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FACTORS THAT ACCOUNT FOR OPERATIONAL SUPERIORITY OF MULTINATIONAL COMPANIES OVER LOCAL COMPANIES – THE SERVICE INDUSTRY: A CASE STUDY OF BANKING SECTOR IN NAIROBI

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

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

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DEDICATION

To my parents Jotham Mwaniki and Naomi Wanjeri for their invaluable time and support

To my family James and Babu for their selfless time, energy and patience in the course of this MBA programme

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ABSTRACT

In recent years, Kenya has undergone a significant economic and political transformation conducive to developing a more positive commercial environment. In 1992, multiparty politics was allowed after almost 30 years of single party rule. On the economic front, the Government took positive macro-economic policy reform initiatives: elimination of price and import licensing controls, liberalization of the foreign exchange system to include market determined exchange rates, development of more disciplined monetary and fiscal policies, and enforcement of greater monetary discipline with respect to the commercial banks. It is within this environment that both local firms and Multinational companies find themselves operating. However, even though domestic companies have the advantage of operating in their home enviroment, they have had limited success.

The study sought to determine the factors that account for operational superiority of Multinational companies over local companies in Kenyan service industry particularly the banking sector.

The objectives of the study were;

- To determine the factors that gives multinational organisations an advantage over local companies in Kenya, and how these factors enable them to exploit opportunities in Kenya.
- To determine the factors that makes the multinationals more successful than local or domestic companies in Kenya.

To facilitate this study a list of the 43 registered banks was obtained from the Central Bank of Kenya. Only 25 banks agreed to participate in the research. Of those who did not respond, one was under statutory management while the remaining 18 said that their organisations policies did not allow them to provide them with the information required

Through the study it was determined that there are four main factors that account for operational superiority of MNBs over the local banks in Kenya. These factors are human resources, technology, size and bank image. It is these factors that enable MNBs to exploit their opportunities and have an advantage over the local banks.

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CHAPTER ONE :

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INTRODUCTION

1.1. Background to the Study

Domestic or local businesses as well as international businesses and particularly Multinational corporations (MNCs) play a fundamental role in the economic development of Kenya. Local businesses as well as MNCs bring in revenue to the government through payment of taxes, foreign direct investments, they bring about infrastructural development where they are set-up, create employment, new management and organisational skills among others (Ikiara 2000)

Very few local businesses have been in operation in Kenya since the colonial period due to the colonial laws that did not allow locals to own businesses. Some of the local companies that have been operational before independence include the Copper Motor Company and DT Dobie. Local companies have the advantage of lower taxes, knowledge of language and culture, low production costs, knowledge of the environment, size, government protection and local networks (Ikiara 1986). However, very few have been able to compete against the multi-nationals. Local indigenous firms in Kenya have had limited success in their development despite the advantages they possess due operating in their own countries. Since independence they have been facing stiff competition from MNCs.

MNCs have been operating in Kenya before independence. These MNCs were mainly from Great Britain and included companies such as James Finlay, Standard Chartered, Barclays Bank, and BP-Shell. After independence, MNCs from the United States, Germany and Switzerland started operating in and included companies such as Mobil, Nestle, Firestone and Dalgeti (Kamau 2004).

MNCs have been successful despite the numerous problems that they face in the host countries. MNCs often face diverse and often conflicting demands and pressures, including political risk from various host countries. In Kenya, branches of foreign companies pay higher income tax rates than local companies. Unlike domestic companies, MNCs must deal with barriers of distance and time, and differences in language and culture. They must compete on a complex, global playing field. Furthermore, MNCs are required to measure results with a flexible yardstick as the values of currencies fluctuate against each other.

In Kenya, very few local companies such as KWAL, Kuguru Foods, Kapa Oils and BIDCO have been able to with-stand and compete and win against might and power of MNCs inspite of the adverse conditions MNCs face. For example, Coca-Cola recently forayed into the ready to drink juice industry in Kenya with its Bibo fruit flavoured drinks and is already eating up the market share of domestic companies such as Premier Foods and Highlands companies the main juice manufacturers in Kenya. Coca-Cola is also making an impact on the bottled water market, reducing shares of local companies like Keringet or Kilimanjaro. Local or domestic firms have the advantage of lower taxes, culture, language, low production costs yet they are unable to compete effectively against the MNCs.

MNCs have been able to gain a strong foot hold in the markets that they decide to enter and operate despite of the risks involved. Bamburi a subsidiary of LaFarge a French multinational controls about 60 per cent of the cement market in Kenya (Wandera 2004). It appears that there are some factors that give MNCs an advantage over local or domestic firms in the host countries that they decide to enter. This is the subject of this study.

1.2. CURRENT SITUATION

One of the most significant international economic developments of the post-war period is the proliferation of multinational corporations (MNCs). These are firms that own, control, or manage production facilities in several countries (Vernon 1966)

MNCs begun operating in Kenya before independence and these MNCs were mainly from England. In post-independence years American MNCs such as Firestone and Mobil followed. There are over 200 multinational corporations have invested in Kenya. Investments from multinationals in Kenya is over four billion dollars (Emmot 1993).

MNCs operating in Kenya, have made a profound contribution to the economic development of the country. This is because through their foreign direct investment (FDI,) MNCs bring in an enormous amount of new capital that provides an economic stimulus to the country. British multinationals have invested over 2 billion dollars in Kenya (Emmot 1993). The presence of the MNC creates possibilities for export revenues which are an important source the foreign exchange reserves which the country requires for its economic development.

MNCs also provide transfer of management and organizational skills, experience and access to extensive foreign marketing networks that would otherwise remain available to firms in the advanced industrialized countries. Developing countries such as Kenya have had difficulties breaking into world markets because they lack connections and knowledge of how the international markets work. Using their connections and knowledge of international markets, MNCs have helped developing countries enter international trade and business.

Multinationals have also brought about infrastructural development, this is because where a multinational such as Bamburi is built the government ensures that there are proper roads, telecommunication services and electricity. MNCs have lead to the development of towns, schools, and hospitals. The growth and development of Webuye and Magadi towns has been facilitated by the presence of Pan African Paper Mills and Magadi Soda in those towns respectively.

Local firms too have contributed their share in the economic growth and development of Kenya through generation of employment and income for people who would otherwise be unemployed. MNCs do not create much employment as they use alot of capital-intensive technology.

The MNC activities carried out in developing countries such as Kenya are as varied as those carried out in developed countries. These activities include exporting and importing, foreign direct investment, contractual agreements such as licensing and franchising; and international banking. The most striking characteristic is that much of these businesses are generally far more regulated in the developing country (Kenya) than in the developed country.

The limitations placed on MNCs in a developing country such as Kenya far surpass those that are imposed by the industrialised country. Regulation of MNCs comes about because their operations may at times have a negative impact on the country in which they are operating. Impacts such as exploitation of cheap labour and natural resources, pollution of the environment, importation of inappropriate technology, bringing in of a foreign culture, misunderstood management practices and discrimination of locals. Activities of MNCs such

as Bamburi, Pan-Paper and Magadi soda have to be checked because of the harmful nature of their operations.

Apart from regulations placed on the MNC by the host country, operating in a developing country such as Kenya tends to present the foreign firm with a high degree of political and economic risk. Many multinationals temporarily closed down operations during the 2002 Kenya General elections due to the fear of what would happen after the elections. While it is not every day that elections occur the amount of political risk in developing countries tends to be higher than that in developed countries.

Despite the adverse conditions that MNCs face when operating in host countries and especially in developing countries, they appear to be able to over come these conditions and are able to operate more efficiently and effectively than the domestic or local companies. There seems to be some factors that give the MNCs advantages over the local companies even when operating in their markets.

1.3. STATEMENT OF THE PROBLEM

There are over 200 multinationals in the country mainly from Britain, France, the US and West Germany. Total registered foreign investment is estimated to be in excess of four billion dollars. The British lead in investing, having invested over two billion dollars in Kenya. The book value of U.S. investment is estimated at 83 million dollars, while the market value is over 285 million dollars. Investments from Far Eastern countries, including China and Japan, though insignificant, are rapidly rising through foreign direct investments from companies such as Toyota from Japan and the Tata group from India. (Emmot 1993).

Multinational companies make up a large percentage of Kenya's industrial sector. Bamburi a British multinational and Pan African Paper mills an Asian MNC consume over 5 per cent of the total energy transmitted and distributed in Kenya. (KPLC Monthly report March 2004). The Kenyan government intends to increase foreign direct investment to 24 billion dollars from the current 4 billion dollars in the next five years (Nzioka 2004). Multi-national presence in the country is going to increase as illustrated below;

- **a)** increased investment of about Kshs 500 million by the Anglo-Dutch multinational Unilever,
- **b)** Blue Circle/La Farge (Bamburi) increased their investments in East Africa Portland Cement by 5 million dollars,
- **c)** East Africa Breweries Limited is spending Kshs 1.4 billion on a new bottling line,
- **d)** General Motors is increasing its investment in Kenya – the company will spend Kshs. 400 million to develop locally assembled cars for the African market.

