Strategies Adopted By Multinational Corporations to Cope With Competition in Kenya

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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 the MNCs, 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. This study 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 and acquisitions, as well as, lower prices, to weather competitive challenges. The study found that the most popular strategies adopted by MNCs that were both foreign and locally owned (mixed ownership) were better quality, excellent customer service, lower price, franchising and licensing. The study further found that strategies like innovation, differentiation, diversification and strategic alliances were used more less to the same extent by both types of MNCs. The only strategies that purely foreign owned MNCs were found to use more than the MNCs that were both foreign and locally owned were cost cutting strategies. This study has important implications on the role of board of directors regarding strategies adopted by MNCs in host countries. There were significant differences between the two types of MNCs regarding the strategies that were adopted most.

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

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INTRODUCTION

Competitive strategies are a broad range of strategies firms resort to in order to cope with competition, beat competition or keep ahead of competitors. There are various models of competitive strategies. One such model is Michael Porter’s (Porter, 1988) generic competitive strategies which propose that firms can apply cost leadership, differentiation or focus strategies to gain competitive advantage against competitors. The other is the resource based competitive strategies model which proposes that a firm can compete effectively by capitalizing on its unique resources which competitors may be lacking and may not easily duplicate. The third model is that of the grand strategies (Pearce and Robinson, 1997) which is a conglomeration of all kinds of strategies which firms resort to in order to be competitive or weather competition. Included here are strategic alliances, acquisitions, diversification and many others. This study is anchored more on generic competitive strategies and grand strategies.

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 productive activities in Third World countries, such as, creating employment opportunities contributing to Kenya’s gross national product, and make available a wider range and better quality products. Multinational corporations also contribute the critical financial infrastructure and enormous resources for economic and social development. Multinational corporations like local firms, in recent years have been faced with increasing competition arising from various sources including other multinationals. While local firms often find it difficult to cope with the challenge of competition and some even collapse in the process, 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.

Several scholars have carried out extensive studies on competitive strategies in other industries, such as, manufacturing, energy, and service (Murage, 2001 & Mulaa, 2004), but none has looked at competitive strategies adopted by multinational corporations in Kenya. Since there is increased competition in this sector, there is a compelling need to look at the strategies being adopted by multinational corporations in this competitive environment, strategies that have enabled them to survive the increasingly more challenging competition. A knowledge gap therefore exists. This study is expected to provide insight local firms could use to weather the ever intensifying challenge of competition in the Kenyan market. International business and strategy scholars may also find the study useful for further research on MNCs strategies and competition in other countries or within certain specific sectors of the Kenyan economy.

LITERATURE REVIEW

Competition imposes great challenges to organizations especially to business organizations. It is therefore important for firms to adopt strategies that enable them
to cope with the challenge of competition in order to survive and prosper. Scholars have proposed several strategies or models of competitive strategies that firms can use. The major models are Porter’s generic competitive strategies model (1998), grand strategies (Pearce & Robinson, 1997) and resource based competitive strategies model. The literature reviewed here emphasizes the generic competitive strategies and grand strategies that were found most relevant for the study.

**Generic Competitive Strategies**

Generic competitive strategies are basic competitive strategies expected of any firm in any market or industry to improve its competitive performance. 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 market place. 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 out compete 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 McDonnell (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 ran 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 p.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 (2005) 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.

**Grand strategies**

Grand strategies refer to comprehensive, long-term plan of essential actions by which a firm plans to achieve its major objectives (Pearce & Robinson, 1997). Key factors of this strategy may include market, product, and/or organizational development through acquisition, divestiture, diversification, joint ventures, or strategic alliances. Grand strategies, often called master or business strategies provide basic direction for strategic actions and indicate the time period over which long range objectives are to be achieved. Firms involved with multiple industries, businesses, product lines, or customer groups usually combine several grand strategies.

**Joint venture**

In today’s global market, Joint ventures have become a widespread phenomenon and many multinational corporations have managed to gain significant growth through alliances such as joint venturing. Various companies from different back grounds and cultures come together to work in collaboration in order to exploit each other competencies to gain a competitive advantage. Once involved in a joint venture, parties from either side have to share assets and ownership, pool skills and knowledge, mix employees and join management (Tayeb, 2009).

Due to the rapid change in the global market, the concept of international joint ventures has been embraced whole heartedly by the business world and today it is considered as a tool for rapid growth and sustainability in the market. According to Stiles (2008) the process of joint venture has helped many firms to enter inaccessible markets, facilitated the development of new ideas and has contributed towards changing the conventional structure and methods that prevailed in the industry.

