community EAC) countries comprise of (alphabetically) Burundi, Kenya, Rwanda, Tanzania, and Uganda. These countries agreed to establish regional economic bloc in line with the European Union model that starts with the preferential treatment, establishment of customs union, establishment of a common market, economic community, and eventually a political federation. The EAC secretariat and political arm of the regional grouping have pronounced that they are now in the stage of establishing customs union, and soon common market. MNCs form diaspora and those emanating from EAC are striving to take advantage of the provisions of various protocols in order to take advantages of the opportunities offered within the sub-region. While MNCs from industrially developed countries jostle for space in the EAC, there are other MNCs from newly industrializing countries as well as firms from emerging economies. Firms from Brazil, Russia, India, China, and South Africa (BRICS) countries, have found their way into EAC.

Foreign Direct Investment (FDI), originating from developing and emerging economies, continue to grow in importance and in their contribution to World Economic Affairs. Emerging economies outward FDIs (EEOFDI) contribute to economic development in the countries they operate. Outward FDIs in Africa are beginning to contribute positively to economic development of their neighboring host countries. From the beginning of the twenty first century, FDIs from leading African economies of Egypt, Nigeria, South Africa, and Kenya began to be noticed in other African Countries. A few examples of such firms include Castle Brewers of South Africa, Africa Railways of Egypt a subsidiary of Citadel Capital, Ecobank from Lome Togo, and East African Breweries from Kenya. These firms have become fully fledged outward FDIs. What has made these firms succeed and what factors have made Kenyan firms succeed in their investment in neighboring countries of EAC?

Table 1: Number of EAC firms located in each member states

	No of EAC firms in each country						
No of firms of each country in EAC states		Burundi	Kenya	Rwanda	Tanzania	Uganda	Total
	Burundi		18	38	45	15	116
	Kenya	30		225	350	400	1005
	Rwanda	38	48		30	58	171
	Tanzania	160	105	48		100	413
	Uganda	180	105	140	110		535
	Total	408	276	451	535	673	2240

Source: Kenya National Bureau of Statistics, 2016 December Quarterly Review

The table indicates that Kenyan firms operating in EAC member states in 2011 were 1005, while firms originating from the other EAC member states operating in Kenya were only 276. What could explain such a disparity?

It is posited in this paper that firm characteristics and personal attributes of the firm leaders conditioned by positive environmental factors, contribute to success of firms in host country environment. Most Multinational corporations started as infant firms in a home country and gradually grew and succeeded in different stages to maturity in international arena. Firms from African countries and East Africa in particular, have followed this pattern of internationalization.

The success of internationalization of a firm is contingent upon the positive characteristics of the firm, corporate culture and supportive business environment in the host country. John Dunning (1985) stated that attractive forces that make firms move from one country to another include the ownership advantages, location advantages and internationalization advantages (OLI factors). This study also focused on other national advantages emanating from Kenyan business cultures and national attributes that might have given Kenyan FDI advantages over host country firms.

4. Methodology adopted in the research

The methodology adopted in this study was a cross-sectional survey of ten Kenyan OFDIs as in Table 2. Each company was studied to find out what had motivated them to expand their operations to other EAC member states and what challenges and resolutions have they used. All of the firms covered in the study have their operating offices in Nairobi and the instrument for collecting data was a questionnaire.

Table 2: Kenyan OFDI that have invested in EAC Countries

Sector of Industry	**Burundi**	**Rwanda**	**Tanzania**	**Uganda**
Oil Distribution	Kobil Oil	Kenol/Kobil	Kenol/Kobil	Kenol/ Kobil
Banking	Diamond Trust, Fina Bank,	Kenya Commercial Bank, Equity Bank, Fina Bank	Kenya Commercial Bank, Commercial Bank of Africa	Equity Bank, Kenya Commercial Bank, Bank of Baroda, Diamond Trust.
Insurance	Jubilee insurance,	APAInsurance, Insurance Co of EA, Ju**bilee**	UAP, Insurance Company of EA,Jubilee Insurance	APA insurance, Reinsurance, UAP
Aviation	Kenya Airways,	Kenya Airways, Fly540,	Kenya Airways shares in Precision Airlines	Kenya Airways, Fly 540
Building & Construction				EAPortland Cement, Mabati Rolling Mills
Manufacturing	Pembe Millers			EABreweries, Bidco Group
Investment	Serena Group, Deacons	Safaricom, Comcraft Group,	Investments in Dar stock exchange	Centrum, Uganda Securities, Nation Media Group,
Transportation	KQ,	Long distance road transporters	Regional Buss Co.	Rift Valley Railways, Long Distance road Transporters
Wholesale & Retail		Nakumatt, Uchumi, Tuskys,	Nakumatt	Nakumat, Uchumi Super Market

Source: From Research Data by author, 2017.

5. Response from selected firms.

The firms that the study covered included Kenya Commercial Bank, Equity Bank, Nakumatt, Insurance Company of East African, East African Breweries, Nation Media Group, Kenya airways, Rift Valley Railways, Diamond Trust and Jubilee Insurance Company. From the questionnaires receives and interviews conducted to clarify issues, different firms gave different reasons why they have adopted the strategies they did to enter into the regional market. For some firms, political stability and the belief on the future of EAC, made some them to commit themselves to invest in EAC. For others, stiff competition at home and the urge to expand made them move to other countries.