Multinationals have a strong hold on our economy, this can be seen from the investments that they make and the amount of taxes they pay to the government. East African Breweries Ltd. (EABL) paid about Kshs 12 billion in taxes (EABL annual report 2003), Standard Charted paid Kshs 2 billion (Standard Chartered annual reports 2002), Barclays Bank Kenya paid Kshs 1.4 billion (Barclays Bank annual report 2003), while BAT (British American Tobacco) paid 2 billion (BAT reports 2002).

The local businesses need to learn from the multinationals if they are to be serious competitors against MNCs. Local or domestic are finding it increasingly difficult to survive, maintain and gain market share under liberalised markets. Market conditions are changing continuously, and innovation-based competition has placed new burdens on small firms, creating challenges that are distinctively different from those of price-based competition. Besides, small firms are already struggling to survive in already crowded domestic markets associated with public restructuring and multinational presence. In order for the small business to survive they need to learn the factors that give MNCs an advantage. They also need to exploit what could be their own local advantages such as culture, language, political good-will and playing on nationalistic feelings among other factors

In Kenya MNCs are increasing especially with the liberalisation of markets. Very few local or domestic companies in Kenya have been able to compete against MNCs and win. Companies that have been able to compete with them include Bidco against Unilever and Uchumi and Nakumatt against Metro Cash and Carry and Discount Cash and Carry South African multinationals, Hutching Beimer and Victoria Furnishers against Supreme and Barnett Furnishers South African Multi-nationals.

Multinationals have some factors that give them an advantage in the countries that they decide to operate in. This research project intends to study the factors that give multinational corporations an advantage over domestic or local companies in Kenya. Factors giving multinational corporations an advantage include capital, access to credit, managerial capabilities, better negotiating skills, financial synergy or better marketing skills. For example, Barclays Bank Kenya can be able to borrow funds from branches in North Africa, sub-Saharan African and the islands in the Indian Ocean when short of funds.

The study of this factors that MNCs posses will enable local companies to have knowledge and be better equipped to compete with the MNCs. For example out of the 43 banks registered with the Central Bank of Kenya the big 2, that is Standard Chartered and Barclays control over 40 per cent of the market while the remaining 41 fight it out for the remaining 60 per cent market (Munaita 2000). Bamburi controls about 60 per cent of the cement market in Kenya (Wandera 2004).

The purpose of this study is to determine the factors that have made multi-nationals in Kenya such as Barclays Bank , Standard Chartered, and Bamburi successful and have advantage over local companies in Kenya despite the adverse conditions, limitations, and regulations they face.

1.4. OBJECTIVES OF THE STUDY

a) To determine the factors that gives multinational corporations an advantage over local companies in Kenya, and how these factors enable them to exploit opportunities in Kenya.

b) To determine the factors that make multinationals more successful than local or domestic companies in Kenya.

1.5. IMPORTANCE OF THE STUDY

The study will be important to the following;

a) To domestic or local companies as they will get with vital information that will enable them to better placed to compete with the MNCs.

b) To students of international business, the study is important because it will help them understand better what makes MNCs successful in host countries

c) To entrepreneurs when starting their business as it will enable them to come up with strategies that will help them compete more effectively with the MNCs

d) To policy makers as it will help then come up with policies that will level the playing field between multinational and local/domestic firms or industries.

CHAPTER TWO :

LITERATURE REVIEW

2.1. Definition of the Multinational Company (MNC)

There is no single agreed-upon definition of the multinational (or transnational) enterprise or company. Some of the analysts view large, dominant firms that do at least some international business (such as those appearing in the Fortune 500) as the relevant ones. Others include only firms that have owners only in one country. According to Wald (1994), MNCs are companies or enterprises that operate in a number of countries and have production or service facilities outside the country of its origin.

A commonly accepted definition of an MNC is an enterprise producing at least 25 percent of its world output outside its country of origin. If international business is the process of conducting business across national boundaries, then multinational corporations are the principal participants in this activity. They are, so to speak, the actors or players in the international business "game". Most multinational corporations are based in developed countries. The multinational corporation is so large and extended that it may be outside the control of a single government. (Wald, 1994).

While no definition can be completely objective Vernon and Wells (1966) have offered a view that covers MNCs fairly well. Their view is that MNEs are companies, made up of a cluster of affiliated firms although in different countries, nevertheless share distinguishing characteristics as follows;

1. they are linked by ties of common ownership,

2. they draw on a common pool of resources, such as money and credit, information systems, trade names and patents,
3. they respond to some common strategy.

Purely domestic companies, national or local companies on the other hand, operate in a single national environment where consumer preferences, government policies and regulations, and labour union demands are relatively consistent and predictable and where competition is bounded within a single, familiar market. Overall performance is measured in one comparable unit: the local currency (Wald 1994).

Beginning with the theoretical insights of Hymer (1960) and Kindleberger (1967), MNCs possess a unique package of assets, capital, differentiated product, technology, management skills, and/or marketing know-how. This package of assets allows them to compete with local firms, whose superior knowledge of local conditions would otherwise give them a competitive advantage. These insights of Hymer and Kindleberger will provide the conceptual framework for this study

The studies of successful large firms in industrial countries have shown that these firms typically compete in domestic and foreign markets on the basis of competitive advantages that are based on company specific characteristics. That is, these firms usually possess some proprietary asset – a new production process, a superior sales location, facilities that realise economies of scale in production or distribution or a combination of assets that allows the company to achieve lower costs, higher revenues or lower risks than its competitors, Kindleberger (1967).

Bain (1956) stated that successful international companies possessed the following advantages;

1. Absolute Cost advantages – such as proprietary production techniques and control over limited resources by established firms.
2. Product differentiation advantages – such as an established brand name or patented product.
3. Economies of scale – in areas such as advertising, production and purchasing.

According to Porter (1985), competitive advantages grow out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. MNCs gain an advantage by performing strategically important activities more cheaply or better than it's local competitors (Porter, 1985).

Advantages MNCs have include being able to escape environmental regulations and labour laws by shifting to another country, for example. They can shift raw materials, goods, and capital in order to escape taxes. In addition, because they have new technologies and products that less developed countries do not, multinationals must decide when a particular country is ready to assimilate these new things. The advantages that MNEs or MNCs posses can be divided into two categories;

1. General Competitive Advantages
2. Multinational Competitive Advantages

2.2. FACTORS THAT GIVE COMPANIES AN ADVANTAGE

These are those factors that are not limited to the international firm but pertain to successful domestic companies as well. These are the factors that exist for both the international and the domestic firm. These factors include;

1. Proprietary Technology

Initial investigations by Vernon (1966) and Kindleberger (1969) found that proprietary technology is a fundamental basis for competitiveness of most firms. Most of the successful MNCs produce high technology products in industries such as pharmaceuticals (Pfizer, Glaxo-SmithKline, Johnson and Johnson); data processing (IBM, Rank Xerox). Proprietary technology is not only in the manufacturing sector but also in the service sector. In the service sector specifically financial services, Standard Chartered has come up with the *Flexilink* account that has enabled the company to convert thousands of customers to a technology based account management system. This enabled the firm to increase ATM transaction volumes and improve efficiencies among the company's branches (Standard Charted annual accounts 2003)

Proprietary technology advantage comes from some technology created or purchased by the firm that the firm utilises in production to generate better or less-expensive products than those produced by the rival firm. For example DuPont created distinctive products such as nylon and rayon; Eastman Kodak created higher quality paper for its photographs than its main rival Fuji Film company (Kindelberger 1967).

MNCs are ahead technologically and through research they are always looking for ways to come up with superior products. Technology is expensive to develop and to remain at an advantage MNCs protect their technology through use of patent rights and intellectual property rights for example Coca-Cola with its formula mix for soft drinks and pharmaceutical companies such as Glaxo-SmithKline on pharmaceutical drugs such as Zantac. MNCs protect their technology so as to be able to be able to recoup on development costs and make a profit.

