STRATEGIES ADOPTED BY MULTINATIONAL CORPORATIONS TO COPE WITH
COMPETITION IN KENYA.

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Abstract
Multinational corporations (MNCs) operate in a global environment unfamiliar in political,
economic, social, cultural, technological and legal aspects. Increased competition among
multinational corporations and the entry of other players in the Kenyan market necessitate the
design of competitive strategies that guarantee performance. Creating strategies for coping with
competition is the heart of strategic management which is critical for the long term survival of any
organization. This paper examines the strategies adopted by MNCs to cope with competition in
Kenya. To establish the strategies adopted by multinational corporations to cope with competition
in Kenya, forty questionnaires were administered to senior managers of MNCs targeting 19
percent of the total population of 213 MNCs in Kenya . Stratified disproportionate sampling was
used to select the forty MNCs.

The main contribution of this paper is highlighting the fact that Multinational corporations should
initiate capacity building programs like training, scholarship awards and on the job training to
overcome the challenges of competition. The study recommends that, MNCs should utilize other
electric power sources to supplement their energy consumption needs. The government should
also provide infrastructure needed for MNCs including electric power to attract MNCs investment
in Kenya. This paper established that MNCs in Kenya have adopted a number of strategies
including: better quality, excellent customer service, innovation, differentiation, diversification,
cost cutting measures, strategic alliances, joint venture, mergers/acquisitions and not forgetting
lower prices, to weather competitive challenges.

Keywords: competitive strategies, Multinational corporations, competition, Kenya.

Introduction
Multinational entities have played a major role in international trade for several centuries. A
number of multinational corporations (MNCs) from developing economies are becoming key
players in the global economy. Multinational corporations engage in very useful and morally
defensible activities in Third World countries for which they frequently have received little credit.
Significant among these activities are their extensions of opportunities for earning higher incomes
as well as the consumption of improved quality goods and services to people in poorer regions of
the world. Compared to local firms, multinational corporations provide developing countries with
critical financial infrastructure and enormous resources for economic and social development.
These institutions are able to overcome challenges that are faced by local firms. The challenges
include; lack of managerial training and experience, inadequate education and skills, lack of
credit, national policy and regulatory environment, technological change, poor infrastructure and
scanty market information which diminish their ability to contribute effectively to sustainable
development. Multinational corporations like local firms in recent years have been faced with
increasing competition arising from various sources including other multinationals. They also
have the challenge of unfamiliar business environment and unfriendly laws. While local firms
often find it difficult to compete with these firms, MNCs appear to be doing very well in spite of the
competitive challenges faced. How they are able to cope with the challenges is worth
understanding and hence the need for this study.

This study is expected to provide insight local firms could use to weather the ever intensifying
challenge of competition in Kenyan market. Academicians may also find the study useful for more
focused research on firms’ strategies and competition.
LITERATURE REVIEW

Competitive Strategies

Competitive strategy specifies the distinctive approach which the firm intends to use in order to succeed in each of the strategic business areas. Competitive strategy gives a company an advantage over its rivals in attracting customers and defending against competitive forces (Ansoff, 1985). There are many roots to competitive advantage, but the most basic is to provide buyers with what they perceive to be of superior value: a good or service at a low price, a superior service that is worth paying more for, or a best value offering that represents an attractive combination of prices, features, quality, service, and other attributes that buyers find attractive (Thompson and Strickland, 2003). Competitive strategy is thus the search for a favorable competitive position, in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition (Porter, 1998).

Firms pursue competitive strategies when they seek to improve or maintain their performance through independent actions in a specific market or industry. There are two major types of competitive business strategies: cost leadership and product differentiation (Porter, 1980). Firms pursuing cost leadership strategies attempt to gain advantages by lowering their costs below those of competing firms. Firms pursuing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers. Competitive business strategies are important strategic alternatives for many firms, but they are not the only business strategic alternatives (Barney, 1997). Competitive strategy needs to focus on unique activities (Porter, 1996).