**Strategic alliances**

Due to increased globalization of businesses, strategic alliances are gaining importance worldwide for various reasons which range from market access to reduction of risk. Strategic alliances can be placed on a continuum where contractual agreements lie on one end of the continuum, representing low control and low resource commitment, whereas joint
ventures lie on the other end of the continuum representing high control and high resource commitment (Hill et al.2005). The decision to enter a strategic alliance should be taken seriously by management because history has shown that alliances tend to be unstable and prone to failure (Berquist et al.2007). Firms that enter into strategic alliances often focus on the benefits that the alliances will provide without considering costs involved in the formation and maintenance of the alliance. Despite the clear identification of the potential benefits, the costs incurred are often both substantial and often difficult to predict (Morris and Hergert, 2002).

Ansoff, (1985), view strategic alliances as a response to globalization and changes in a firm’s economic activities and technology. This is based on the belief that companies around the world can’t survive without creating alliances that will bring together vital skills, resources and capabilities that otherwise will be time and costly to obtain. Further they argue that creation and management of strategic alliances are essential to firm’s success in modern times for long term survival.

**Excellent customer service**

Today customer satisfaction is widely discussing and analyzing because all organizations want that their customers would be satisfied and fascinated. A company that is truly striving to build a 'world-class' service culture will make every effort to develop service standards that emphasize exceptional service for every customer, all the time. Now, this does not mean that every customer should get the same service. True service excellence requires personalization and making each customer feel as though there is no-one else, at that moment, more important (Kotler & Armstrong, 2001).

**Innovation**

According to Mulgan and Albury (2003), successful innovation is the creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in outcomes efficiency, effectiveness and quality. For example, in the field of hybrid technology, leading multinationals are beginning to work together in the battle for market dominance and stronger competitive position.

**Diversification**

Diversification creates and raises entry barriers to competitors. Porter pointed out that industry characteristics might be exploited strategically to increase a firm’s performance (Porter, 1980). Diversification is positively related with performance, it enables a firm to generate opportunities in one business, or reduce risk in another by diversifying its activities and balancing its investment risk (Ansoff, 1985).

**Licensing**

Licensing as a grand strategy is a contractual agreement between two business entities in which the licensor permits the licensee to use a brand name, patent, or other proprietary right, in exchange for a fee or royalty. According to Stern (1998), licensing enables undistinguished products to stand out from their competitors, further the licensor benefits from the skills and expansion capital. Licensing is often used by manufacturers to enter foreign markets in which they have no expertise.
Franchising

As a result of globalization, today’s, business environment is undergoing a fundamental transformation. Franchising as a business format for market penetration has become an accepted strategy for business growth, job creation and economic development (Kotler & Armstrong, 2001). It helps companies expand into foreign markets. It also helps companies adapt different cultures and business regulations in host countries. Franchising has become the cornerstone of international expansion of companies.

RESEARCH METHODS

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 researchers to compare findings from different categories of study units. In this study MNCs were compared based on the country of origin, ownership structure, year of incorporation and size. This required a broad range of data which was possible through a survey.

The target population was all MNCs operating in Kenya as at June, 2007. According to Kenya Bureau of Statistics Economic survey 2007 there were 213 Multinational Corporations in Kenya. In this study 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.

Primary data was collected using semi structured questionnaires. The respondents were senior officials of the respective organizations with majority, 73.9 percent having experience ranging from one to five years. Data collected was cleaned, validated, edited and then coded. Descriptive statistics was used to analyze the data. These included percentages, frequency distribution, mean scores and standard deviations. Tests of significance were also conducted. The Statistical Package for Social Sciences (SPSS) was used for the analyses. Data was collected from heads of departments and other senior export managers who were in management, since they were better placed to understand the strategies employed. A drop and pick later method was used by the researchers in administering the questionnaires.

FINDINGS AND DISCUSSIONS

Multinational corporations in Kenya were established as early as 1650. The key objective of the study was to establish the strategies adopted by multinational corporations to cope with competition in Kenya. Data for this was collected using a 5-point rating scale, where 1= not at all used and 5 = used to a very great extent. Mean scores was used to analyze the data. The higher the mean score the greater was the use of the strategy. The results are shown in Table 1 below:-
Table 1: Strategies Adopted by MNCs for Competition in Kenya

<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 and 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>

As Table 1 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. Further, analysis indicated that diversification was more popular among large firms than small firms. Diversification feeds on itself. It creates a cadre of aggressive general managers, each running his or her own division. Such managers push for further diversification and further growth. Bigger MNCs tended to diversify more than smaller ones. It was also found that MNCs used price reduction strategies by constantly reviewing operations and related costs, to set a price which can give a competitive advantage to the multinational. This supports the finding by County (1990), that a firm can adopt a focus strategy whereby the firm targets a narrow market segment rather than many segments.