The local or domestic companies in Kenya maintain old equipment and use outdated technology in most of their operations. The inability of these firms to acquire modern technology is, to a large extent, due to the high costs associated with purchasing of the new equipment. This problem is more acute for government-owned firms. Having made no changes in the production process for a long time, some of these firms would have to replace their machinery and equipment completely, as well as retrain the workforce. (Ikiaria, 1986)

2. Brand Name or Trade Name

Early analyses also focused on the marketing advantages possessed by MNEs (Vernon 1966 and Caves 1971). Particularly important in this case is the firm's ability to differentiate its product from others. By establishing a brand or trade name a firm may be able to attract additional buyers or customers due to name recognition and trust. Examples of companies in Kenya that posses this type of advantage include GlaxoSmithKline and Bayer East Africa in the pharmaceutical industry. In the food industry there is Nandos and Steers, in health care products there is Colgate-Palmolive, Johnson and Johnson, Proctor and Gamble and Cussons. In the soft drinks industry there is Coca-Cola (Caves 1971).

In this case the advantage arises from the firm developing a reputation for high-quality products, good service after the product has been purchased and/or good value relative to competitors products. These characteristics become identified with the brand name enabling the firm to sell more output or charge higher prices than competitors. Barclays Bank and Standard Chartered Bank are able to charge higher commissions because they give high quality service and products. For example a personal current accounts holder who wants to withdraw money over the counter at Barclays Bank is charged Kshs 300, while Standard Chartered Bank charges Kshs 500 (Central Bank Quarterly Report December 2003).

3. Size

In many aspects of doing business size lowers costs. Through their size MNCs are able to achieve efficiency in their operational activities (Korine and Gomez 2002). MNCs are able to achieve ;

a) Economies of scale in production

b) Scale of economies in Purchasing

c) Economies of scale in financing

d) Economies of Scale in Advertising

a) Scale of Economies in Production

This exist when the firm is able to operate a production facility that attains lower costs per unit of output at larger levels of output than the costs incurred by competitors in production facilities that have lower output capacities. That is the scale (volume) of production is increased by increasing the size of the production facility, unit costs can then be decreased at

higher levels of output (Korine and Gomez 2002). Scale of economies in production are important in many industries especially those that are heavily capital intensive such as automotive, airframe manufacturing, industrial chemical and oil industries. Toyota for example is able to achieve substantially lower production costs for its cars than General Motors, Ford or Daimler-Chrysler (Porter 1985).

b) Scale of economies in Purchasing

This can be attained by firms that are able to buy inputs in large quantities and are thus able to reduce their unit costs. This advantage is usually available to large firms, which are able to purchase larger quantities than their rivals. It also tends to occur for firms with more standardised production, as the selection of inputs becomes more predictable and larger stocks become justifiable (Korine and Gomez 2002) . By contracting to buy million of pounds of beef on a regular basis, such companies as Nandos or Steers are able to reduce their hamburger costs far below that of local single-location restaurants as Wimpy.

c) Scale of Economies in Financing

This exists for firms that are able to borrow large sums of funds and can thus obtain quality and quantity discounts. Also, MNCs and their affiliates usually have greater access at better terms to international capital markets than do purely national firms, and this puts MNCs in a better position to finance large projects (Korine and Gomez 2002).

d) **Economies of Scale in Advertising**

This is attained when a firm sells its products in several countries and is able to standardise its promotion across countries (Korine and Gomez 2002). For example Barclays Bank has used its 'A big world needs a big bank' promotional campaigns successfully around Africa.

4. **Government Protection**

Government protection advantages arise from two distinct kinds of relationships. First, the direct protection given to favoured firms in the form of tariffs and subsidies which enable the firm to carve out a competitive position. Secondly, in dealing with the government as its supplier of products or services can generate a protected environment for the firm since the government tends to stay with reliable suppliers without switching frequently (Williams 1985).

5. **Human Resource**

Multi-nationals are able to attract and maintain the best human resource in the host countries which they operate. This is because most multi-national companies have higher than average salaries for their employees (Williams 1985).

Also these companies are supposedly more professional in their day-to-day working and operations. This has proved to be a very important advantage because when the firm is able to create a working environment that stimulates employee productivity, the firm is able to lower its unit costs and improve the quality of the product (Williams 1985). In Kenya the best paid senior managers in profitable multi-national enterprises generally earn salaries of around 2,000 dollars a month (World Press Review, January 2004).

6. Flexibility and Adaptability

Flexibility and adaptability is the ability to scan broad environment and detect changes that present new risks and opportunities, that is react, respond and adapt(Korine and Gomez 2002). In the production of Toyota cars, Toyota has managed to develop spare parts that can be used across different models. This is because many customers were complaining about buying the wrong parts for their cars (Fortune 500 2004).

MNCs are also in a much better position to control or change to their advantage the environment in which they operate than are purely national firms. For example, in determining where to set up a plant to produce component, a MNC can and usually does "shop around" for the low-wage nation that offers the most incentives in the form of tax breaks, tax holidays, subsidies, and other tax and trade benefits.

When energy costs became to high in Kenya some MNCs such as Pfizer moved to South Africa from where they are able to produce goods more cheaply for the Kenyan Market. Proctor and Gamble immediately changed from production to importation of finished goods when taxes on imported raw materials was increased while the importation of finished goods was decreased. A ten per cent duty is charged on raw materials, as compared to the mere one per cent charged on other imports. (New People, September 1999).

7. **Experience**

Most of the MNCs have been operating in Kenya since and some even before the country attained independence (Ikiara, 1986). Through experience gained the firm learns how to make a product better or more cheaply, units costs in production have been found to decline on average by 15 per cent with the doubling of cumulative output. Firms are then able to gain an advantage by learning how to make a product better and more cheaply – the learning or experience curve effect (Porter, 1985)

2.3. Factors giving MNCs an advantage

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The factors discussed earlier can be used both at the international well as the domestic level to give the company an advantage. Scale economies in purchasing, production, advertising or financing may however be greater for a firm that is able to spread its operations over several countries rather than just one. There are some factors that are primarily limited to giving the MNEs an advantage. These are –

1. Multinational Marketing

Multinational marketing refers to a number of very large companies whose business interests, manufacturing plant and offices are spread throughout the world (Lancaster and Massingham, 1996). Porter (1990), argues that being in many markets allows the firm to tap into intellectual capital which is a significant driver of success. Multinational marketing enables a firm to sell its products in many markets simultaneously. The MNEs gains a key advantage in being able to sell its excess production in other markets due to sales affiliates in those markets compared to competitors that only operate in one market (Lancaster and Massingham, 1996). The affiliates function as gatherers of market information about demands, regulatory conditions and other business conditions that could benefit the firm. This makes the firm to quickly take advantage of the markets in order to sell its out-put. The wider the firms net of affiliates, the greater its possibility of maximising its revenues. From another perspective, shortfalls in demand in one country can be remedied by sending excess output to other countries where the firm encounters an excess demand beyond the ability of the local affiliate to supply (Lancaster and Massingham, 1996).

2. Multinational Sourcing of a Product

MNCs usually source for inputs that are not integral to the innovation process such as skilled labour, raw materials, capital from the most cost-effective location. In this way the company is able to harness the output cost advantages of various locations. The MNC can exploit the comparative advantage of many locations while nullifying the cost disadvantage of its home base. (Porter 1998). This advantage enables the MNE to reduce its costs relative to local competitors. Very frequently in the 1980's, firms set up off shore production facilities in Asian countries (e.g. Singapore, South Korea and Taiwan), Mexico or India where labour costs were low, in order to assemble machinery, clothing or other products for sale in the United States or Europe (Williams, 1985)

3. International Diversification

The third multinational advantage is the risk–reducing benefit of international diversification. Many MNEs use facilities in several countries to produce the same products for several markets. In that way if a strike, war or a machine breakdown occurs in one country, markets can be served from other production sites. MNCs try to establish multiple sources of raw materials such as oils and metals and even inputs such as labour in order to avoid the overdependence on one supplier country (Williams 1985). Thus by operating in multiple sourcing and marketing affiliates the MNE gains this important risk reducing capability. Diversification makes the corporate whole add up to more than the sum of its parts (Porter 1998).

4. **Managerial Experience**

Managerial experience in several countries gives the firm an advantage of know-how in dealing with business situations in different countries. This advantage generally helps the MNE possessing experienced managers relative to other businesses or MNEs without such managers. The managers learn how to cope with business conditions and regulatory environments in different countries., they can then be able to bring that experience to bear on situations in the current country gaining an experience over managers without such experience.

Standard Chartered a multinational based in Kenya seconded 22 Kenyan employees for over sees training (Standard Chartered annual reports 2002). The company is advantaged in two ways; the Kenyans gain international experience from the affiliate branches abroad and the overseas branches get knowledge of the Kenyan market.