Competitive strategies should lead to competitive dominance, which in other words of Tang and Bauer (1995) is about sustained leadership and levels of undisputed excellence. They contend that competitive dominance is an attitude that begins with the realization that leadership is no guarantee for long term success, especially in the global marketplace. Firms also develop competitive strategies to enable them seize strategic initiatives and maintain a competitive edge in the market (Porter, 1998). The competitive aim is to do a significantly better job of providing what buyers are looking for, thereby enabling the company to earn a competitive advantage and outcompete rivals in the market place.

Competitive strategies provide a framework for the firm to respond to the various changes within the firms operating environment. Firms also develop competitive strategies that enable them develop strategic initiatives and maintain competitive edge in the market (Grant, 1998, Macmillan, 1998). Ansoff and Mc Donnell (1990) define competitive strategy as the distinctive approach which a firm uses or intends to use to succeed in the market. In examining the concept of competitive strategies, different authors have done it differently, however major studies in this area have been done by Michael Porter. He defines competitive strategy as the art of relating a company to the economic environment within which it exists.

Porter (1998) states that the goals of a competitive strategy for a business unit in an industry is to find a position the industry where the company can best defend itself against the five forces which are rivalry, threat of substitutes, buyer power, supplier power and the threat of new entry. These five forces constitute the industry structure and it is from this industry analysis that a firm determines its competitive strategy. Porter unveiled four generic competitive strategies that can be viable in the long term business environment. They are cost leadership strategy, differentiation strategy, cost focus strategy and differentiation focus strategy. Pierce and Robinson (1997), states knowledge of this underlying source of competitive pressure provides the groundwork for strategic agenda of action. The highlight of the critical strengths and weaknesses of the company animate the positioning of the company in its industry, clarify the areas of strategic changes and may yield benefits. The differentiation and cost leadership strategies seek competitive advantage in broad market or industry segments while in contrast, the differentiation focus and cost
focus strategies adopted in a narrow market or industry. This is represented in the diagram below:

![Figure 1.1 Porter's Generic strategies](source: Porter M.E (1988) Generic Strategies. The free press pp.4)

**Cost Leadership Strategy**
A firm producing at the lowest cost in the industry enjoys the best profits. Producing at lower cost is a strategy that can be used by various firms so as to have a significant cost advantage over the competition in the market. This in effect leads to growth in the market share. This strategy is mostly associated with large businesses offering standard products that are clearly different from competitors who may target a broader group of customers. The low cost leader in any market gains competitive advantage from being able to many to produce at the lowest cost. Factories are built and maintained; labor is recruited and trained to deliver the lowest possible costs of production. Cost advantage is the focus. Costs are shaved off every element of the value chain. Products tend to be ‘no frills.’ However, low cost does not always lead to low price. Producers could price at competitive parity, exploiting the benefits of a bigger margin than competitors. Some organizations, such as Toyota, are very good not only at producing high quality autos at a low price, but have the brand and marketing skills to use a premium pricing policy. A low cost leader’s basis for competitive advantage is lower overall costs than competitors. The need to manage cost is nothing new, yet surprising number of organizations struggles to successfully control their operating expenses overtime (Bertone, Clark, West & Groves, 2009). Successful low cost leaders are exceptionally good at finding ways to drive costs out of their business.

**Differentiation Strategy**
Differentiated goods and services satisfy the needs of customers through a sustainable competitive advantage. This allows companies to desensitize prices and focus on value that generates a comparatively higher price and a better margin. The benefits of differentiation require producers to segment markets in order to target goods and services at specific segments, generating a higher than average price. For example, British Airways differentiates its service. The differentiating organization will incur additional costs in creating their competitive advantage (Porter, 1996). These costs must be offset by the increase in revenue generated by sales. Costs must be recovered. There is also the chance that any differentiation could be copied by competitors. Therefore there is always an incentive to innovated and continuously improve. Targeting smaller market segments to provide special customer needs is a strategy widely used in the corporate scene. It involves identification of the needs of the customers in the market and designing products that can fit their needs. Companies can pursue differentiation from many angles. Varian (2003, p.454) notes that firms may find it profitable to enter an industry and produce a similar but distinctive product.
Cost Focus Strategy
Lower cost advantages to a section of the market segments with basic services offered to a higher priced market leader is a strategy acceptable in the corporate world. It results to similar products to much higher priced products that can also be acceptable to sufficient customers in the market. A focused strategy based on low cost aims at securing a competitive advantage by serving buyers in the target market niche at a lower price than rival competitors. This strategy has considerable attraction when a firm can lower costs significantly by limiting its customer base to a well defined buyer segment. Focused low cost strategies are fairly common (Porter, 1996).