Entrepreneurial initiative in Kenya's OFDI East African businessmen like their other African brothers behaves businesswise according to their traditions and culture. The behavior of businessmen is influenced by their personal traits and characteristics that pre-disposes them to business behavior, If national cultures play a role in businessmen's neighbour than Kenyan business have been influenced by Kenyan national culture. Historically Indians who came to East Africa in the late 19th and early 20th centuries have taught Kenyans aggressiveness in business and hard bargaining tactics. Over the years, Kenyan businesses have developed this culture behavior and influenced by capitalist diluted economy political ideology of survival of the fittest has made the Kenyan businessman an aggressive character, hardnosed bargainer and proactive in taking available business opportunities. There is one more attribute of Kenyan businessmen that if all else doesn't work; they can resort to unethical means to win a business. There were instances in Kigali, Kampala, Tororo, Juba and Dar-Es-salaam where Kenyan businesses have been loathed as rough, aggressive, pushers or even outright thieves.

The success of Nakumatt in Kigali, Equity Bank in Kampala and KCB in Juba are attributable mainly to the propensity for Kenyan firms to take risks and to taste waters of business in other countries. The reasons given by the three businesses for their modicum success were more to their experience at home and the business environment prevailing in the host countries. The success of firms in their home tuff will be an asset when they move outside home country. Only firms that survive and succeed home ground competition will graduate to regional and eventually to international business arena.

6. Business Environment in East African Countries

Historically Kenya, Tanzania & Uganda were British colonies and Burundi and Rwanda were French influenced. This has bearing in their attitude towards the way business is conducted. Rwanda has agreed to change their official language from French to English. This is nothing short of Cultural Revolution in that country since teaching of English should start in early childhood schools and all the other subsequent educational institutions. This is also taking place in Southern Sudan where English is replacing Arabic as official language.

The business environment in EAC countries is also influenced by the physical features of the great lakes of Victoria, Albert and Kivu. The romantic beautiful mountains of Ruwenzori, the climate of high altitude suitable for coffee and tea and the habitat of tropical rain forests, make Burundi, Rwanda, Uganda and part of southern Sudan the future place to locate investment. This place factor as Dunning called it “location” has been discovered to contain oil, tin, copper, and other precious minerals. This region has attractive features that lure all investors in mining, manufacturing, and transportation and hospitality industries. Several groups of hotels from Kenya have set foot on the shores of Lake Tanganyika and Lake Kivu. Nakumatt chain of retail business have set base in Kigali. Jubilee Insurance Company has opened branches in Bujumbura and Pembe Grain Millers have moved to open a branch in Bujumbura too.

Since the joining of Burundi and Rwanda to EAC in 2007, positive political changes have taken place in each country. The customs union matured to EAC common market, governments of EAC countries have ratifies various protocols, and more investment incentives have been enhanced to attract businesses to the region. By 2011 Rwanda and Kenya had agreed on free movement of capital and people. The citizens of the two countries can use local identification documents for entry as well as being allowed to work in each other’s countries. Kenyan firms have taken advantage of this and many individual Kenyans have gone to Rwanda for business opportunities while very few Rwandans have come to Kenya to establish businesses.

7. Business experience and entrepreneurial initiative

Building a business from infancy in one country to maturity as a regional conglomerate, require entrepreneurial initiative and a lot of sacrifice from the founders of the company and the management teams. These efforts require a lot of entrepreneurial initiative and the ability to take risks. Successful Kenyan OFDIs have a long experience curve that can be used as a bastion for competition. Experience comes as a result of practicing business that goes through seasonal swings of recovery, depression and at times boom. Kenyan firms have learned to take advantage of these business cycles.

Most of the firms studied attributed success in the experience gained in the competitive environment in Kenya. Many firms have succeeded in Kenya through competition. The rivalry between firms in the domestic economy has given Kenyan OFDI valuable experience that they have confidence of success in the EAC countries. Bank of Baroda, Kenya Commercial Bank and Jubilee insurance all have many years of experience in the domestic economy of Kenya. They have the resources and the expertise to venture into the neighboring countries.

Some of the firms that were studied stated that moving to other countries was a deliberate effort by management to expand operations in to other EAC countries in order to diversify investment. Such firms stated that the decision to invest in EAC was as a result of success in Kenya and that expanding to the neighboring countries is the natural thing. Other firms stated that they wanted to take advantages offered by the EAC Common Market and opportunities offered by the EAC Treaty and Protocols.

8. Conclusion

The findings of this study confirmed that indeed, the success of Kenyan firms in the other EAC member states was due, in part, to the conducive environmental factors such political, economic, and entrepreneurial spirit of Kenya outward firms. Recognition of investment opportunities and the preparedness of the managers of Kenyan firms gave them an edge in taking the first mover advantage, thus enjoying the good will of the host governments. It was obvious from this study that some indigenous business felt jealous and even became hostile to any new Kenyan firm in their country. The study also found out that Kenyan firms succeeded because they had faced still competition in Kenyan and have succeeded, and therefore could defeat local indigenous firms during competition. In particular in Rwanda, they were apprehensive in registering any more new Kenyan owned firms, especially in service industries like banking, petrol distribution and supermarket chains. Continued growth of Kenyan firms in EAC and their success was driven by conducive environmental factors, prevailing circumstances and opportunities found in member states. Concomitant with that was the experience and qualifications of Kenyan CEO who had an edge in decision making. Kenyan OFDI in the last five years have realized a modicum of success due to their entrepreneurial initiative and experience gained competition in Kenyan market. Firms that have done well in Kenyan domestic market have made it in the neighboring markets and may mature into international corporations.

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