5. **Vertical and Horizontal Integration**

One of the basic reasons for the existence of MNCs is the advantage of a global network of production and distribution. This advantage arises in part from vertical and horizontal integration with foreign affiliates (Kindelberger 1969).

a) **Vertical Integration**

Vertical integration is the combination of technologically distinct production, distribution, selling and/or any other economic processes to the confines of a single firm. As such it represents the decision by the firm to utilise internal and administrative functions rather than market transactions to accomplish its economic purposes. Benefits

of integration include combination of operations, internal control and co-ordination, economies of information, economies of avoiding the market and economies of stable relationships (Porter 1985). Oil companies as Mobil, BP-Shell are historically vertically integrated carrying out exploration, oil field development, oil refining, retailing and marketing. (Finlay 2000).

b) Horizontal Integration

Horizontal integration occurs when one company acquires another in exactly the same line of business and combines the two. By horizontal integration through foreign affiliates, MNCs can better protect and exploit their monopoly power, adapt their products to local conditions and tastes, and ensure consistent product quality. (Finlay 2000). In Kenya Citi-bank's acquisition of ABN-Amro is an example of horizontal integration

Integrating development activities across countries eliminates duplication of efforts and saves costs, making products more price-competitive (Porter, 1980). It also allows firms to leverage ideas generated in one geographic market to other geographic markets (Bartlett and Ghoshal, 1989). Moreover, launching new products simultaneously in multiple country markets reduces the risks of pre-emptive entry by rivals in those markets (Chen and Stucker, 1997; Hamel and Prahalad, 1985).

6. Strategic Alliances, mergers and Acquisitions

Though MNCs do not form strategic alliances or merge due to domestic conditions but rather as a reaction to the wider global conditions and these actions greatly affect local or domestic

firms. Faced with increased competition globally and locally MNCs form strategic alliances or merge with each other in order to fight aggressively to create new markets, gain market share, or in some cases, hold market share (Finlay, 2000). For example the merger of Glaxo-Wellcome and SmithKline-Beecham affected local pharmaceutical companies such as Cosmos, Lab and Allied and Lord's Health Care.

7. Knowledge Leverage

The effective dissemination throughout the MNC organization of valuable knowledge acquired by its local affiliates is seen as an important source of competitive advantage (Bartlett and Ghoshal 1989). Standard Chartered sent 22 Kenyan employees on secondment oversees to gain international experience (Standard Chartered annual accounts 2002).

In recent years, inter-organisational competition has not only intensified, its nature has fundamentally changed: it has become more knowledge-based, and the sources of competitive advantage have shifted unmistakably from physical assets to intellectual resources (Prahalad and Hamel, 1990; Quinn, 1992; Stewart, 1997). The home-based sources of knowledge and ownership advantages that had long enabled organisations to compete effectively in international markets are no longer adequate today (Dunning, 1980). Multi-nationals gain advantages by harnessing knowledge from sources in multiple country markets in order to generate new product ideas as well as to build manufacturing know-how and technological strength.

8. **Global Efficiency**

Global Efficiency arises from benefiting from differences in factor costs of wages and cost of capital, expanding and exploiting potential scale economies in each activity and sharing of investments and costs across markets and businesses (Barnett and Cavanagh 1994).

MNCs are concerned about securing the least costly production of goods for world markets, making profits, increasing market share, and corporate growth. This goal is achieved through acquiring the most efficient locations (Barnett and Cavanagh 1994). Barclays Bank Africa remained profitable in all portfolios of the business that is the branches in North Africa, sub-Saharan Africa, and Islands in the Indian Ocean (Barclays Bank Financial report 2003). Domestic companies are unable to achieve global efficiency because they are located in their countries which may not be a cheaper or more efficient option (Barnett and Cavanagh 1994).

9. **Local Responsiveness**

Although MNCs produce global products, they customise products to compete locally in the markets that they have decided to enter. MNCs have the finances to carry out continuous market research in order to keep their customers and also the technology to change products to suit their customer needs (Korine and Gomez 2000). For example Unilever, which has changed the packaging of the OMO from carton to reusable plastic containers to sachets, a technology which their closest rival Kapa Oil refineries makers of Toss detergent has been unable to copy. OMO is also packaged in different weights and sizes so that customers are able to buy the size they can afford.

2.4. Factors giving Domestic companies an advantage

Domestic companies operate in a single national environment where social and cultural norms, government regulations, customer preferences and economic structures all tend to be fairly consistent.

There are some dimensions in which the Kenyan firms have an advantage over the MNCs. Domestic or local firms in Kenya have better knowledge about the local environment, more specifically knowledge about consumers, distribution, labour practices and regulations.

1. Local Networks

Domestic or local firms have the advantage of having local networks. Kenyan firms have an advantage in building relationships with local firms, (customers, distributors, suppliers), trade associations, unions and government agencies. KCB recently launched the *Electronic File/Funds Transfer(EFI)* with Uchumi Supermarkets that allows KCB customers to use either their debit or credit cards to make instant payments (Nation 27th April 2004)

2. Size

Local firms are smaller than MNCs and in todays dynamic market like that of Kenya, this gives them advantage of being able to move faster and make decisions more quickly and act on opportunities presented by the environment. Due to their size they are able to respond to opportunities and changes in customer preferences faster. On the other hand managers of MNC subsidiaries in Kenya are at a disadvantage because they have to deal with a distant headquarters and an additional layer of control. Due to the good market response of the

Point of Sale Terminals that use the Master Card, KCB is increasing the *'terminals'* to ensure that they are available to all Master Card merchants in the country. (Nation April 27th 2004).

3. Cost Advantage

Local firms in Kenya have the advantage of having lower cheaper factors of production, land and labour especially. Kenyan domestic firms have some cost advantage over the MNCs which often have high overheads and expensive expatriate managers. The Dream team which was appointed by the former president Daniel Moi which included former Barclays Bank finance director Martin Oduor-Otieno former Magadi Soda managing director Titus Naikuni were commanding salaries of about Kshs 2 million, the normal salary for senior manager working for a multinational (Omari 2000). Senior managers working for local companies earn between Kshs 150,000 – 250,000 (PriceWaterhouseCoopers Survery 1999).

4. First Mover Advantage

Domestic firms are usually the first to enter the market and are thus able to establish a dominant position in the market. Kenya Commercial Bank (KCB) is the first bank in Kenya to issue a proprietary debit card *–QuickserveDebit card* to its customers (Nation 27th April 2004).

5. Knowledge of the Local Environment

Local firms have a superior knowledge of the local environmental conditions. They know the physical attributes of the country which they are operating in, in terms of geography, population factors, income, natural resources, infrastructural and economic development. Domestic companies are better placed than the multinationals in market segmentation or

distribution channels to be used. The local companies have the advantage of starting and running their operation in accordance with the local environmental conditions (Ikiara, 2000)

6. Cultural Knowledge

Culture is the man-made part of a people's environment and may be defined as the distinctive way of life of a people. Domestic companies have a superior knowledge of the cultural aspects in the markets in which they operate (Ikiara, 2000). This gives them an advantage as they are able to meet customer needs better. For example Kuguru Foods Company and their B.O.G.O. (Buy One Get One Free) strategy for their Softa drinks, which made an impact that led to one large MNC lowering the prices of its soft drinks.

7. Government Protection and assistance

Governments usually give assistance to local companies in form of subsidies in order to encourage them to grow through exporting and to protect them from imports (Ikiara, 1986). The government can protect the domestic firm by limiting what can be owned by the MNC. For example most of the media houses in Kenya are owned locally. The government also exercises considerable control over the MNCs by setting rules that limit their power to import, transfer funds or hire and fire.

8. Patriotism

Products manufactured by local firms have the advantage of being more popular because of the feeling of patriotism that they elicit, the 'buy Kenya build Kenya' feeling they awaken. When Castle enter the Kenyan market KBL countered them with their advertisement *'Tusker*

- *Kenya my country, Tusker my beer'*. This made people take more of the local product than the foreign product.

CHAPTER THREE:

3.0. RESEARCH METHODOLOGY

In this chapter the population that was studied, the sampling plan, data collection and data analysis techniques used will be discussed.

3.1. Research design

To accomplish the objectives of the study, the research design was in the form of a survey that was carried out on both the local and multinational banks operating in Nairobi. The survey method was chosen as the number of banks is not large. The are 43 registered banks in Kenya according to the Central Bank quarterly report of March 2004 on bank Charges

3.2. Population

The target population that was studied were the multinational and local banks operating in Nairobi. The listing of Multinational and local banks operating in Kenya was derived from the Central Bank of Kenya Quarterly report of March 2004.

3.3. Sample size and sampling technique

The whole population of both the local banks and multinational banks was considered for the study. This is because of the small number of both the multinational and local banks. There are 11 multinational banks operating in Kenya and 31 local banks.