Differentiation Focus Strategy
A business aims to differentiate within one or a number of target market segments. The special customer needs of the segment means that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. This demands that the customer’s different needs and wants be recognized. Porter (1980) reiterates that only if a company makes a strong and unwavering commitment to one of the generic competitive strategies does it stand much chance of achieving sustainable competitive advantage that such strategies can deliver if properly executed. Many scholars have questioned this; in particular, Miller (1992) questions the notion of being “caught in the middle”. He claims that there is a viable middle ground between strategies. Many companies for example, have entered a market as a niche player and gradually expanded. Hill (1988) claimed that Porter’s model was flawed because differentiation can be a means for firms to achieve low cost. He proposed that a combination of differentiation and low cost might be necessary for firms to achieve a sustainable competitive advantage.

Research Methodology
The study employed a descriptive survey to identify competitive strategies adopted by multinational corporations to cope with competition in Kenya. A survey was deemed appropriate as it enables one to make comparisons based on differences in demographics because the study aimed at going beyond identifying and detailing the strategies by comparing MNCs based on the country of origin, ownership structure and year of incorporation. This required a broad range of data which is possible through a survey.

The target population was all MNCs operating in Kenya. According to Kenya Bureau of Statistics Economic survey 2007 there are 213 Multinational Corporations in Kenya. Multinational corporations were stratified according to the country of origin. A sample size of 40 was drawn using disproportionate stratified sampling technique since some categories were too small to be proportioned.

The research used primary data and semi structured questionnaires. Data collected was cleaned, validated edited and then coded. Descriptive statistics was used to analyze the data. These included percentages, frequency distribution tables and other descriptive statistics such as mean and standard deviation. The Statistical Package for Social Sciences (SPSS) was used for this analysis. Interviews were conducted on heads of departments and other senior export managers who are in management since they understand the strategies being employed. A drop and pick later method was used in administering the questionnaires.
Findings and Discussions

Regarding the key objective of the study which was to establish the strategies adopted by multinational corporations to cope with competition in Kenya. The results are shown in the table below:

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Quality</td>
<td>4.48</td>
<td>0.85</td>
</tr>
<tr>
<td>Excellent customer service</td>
<td>4.48</td>
<td>0.79</td>
</tr>
<tr>
<td>Innovation</td>
<td>4.43</td>
<td>0.66</td>
</tr>
<tr>
<td>Differentiation</td>
<td>4.29</td>
<td>0.78</td>
</tr>
<tr>
<td>Diversification</td>
<td>3.73</td>
<td>0.94</td>
</tr>
<tr>
<td>Cost cutting measures</td>
<td>3.61</td>
<td>1.08</td>
</tr>
<tr>
<td>Strategic alliances, joint venture, mergers/acquisitions</td>
<td>3.39</td>
<td>1.16</td>
</tr>
<tr>
<td>Lower price</td>
<td>3.17</td>
<td>0.98</td>
</tr>
<tr>
<td>Franchising</td>
<td>2.81</td>
<td>1.40</td>
</tr>
<tr>
<td>Licensing</td>
<td>2.62</td>
<td>1.16</td>
</tr>
</tbody>
</table>

From the findings, MNCs in Kenya were established as early as 1650, and the respondents were senior officials of the respective organizations with majority, 73.9 percent having experience ranging from one to five years.