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 and Quinn (1992) that as organizations grow large, they diversify and then divisionalize. A major reason for diversification as the firms grow large is that they eventually saturate their traditional markets, and hence the need to 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>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Quality</td>
<td>3.64</td>
<td>4.75</td>
<td>0.001</td>
</tr>
<tr>
<td>Excellent customer service</td>
<td>3.71</td>
<td>4.63</td>
<td>0.001</td>
</tr>
<tr>
<td>Innovation</td>
<td>4.57</td>
<td>4.34</td>
<td></td>
</tr>
<tr>
<td>Differentiation</td>
<td>4.21</td>
<td>4.50</td>
<td></td>
</tr>
<tr>
<td>Diversification</td>
<td>3.71</td>
<td>3.88</td>
<td></td>
</tr>
<tr>
<td>Cost cutting measures</td>
<td>3.86</td>
<td>3.38</td>
<td>0.05</td>
</tr>
<tr>
<td>Strategic alliances, joint venture, mergers and acquisitions</td>
<td>3.43</td>
<td>3.63</td>
<td></td>
</tr>
<tr>
<td>Lower price</td>
<td>3.36</td>
<td>4.38</td>
<td>0.001</td>
</tr>
<tr>
<td>Franchising</td>
<td>2.64</td>
<td>3.50</td>
<td>0.001</td>
</tr>
<tr>
<td>Licensing</td>
<td>2.71</td>
<td>3.00</td>
<td>0.05</td>
</tr>
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</table>
Results were also analyzed comparing purely foreign owned and partially foreign owned multinationals regarding use of strategies. The ownership structure of the purely foreign owned multinationals dominated the sample at 61 percent while those of mixed with ownership constituted only 39 percent. The firms’ country of origin varied and they employed staff ranging from 26 to 80000.

As Table 2 shows, the study found that firms that were both foreign and locally owned apply better quality strategy (mean =4.75) more as compared to purely foreign owned MNCs whose mean score was only 3.64. Excellent customer service, lower prices, franchising and licensing strategies were also practiced more in MNCs of mixed ownership than in those that were purely foreign owned. A possible reason for this is that such firms probably have a better understanding of the Kenyan market and could also have sourcing advantages due to their local ownership component. Local ownership component therefore is a factor which enables MNCs to adapt better to local circumstances, thereby giving a competitive advantage to MNCs that wish to cope with competition in the Kenyan market (Stern, 1998).

The study also found that both purely foreign owned and mixed ownership MNCs were comparable in their use of innovation, differentiation, diversification and cooperative (strategic alliances, joint venture, mergers and acquisitions) strategies. The only kind of strategies that were adopted more by purely foreign owned MNCs than MNCs that had mixed ownership were cost cutting measures. This is perhaps due to policy from headquarters abroad where MNCs with local members in their board appear not to emphasize such policy as much.

**SUMMARY AND CONCLUSIONS**

The study found that 61 percent of the multinational corporations are foreign owned, while only 39 percent 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 strategies directed by the headquarters. Regarding the key objective of the study, which was to determine the strategies adopted by MNCs to cope with competition in Kenya, 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 and acquisitions to weather competitive challenges.

The study also found that MNCs of mixed ownership adopted certain strategies to a greater extent than the purely owned MNCs, the strategies were better quality, excellent customer service, lower prices, franchising and licensing. Other strategies like
innovation, differentiation, diversification and cooperative (strategic alliances, joint venture, mergers and acquisitions) strategies were adopted equally by both types of MNCs. The purely foreign MNCs seem to have adopted cost cutting as a strategy more than MNCs with mixed ownership. This is the only area of strategies where they were above MNCs with mixed ownership in strategy adoption.

The conclusion we can make out of these findings is that MNCs are different to the extent in which they adopt certain strategies. These findings suggest that such differences may be as a result of board decisions. The findings show that MNCs with local directors in the board appear to adopt strategies that are adapted more to host country, that is, Kenyan business environment. This is not so with purely foreign owned MNCs operating in Kenya. The boards therefore play a very important role in MNCs strategies adopted in host countries.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

A number of limitations were encountered in carrying out this study. It did not investigate the reasons why the two MNCs in the study were different in the extent to which they adopted certain strategies. It is therefore recommended that future research in this line of study could investigate such reasons. The study did not consider the role of headquarters in the strategies adopted. It is recommended that future research could look into this aspect.

Finally, it could have been quite useful to find out the extent to which various strategies impacted on MNCs performance. For example, it could have been important to determine whether the strategies adopted most by MNCs which had mixed ownership, enabled them to perform better than those that were purely foreign owned.

RECOMMENDATIONS FOR POLICY AND PRACTICE

This study has two major implications for policy and practice, the first implication is that it is important to have a local representation in the boards of MNCs that operate in foreign countries. This enables the board to take note of the market needs to address, as a way of adapting the corporation to the host country environment.

The second implication, which to some extent is related to the above, is the need to understand the host country markets for better adaptation. This is evident from the findings regarding MNCs which had mixed ownership as opposed to those that were purely foreign owned. Multinationals of mixed ownership adopted strategies which are adaptive in nature, such as, better quality, excellent customer service and lower prices, perhaps due to local market needs and demands.

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