3.4. Data collection method

Data collected through a self administered questionnaire was given to a senior manager in the company and picked at a later date. There were two questionnaires one targeting the senior managers in the local banks, the other targeting the senior managers in the multinational banks. The questionnaire consisted of both open and closed-ended questions which were aimed at getting primary data from the respondents. The questions were derived from the literature review and aimed at getting information about what gives the multinational banks or local firm an advantage. The questionnaire consisted of two parts;

1. History of the company
2. Factors giving the MNC or Local firm an advantage

3.5. Data analysis

The study used both descriptive l statistics to analyse the data. The main descriptive tools to be used were percentages/proportions and frequencies. The descriptive statistics were used because of their clarity and ease of understanding and also to summarise and describe the data collected.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

In this chapter the results of the survey are presented. A detailed analysis on the factors giving operational superiority to MNCs is presented in this section

4.1. PROFILES OF RESPONDENTS AND RESPONSE RATE

A total of 25 firms responded giving a response rate of 58%. The targeted respondents were the senior managers with a broad view of their companies particularly in the areas of human resources, information technology, branch network, company image and quality of service

4.2. GENERAL INFORMATION

4.2.1. OWNERSHIP

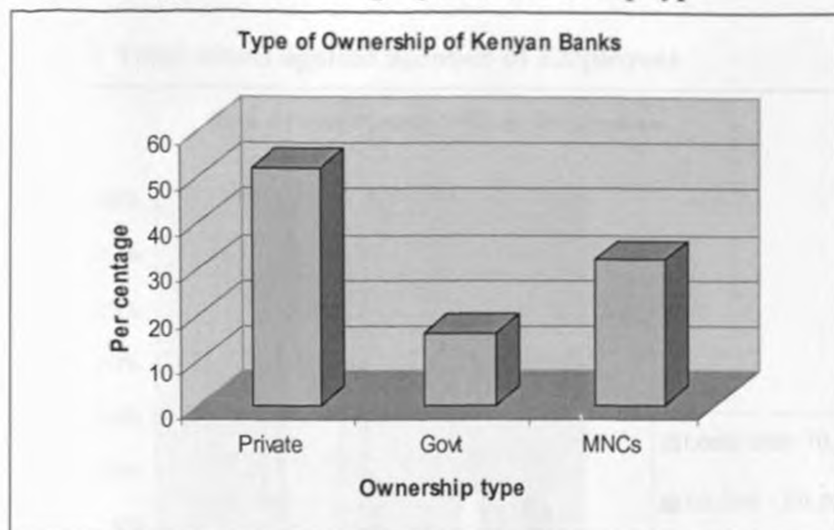
Table 1 – Distribution of respondents by Company ownerhip

Ownership	No of Respondents	Response Rate (%)
Foreign	8	32
Local	17	68
Total	25	100

Table 2 – Distribution of respondents by Type of Ownership

Ownership Type	No of Respondents	Response Rate (%)
Private	13	52
Government	4	16
Multinational	8	32
Total	25	100

Graph 1 – Type of ownership against ownership type



The tables above show that majority of the commercial banks operating in Kenya are locally owned (68%) and that most of them are private enterprises (52 %). These banks can further be categorised into small, medium or large depending on the size of their investment in Kenya.

4.2.2 SIZE

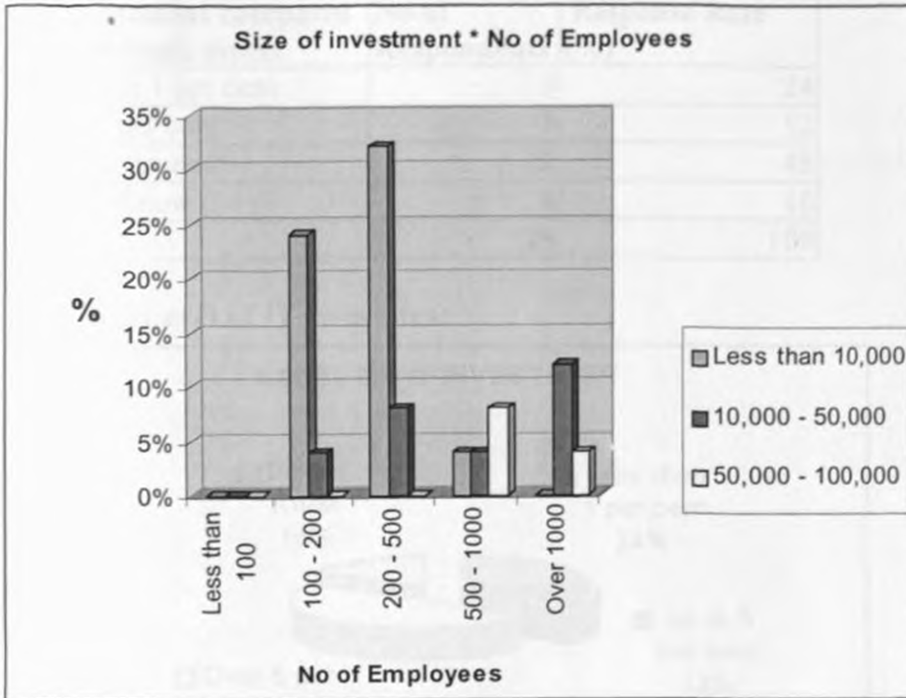
Table 3 – Size of banks in terms of total assets

Total Assets (Kshs 000,000)	No of Respondents	Response Rate (%)	Classification
Less than 10,000	15	60	small
10,000 - 50,000	7	28	medium
50,000 - 100,000	3	12	Large
Total	25	100	

Table 4 – Size of banks in terms of number of employees

No of employees	No of Respondents	Response Rate (%)	Classification
Less than 100	0	-	Small
100 - 200	7	28.00	Small
200 - 500	10	40.00	Medium
500 - 1000	4	16.00	Large
Over 1000	4	16.00	Large
Total	**25**	**100.00**	

Graph 2 Total assets against number of Employees



The results from tables 3 and 4 together with graph 1 above indicate that majority of the banks are small to medium sized with investments of less than Kshs. 10 billion and having between 100 – 500 employees.

4.2.3. HUMAN RESOURCE

Table 5 - Level of Education

Level of Education Management Staff	No of Respondents	Response Rate (%)
Postgraduate	0	0
Graduate	21	84
Diploma	3	12
Certificate	1	4
Other	0	0
Total	25	100

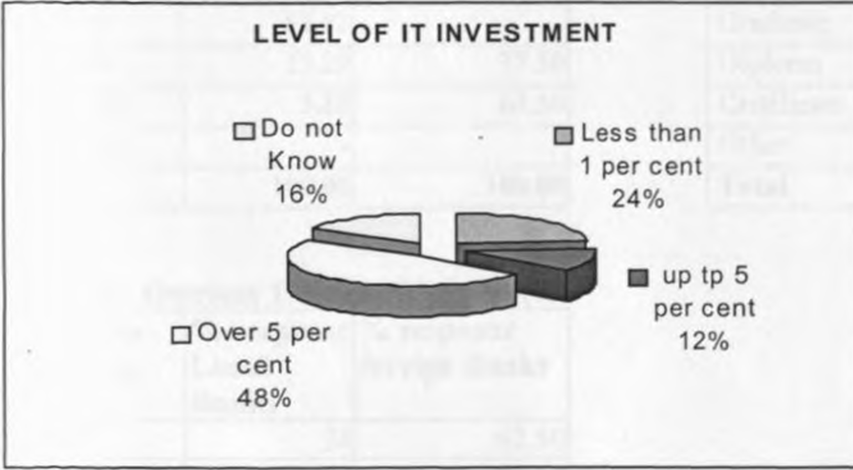
The majority (84%)of the management staff employed by banks had a first degree. This demonstrates that banks generally employ more highly qualified personnel.

4.2.4. INFORMATION TECHNOLOGY (IT)

Table 6 – Level of investment in IT in relation to total Bank assets

IT investment compated to total bank assets	No of Respondents	Response Rate (%)
Less than 1 per cent	6	24
up tp 5 per cent	3	12
Over 5 per cent	12	48
Do not Know	4	16
Total	**25**	**100**

Graph 3 Level of IT investment



Majority (60%) of the banks operating in Kenya have an IT investment of 5 per cent and above of their total investment. This represents a significant per cent of investment made in IT. It can then be deduced from the table 6 and graph 3 that banks are intensive users of IT.