As the table shows the most popular strategies used by MNCs are better quality, excellent customer service, innovation and differentiation, with mean scores of 4.48, 4.48, 4.43 and 4.29 respectively. The least used strategies were franchising and licensing with mean scores of only 2.81 and 2.62 respectively. Diversification also quite popularly used (mean=3.73), unlike the rest of the strategies were used more by large firms than small firms. Moreover, diversification feeds on itself. It creates a cadre of aggressive general managers, each running his or her own division, who push for further diversification and further growth. It was found that bigger MNCs tended to diversify than smaller ones. It was also found that MNCs used price reduction strategies by constantly reviewing operations and relative costs, to set a price which can give a competitive advantage to multinationals, supporting the finding by Anne Arundel County, MD Sheriff (1990).

The finding on use of strategic alliances, joint ventures, mergers and acquisitions by multinationals to cope with competition in Kenya is consistent with the argument by Mintzberg, Henry, and James Brian Quinn (1992) that as organizations grow large, they diversify and then divisionalize. A major reason for protection as the firms grow large; they come to dominate their traditional market and so must often find growth opportunities elsewhere through diversification.
Table 2: Ownership and Strategies Adopted by MNCs in Kenya

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Foreign owned mean</th>
<th>Foreign and locally owned mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Quality</td>
<td>3.64</td>
<td>4.75</td>
</tr>
<tr>
<td>Excellent customer service</td>
<td>3.71</td>
<td>4.63</td>
</tr>
<tr>
<td>Innovation</td>
<td>4.57</td>
<td>4.34</td>
</tr>
<tr>
<td>Differentiation</td>
<td>4.21</td>
<td>4.50</td>
</tr>
<tr>
<td>Diversification</td>
<td>3.71</td>
<td>3.88</td>
</tr>
<tr>
<td>Cost cutting measures</td>
<td>3.86</td>
<td>3.38</td>
</tr>
<tr>
<td>Strategic alliances, joint venture, mergers/acquisitions</td>
<td>3.43</td>
<td>3.63</td>
</tr>
<tr>
<td>Lower price</td>
<td>3.36</td>
<td>4.38</td>
</tr>
<tr>
<td>Franchising</td>
<td>2.64</td>
<td>3.50</td>
</tr>
<tr>
<td>Licensing</td>
<td>2.71</td>
<td>3.00</td>
</tr>
</tbody>
</table>

The ownership structure of the multinational was dominated by foreign owned, 61 percent with foreign and local ownership constituting 39 percent. Their country of origin varied and they employed staff ranging from 26 to 80000. As the table shows the study found out that foreign and locally owned firms apply better quality strategy (mean = 4.75) more as compared to foreign owned MNCs with a lower mean score of 3.64. Excellent customer service strategy was seen as a strategy being practiced more in foreign and locally owned than in those firms which are foreign owned. Innovation, differentiation, cost cutting measures and strategic alliances strategies were popular in both foreign owned and locally owned MNCs. Further lower pricing strategy was common in foreign and locally owned firms than those with foreign ownership. Franchising and licensing were also dominant strategies in foreign and locally owned firms.

Conclusions and Recommendations

Regarding the key objective of the study, it was established that MNCs in Kenya have adopted a number of strategies including: better quality, excellent customer service, innovation, differentiation, diversification, cost cutting measures, strategic alliances, joint venture, mergers/acquisitions and lower prices to whether competitive challenges. The study also found that 61 percent of the multinational corporations are foreign owned, while 39% are both locally and foreign owned suggesting that the majority of the MNCs are owned by non-citizens. Ownership may be important in the choice of strategy an organization seeks to pursue as can be seen from the findings. Foreign MNCs sometimes have to pursue the strategies of its foreign based company.

The study recommends the following as areas for further research in determining the strategies adopted by the republic of Kenya to encourage MNCs investment in Kenya as well as strategies that can be adopted by MNCs in Kenya to overcome the competition challenges. The study has established that lack of skilled personnel is key challenge of competition. The study recommends that multinationals can overcome the challenges through training and other capacity building programmes to create a pull of qualified personnel to support operation especially by providing a focused onsite customer care. The study further established that provision of adequate electric power to meet their demand is a challenge. The study recommends that, MNCs should try to utilize other electric power sources to supplement their power needs. The government should also provide infrastructure needed for MNCs including to attract investment in Kenya.
REFERENCES