4.3. ANALYSIS OF THE FACTORS

4.3.1. HUMAN RESOURCE

4.3.1.1. Management Employees

Table 7 – Average salary of employees

Av. Salary Of Empoyees Kshs '000	% response Local Banks	% response foreign Banks
Less than 10	-	-
10 -- 30	58.82	
30 -- 60	35.29	37.50
60 -- 100	5.88	62.50
Over 100	-	-
Total	**100.00**	**100.00**

Table 8 - Level of education of employees

Level of Education of Employees	Response Local Banks	Response Foreign Banks
Postgraduate	-	-
Graduate	76	100
Diploma	24	-
Certificate	-	-
Other	-	-
Total	**100**	**100**

Table 9 - Overseas Training for employees

Overseas Training	% response Local Banks	% response foreign Banks
Yes	24	62.50
No	76	37.50
TOTAL	**100**	**100.00**

The study showed that MNBs place a lot of emphasis on qualified staff with all respondents from the foreign banks reporting that employment of management staff with a university degree. Table 8 showed that, majority of the MNBs (62.50%) took their management staff for overseas training compared with only 24 % of the local banks. Work experience in several countries gives the firm an advantage of getting the know-how on how to deal with business situations in different countries.

From the study it can also be deduced that foreign banks remunerate their management staff better with 62.50% paying them between Kshs. 60,000 –100,000 compared to only 6% of

the local banks that were paying this amunt. Through better remuneration terms MNBs are able to attract the more qualified staff than local banks

4.3.1.2 Managers

Table 10 – Average age of senior managers

Av. Age of Managers	% response Local Banks	% response foreign Banks
30 -- 35	-	-
35 -- 40	17.65	25
40 -- 45	23.53	63
45 -- 50	41.18	13
Over 50	17.65	-
Total	**100.00**	**100**

Table 11 – Minimum level of education of senior managers

Minimum Level of Edu. For a manager	% response Local Banks	% response foreign Banks
Postgraduate	-	12.50
Graduate	76.47	87.50
Diploma	23.53	-
Certificate	-	-
Total	**100.00**	**100**

Most (58%) of the local banks senior managers were over 45 years of age and most (76%) had a tertiary education. However, even though most of the senior manager of the foreign banks had a tertiary education, most (63%) of the managers were younger between the ages of 40 – 45 years.

Table 12 – Years worked to be a senior Manager

No of Years worked for one to be a manager	% response Local Banks	% response foreign Banks
Less than a Year	-	0
1 - 5 years	-	0
5 - 10 years	17.65	37.5
over 10 years	47.06	12.5
Performance Based	35.29	50
Total	**100.00**	**100**

Table 13 – Average salary of senior manager

Av Salary of Senior managers Kshs 000	% response Local Banks	% response foreign Banks
100 -150	35.3	-
150 - 200	41.2	-
250 - 300	17.6	-
350 - 500	5.9	37.5
over 500	-	62.5
Total	**100.0**	**100.0**

The study also found out that majority (47%) of the senior management positions in the local banks are based on the number of years worked, while for the foreign banks positions for senior management are performance based (50%).

From table 13 it can be deduced that MNBs (Multinational Banks) pay their senior managers better than the local banks with 62% of managers in these banks and in these positions earning over Kshs. 500,000. None of the local banks reported paying their senior managers over Kshs. 500,000. It can be deduced from tables 12 and 13 that the younger and better paid managers of MNBs are able to come up with new and better products as shown in the results from table 28

Table 14 - Cross-tabulation of Number of Employees against total assets :Local Banks

No of Employees/ Assets Kshs 000,00	Less than 100	100 - 200	200 - 500	500 - 1000	Over 1000
Less than 10,000		2 (66.67%)	7 (87.50%)	1 (50%)	0
10,000 - 50,000		1 (33.33%)	1 (12.50%)	1 (50%)	3 (75%)
50,000 - 100,000				0	1 (25%)
		3	8	2	4

Table 15 - Cross-tabulation of Number of Employees against total assets :Foreign Banks

No of Employees/ Size in Kshs 000,00	Less than 100	100 - 200	200 - 500	500 - 1000	Over 1000
Less than 10,000		4 (100%)	1 (50%)		
10,000 - 50,000			1 (50%)		
50,000 - 100,000				2 (100%)	
		4	2	2	-

Table 16 - Cross Tabulation of number of Employees against Customers: Local Banks

No of Customers	Less than 100	100 - 200	200 - 500	500 - 1000	Over 1000
Less than 100000		2 (66.67%)			
100000 - 400000		1 (33.33%)	2 (25.0%)		
400000 - 700000			3 (37.5%)		
700000 - 1000000			3 (37.5%)		2 (50%)
Over 1000000				2 (100%)	2 (50%)
Total		3	8	2	4

Table 17 - Cross Tabulation of number of Employees against Customers: Foreign Banks

No of Employees/ No of Customers	Less than 100	100 - 200	200 - 500	500 - 1000	Over 1000
Less than 100000		2 (50%)			
100000 - 400000			2 (100%)		
400000 - 700000		2 (50%)			
700000 - 1000000					
Over 1000000				2 (100%)	
		4	2	2	

The tables above summarise how banks try to rationalise their human resource against their size in terms of investments in Kshs. and number of customers. Tables 14 and 16 shows that majority (47%) of the local banks have employed between 200 – 500 workers and most (58.8 %) of the local banks have total assets of less than Kshs 10 billion. Table 16 shows most (62.5%) of these banks serve between 100,000 – 700,0000 customers.

Table 17 shows that majority (50%) of the foreign banks however have employed between 100-200 workers. From table 15 it can be noted that these banks have invested have less than Kshs. 10 billion and that only two of these banks have a customer base of less than 100,000.

It can therefore be deduced from the above tables that MNBs have tried to rationalise their investments with the number of customers that they have and have also attempted to optimise their human resource with their customer base in order to achieve operational efficiencies.

4.3.2 INFORMATION TECHNOLOGY FACTORS

Table 18 – IT investment compared to total Bank Assets

IT investment compared to total bank assets	% response Local Banks	% response foreign Banks
Less than 1 per cent	35.29	-
up to 5 per cent	11.76	12.50
Over 5 per cent	29.41	87.50
Do not Know	23.53	-
Totals	100.00	100.00

Table 19 – Dept for IT activities

Department for IT Activites	% response Local Banks	% response foreign Banks
Yes	76.47	100
No	23.53	0
Totals	100.00	100.00

Table 20 – IT activities to enhance customer service

IT Activites to enhance customer service	% response Local Banks	% response foreign Banks
Yes	41.18	100
No	35.29	0
Don't Know	23.53	0
Totals	100.00	100

Table 19 indicates that majority of the MNBs (87.5%) have an IT investment of over 5 per cent of their total investment. All MNBs had a specific department to deal with IT issues and used IT to enhance services to their customers.

Though a large number (76%) of the local banks had an IT department majority (35%) of these banks had an IT investment of less than 1 % of their total investment and very few (41%) used IT to enhance their customer service. Although it can be deduced from the tables above that all banks are intensive users of IT, for MNBs IT appears to play a more fundamental role in the operations and activities than local banks.

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4.3.3 Branding/Trade Name

Table 21 - Effect of Bank Name on Business

Does name of Bank affect Business	% response Local Banks	% response foreign Banks
Yes	35.29	75
No	64.71	25
	100.00	100

Table 22 – Knowledge of services by customers

Services offered well known by Customers	% response Local Banks	% response foreign Banks
Detailed Knowledge	23.53	75
General Awareness	47.06	25
Not Known	29.41	0
	100.00	100

The number of MNBs which felt that their name affected their business was quite high (75%) compared to 35% of local banks that felt the same. The study also found out that a small number (23%) of the local banks reported that their services were well known by customers compared to 75% of the MNBs which reported that their services were well known by their customers. From these results we can infer that MNBs use their corporate image including the bank name to be able to attract additional customers

4.3.4 SIZE

Table 23 - Size of banks in terms of total assets

Total Assets in Kshs 000,000	% response Local Banks	% response foreign Banks
Less than 10,000	58.82	62.50
10,000 - 50,000	35.29	12.50
50,000 - 100,000	5.88	25.00
over 100,000	-	-
Total	100.00	100.00

Table 24 – Size of Banks in terms of number of customers

No of Customers	% response Local Banks	% response foreign Banks
Less than 100000	11.76	-
100000 - 400000	17.65	50.00
400000 - 700000	17.65	25.00
70000 0- 1000000	29.41	-
Over 1000000	23.53	25.00
Total	100.00	100.00

The study found out that most of the local banks are smaller in size than the MNBs in terms of size of investment with only 6 per cent having invested over Kshs. between Kshs. 50 to 100 billion.

From table 22 it appears that MNBs are smaller in terms of customer size, with most (50%) of these banks having a customer base between 100,000 – 400,000. Majority (47%) of the local banks have a customer base between 700,000 – 1,000,000

Table 25 - Cross Tabulation of Size of investment against no of customers : Local Banks

No. of customers/Size of invst. in Kshs 000,000	Less than 10000	10000 - 40000	40000 - 70000	70000 - 100000	Over 100000	Total
Less than 10,000	1	2	2	3	2	10
10,000 - 50,000	1	1	1	2	1	6
50,000 - 100,000	0	0	0	0	1	1
Total	**2**	**3**	**3**	**5**	**4**	**17**

Table 26 - Cross Tabulation of Size of investment against no of customers : Foreign Banks

No. of customers/Size of invst. in Kshs 000,000	Less than 100000	100000 - 400000	400000 - 700000	700000 - 1000000	Over 1000000	Total
Less than 10,000	-	4	1	-	-	5
10,000 - 50,000	-	-	1	-	-	1
50,000 - 100,000	-	-	-	-	2	2
Total	**-**	**4**	**2**	**-**	**2**	**8**

The tables above summarise the size of both the local and foreign banks in terms of investment in Kshs and number of customers. From the tables above the MNBs that had a customer base of over one million had investments between Kshs 50 to 100 billion. Majority (50%) of the local banks with a customer base of over one million had made investments of less than Kshs. 10 billion.

4.3.4.1 Number of Branches

Table 27 – Size of Banks in terms of Number of Branches

No of Branches	% response Local Banks	% response foreign Banks
0 - 10	70.6	75.0
10 -- 20	17.6	-
20 -- 30	5.9	12.5
30 -- 40	-	-
40 -- 50	-	-
Over 50	5.9	12.5
TOTAL	100	100

Table 28 - Cross Tabulation of Number of Customers against number of branches : Local Banks

No of Branches/No of Customers	0 - 10	10 -- 20	20 -- 30	30 -- 40	40 -- 50	Over 50	Total
Less than 10000	2	0	0	0	0	0	**2**
10000 - 40000	2	1	0	0	0	0	**3**
40000 - 70000	1	1	1	0	0	0	**3**
70000 - 100000	4	1	0	0	0	0	**5**
Over 100000	3	0	0	0	0	1	**4**
TOTAL	**12**	**3**	**1**	**0**	**0**	**1**	**17**

Table 29 - Cross Tabulation of Number of Customers against number of branches : Foreign Banks

No of Branches/No of Customers	0 - 10	10 -- 20	20 -- 30	30 -- 40	40 -- 50	Over 50	Total
Less than 10000	0	0	0	0	0	0	**0**
10000 - 40000	4	0	0	0	0	0	**4**
40000 - 70000	1	0	1	0	0	0	**2**
70000 - 100000	0	0	0	0	0	0	**0**
Over 100000	0	0	0	0	0	2	**2**
TOTAL	**5**	**0**	**1**	**0**	**0**	**2**	**8**

The tables above summarise the size of the bank in terms of number of branches. All the MNBs that had over 1 million customers had over 50 branches country-wide while only one of the local banks that had over 1 million customers had over 50 branches country-wide.

It can then be deduced that MNBs have attempted to rationalise their size in terms of customers, number of branches and total assets. By having a large branch network, this would allow the MNBs to leverage ideas generated in one geographical area to other areas.

4.3.5 First mover Advantage

Table 30 First to bring a product into the market

First to Bring a Product into Mkt	% response Local Banks	% response foreign Banks
Yes	22	50
No	78	50
	100	100

About half the MNBs reported having being the first to bring a product into the market compared with only 22 % of the local banks which reported being first to bring a product to the market.

4.3.6 Cost Advantage

Table 31 Cost advantage of operating in Kenya

Cost Advantage of working in Kenya	% response Local Banks	% response foreign Banks
Yes	65	100
No	35	0
TOTAL	100	100

The table above summarises the cost advantages gained from operating in Kenya. All MNBs reported a cost advantage of operating in the country while only 65 per cent of the local banks reported of cost advantages of operating in Kenya.

4.3.6 Knowledge of the local Environment, Tastes and Preferences

Table 32 Knowledge of Local Environment

Knowledge of Local Environ	% response Local Banks	% response foreign Banks
population Factors	76	75
Av. Income	87.5	87
Natural resources	47	50
Econ Devpt	100	100

Table 33 Knowledge of Tastes, Preferences and Lifestyles

Knowledge of	% response Local Banks	% response foreign Banks
Tastes	58.82	67.50
Preferences	65.29	67.50
Lifestyles	76.94	75.00

Tables 30 and 31 show that both the local banks and the MNBs both have and equal knowledge of the environment, tastes and preferences. However from tables 18, 19,20 and 28 it can be deduced that MNBs use their knowledge of the environment, tastes and preferences together with their superior information technology to bring about new and quality products into the market.

4.3.7. Strategic alliances, Mergers and Acquisitons

Table 34 - Corporation with other Banks

Corporation with other Banks	% response Local Banks	% response foreign Banks
Yes	24	75
No	76	25

Table 35 – Mergers with other Banks

Merged with other Banks	% response Local Banks	% response foreign Banks
Yes	18	25
No	82	75

The research study found out that majority (75%) of the foreign banks co-operate more with other banks, only (24%) of the local banks co-operate with other banks. There are only 11 MNBs operating in Kenya which each having to compete the remaining against 32 local

banks. Due to this increased competition locally MNBs form strategic alliances with each other in order to fight aggressively to create new markets, gain market share, or in some cases, hold market share.

Table 36 – Taken over activities of other Banks

Taken over Activites of other Banks	% response Local Banks	% response foreign Banks
Yes	24	37.5
No	76	62.5

Tables 32 and 33 show that there were not many mergers or acquisitions in the banking sector.

4.3.8. Government Assistance

Table 37 – Government assistance to Banks

Government assistance	% response Local Banks	% response foreign Banks
Yes	29	0
No	71	100

The above results indicate that some that some (29%) of the local banks receives Government assistance. It should be noted that the banks that received government assistance are those which the government had some ownership. The banks that had no government involvement did not receive government assistance. No MNC bank reported receiving government assistance.

CHAPTER FIVE

Discussions, Conclusions and Recommendations

This chapter discusses, summarises and concludes on the findings of the study in relation to the objectives put forward in chapter one. Study Limitations, and recommendations and suggestions for further research are also presented.

The objective of this study was to determine the factors that gives multinational organisations an advantage over local companies in Kenya, specifically between foreign and local companies in the banking sector and how these factors enable MNCs to exploit opportunities in Kenya. The study also set out to determine the factors that make multinationals more successful than local or domestic companies in Kenya.

Many studies have been carried out on the subject of competitive advantage of companies or firms. However, in the literature search most of the articles and research have been done in the Western world and the United States in particular has taken a lead in this area. Though the factors giving companies advantages discussed in the literature are prevalent in Kenya, as in many other countries, very little information apart from that found in newspapers, magazines and journals was specific to Kenya.

5.2 Conclusions

From the research findings presented in chapter four of this study, a number of conclusions can be made. These conclusions are discussed below in light of the objectives of this study.

The Kenyan banking sector is changing in many ways. Some of the medium sized local banks are beginning to compete with the large multinationals. Formerly non-banking

institutions like Diamond Trust and K-rep are trying to re-invent themselves through re-branding and are taking on the big multinationals like Standard Chartered and Barclays. However from the survey it is evident that there are 4 basic factors that give MNC banks operational superiority over the local banks in Nairobi. The first is size, the second is technology which brings about quality of service and products, the third bank image and the forth is human resource.

One of the most important assets of a company is the human resources. They are the real assets insofar as they represent the delivery capacity and capability of the organization. This is because all the activities of any enterprise are initiated and determined by the persons who make up that institution. All the commercial banks realise this as most of them employ highly qualified staff. However, MNC banks pay their staff better to ensure that they not only get the most qualified but also the best in the market.

MNC banks not only remunerate their employees better, they also base promotions to senior management positions on performance unlike local banks that base them on number of years worked. This has the effect of improving the bottom line of the bank as staff are encouraged to work harder as promotions are based performance. MNC banks have younger senior managers than the local banks do. This is probably done because these mangers are more innovative and are able to come up with new products and/or services, unlike the local banks managers who are much older.

Size in terms of number of customers, number of branches and investments made does matter. Even though a large bank is more difficult to run than a smaller one due to the high

risks involved in serving customers and the colossal amount of money invested, . Multinational banks have rationalised their sizes and have been able to achieve efficiency of operations.

From the survey another factor that give MNC banks an edge over local banks is technology. The study showed that technology is key in the delivery of services with most of the MNC banks having a specific department for IT issues. Technology is key in the delivery of services of MNC banks. All of the banks had a detailed awareness of the environment, culture, tastes and preferences. Today, customer demands are hinged on changing life styles and exposure to other banking systems and it is the ability of MNCs banks to innovate, come up with new products that gives them an advantage.

Local commercial bank image has not raised enough confidence to attract significant business from their multinational competitors. Indeed most of the services that are on offer by this banks are not well known. MNC banks on the other hand are continuously branding and re-branding themselves and carrying out extensive advertising campaigns to make their customers aware of their product.

Most of the MNC banks have corporations with other banks especially outside the country. Very few local banks have strategic alliances with other banks. Local banks need to build stronger ties with banks and corporations around the world to prevent their clients going to the foreign competition.

Results from the study show that mergers and acquisitions are do not give any advantage but rather strategic alliances played a more fundamental role in giving the MNBs an 'edge over the local banks.

Government assistance goes hand-in-hand with Government ownership. The government only assists those banks in which it has part ownership. Government ownership is more of hindrance than an advantage as the government controls most of the decision making of these banks.

Local banks have not been able to use effectively factors such as lower costs of operating in Kenya and knowledge of the local environment, and cultural knowledge to gain an advantage over local banks in Kenya. Local banks and companies in Kenya need to use this factors to be able to gain an advantage over the MNCs that are operating in Kenya.

5.3 Limitations of the study

This study focused on an industry where confidentiality is a major component of business Banks generally operate on the basis that most information especially that concerning their clients and that of the internal bank operations is kept confidential. This was a major limitation as deduced from the study.

The questionnaires were also structured with this in mind by asking questions that were not deemed to seek confidential information about the banks staff, its customers or its operations. The questions were therefore to a great extent of a general nature.

The questionnaire was not structured in a way that only one senior manager could answer, the questionnaire had to go to several managers so that each one could what he or she felt they were in charge of. This made the study time consuming and used of a lot of resources going to find out if the questionnaire had been completed.

5.5 Suggestions for further study

This study focused on the service industry particularly the banking sector an industry were there is a lot of confidentiality to information. The results and conclusions drawn are from the service industry. The study can be extended to the manufacturing industry to provide a clearer picture of what gives MNCs operational superiority over local companies in Kenya.

When looking at the size of the bank, this was looked at in terms of total investments made, which is not a good indicator of a banks performance. A study can be done taking into consideration other factors such as profit after tax to see if conclusion arrived at are the same.

The study noted that brand image and knowledge of the banks services is an important factor in giving MNBs an advantage. This however looked at from the banks point of view. Future should consider the customers perception on the bank image and the services it provides.

The Government plays a big role in the both the service or manufacturing industries, especially in those companies in which it has some ownership like KCB, NBK or Co-op bank. A study can be done to see if the Government influences the factors that make MNCs more successful than local companies.

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APPENDIX I

Dear Sir/Madam

ACADEMIC RESEARCH

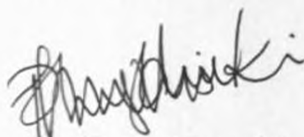
My name is Phyllis W Mwaniki and I am a post-graduate student in the University of Nairobi. In partial fulfilment of the requirement of for the award of Masters of Business Administration (MBA), I am conducting a study on ***'Factors that account for operational superiority of multinational companies over local companies : A case study of banking sector in Nairobi.'*** Your organisation has therefore been selected to form a part of this study. To this end, I kindly request your assistance in completing the questionnaire and provide any other relevant information to this study

The results of the research will be for academic purposes only but the findings can be availed to you upon request, The information received will be treated in the strictest manner.

PLEASE answer the questionnaire as accurately as possible and once it is completed enclose it in the envelope provided and I will then come and pick it from your office.

If you have any queries or need clarification about this project please call me on 3201-5694 or 0722721703 or email me at p_mwaniki@yahoo.com

Thanking you in advance for agreeing to participate in this research project.



Phyllis W. Mwaniki
Student ID D/61/P/8534/2000

APPENDIX II

QUESTIONNAIRE –MULTINATIONAL COMPANIES

Organisational Details

Name of Company ______________________________

Location ______________________________

In which year was your company founded ______________________________

Which year was your company incorporated in Kenya ______________________________

Factor Conditions

Human Resource and Managerial experience

1. How many employees does the bank have

   Less than 100 ☐ 100-200 ☐ 200-500 ☐

   Over 500 ☐ Don't Know ☐

2. What is the average level of education of employees of your bank

   Post-Graduate ☐ Graduate ☐ Diploma ☐

   Certificate ☐ Other ☐ Please Specify ____________

3. What is the average salary of employees in your bank

   Less than 10,000 ☐ 10,000-30,000 ☐ 30,000-60,000 ☐

   60,000-100,000 ☐ Over 100,000 ☐

4. Does the company send employees for oversees training

   Yes ☐ No ☐

5. What is the average age of managers in your company

   25-30 ☐ 30-40 ☐ 40-50 ☐ over 50 ☐

6. What is the minimum level of education for one to be a manager in your company

   ☐ ☐ ☐

Post-Graduate ☐ Graduate ☐ Diploma ☐

Certificate ☐ Other ☐ Please Specify ______

7. What is the minimum number of years one needs to have worked before becoming a manager

   Less than a year ☐ 1-5 years ☐

   5-10 years ☐ Over 10 years ☐

8. What is the average salary of senior managers in your bank

   100,000-150,000 ☐ 150,000-200,000 ☐ 250,000-300,000 ☐

   350,000-500,000 ☐ Over 500,000 ☐

Technology

9. If you were to estimate the level of IT investment for your bank compared to other assets what would be your best estimate

   Less than 1 per cent of the total investment ☐

   Up to 5 per cent ☐

   Over 10 per cent ☐

   Don't know ☐

10. Does your bank have a department exclusively for IT activities

    Yes ☐ No ☐

11. Does your company use specialized technology enhance services that it provides to its customers

    Yes ☐ No ☐

Branding and Trade Name

12. Please tick the services that you offer to your customers

Personal/Retail Banking ☐

Business Banking /Business Financial services ☐

Corporate Banking ☐

Global Services ☐

Kindly list any which are not included in the list above

___

___

___

13. Are these services well known in the market

Yes ☐ No ☐

14. Does name of the company affect the amount of business that is brought into the company

Yes ☐ No ☐

Size

15. To which category does your company belong to in terms of its investment in Kenya (Figures in Kshs '000)

Less than 200,000 ☐

200,000 – 500,000 ☐

500,000 – 1,000,000 ☐

Over 1,000,000 ☐

Don't know ☐

16. How many customers does your company have (Figures in '000)

Less than 100 ☐ 100-200 ☐ 200-500 ☐ 500-1000 ☐

Over 1000 ☐ Don't Know ☐

17. How many branches in Kenya does the company have

0 – 10 ☐ 10 – 20 ☐ 20 - 30 ☐

30-40 ☐ 40-50 ☐ Over 50 ☐

Government

18. Below are some of the incentives the government provides. Please tick those that apply to your company

Concessions on duties ☐

Concessions on Tariffs ☐

Concessions on Taxes ☐

Government Grants ☐

Government Subsidies ☐

Please list any others ____

____

____

Alliances

19. Do you co-operate other branches of your bank in other countries

Yes ☐ No ☐

20. Do you co-operate with other banks in Kenya

Yes ☐ No ☐

21. Have you merged with any bank(s) in Kenya

Yes ☐ No ☐

22. Have you taken over activities of any bank in Kenya

Yes ☐ No ☐

APPENDIX III

QUESTIONNAIRE –LOCAL COMPANIES

Organisational Details

Name of Company ________________________________

Location ________________________________

In which year was your company founded ____________________

Networks

1. Does your company have any relationships with other local firms

   Yes ☐ ☐

2. If yes what type of relationship exists between your company and the other local firms

   ____

Human Resources

3. How many employees does the bank have

   Less than 100 ☐ 100-200 ☐ 200-500 ☐

   Over 500 ☐ Over 1000 ☐

4. What is the average level of education of employees of your bank

   Post-Graduate ☐ Graduate ☐ Diploma ☐

   Certificate ☐ Other ☐ Please Specify __________

5. What is the average salary of employees in your bank

   Less than 10,000 ☐ 10,000-30,000 ☐ 30,000-60,000 ☐

   60,000-100,000 ☐ Over 100,000 ☐

6. What is the average age of managers in your company

   25-30 ☐ 30-40 ☐ 40-50 ☐ over 50 ☐

7. What is the minimum level of education for one to be a manager in your company

   ☐ ☐ ☐

Post-Graduate Graduate Diploma

Certificate ☐ Other ☐ Please Specify ___________

8. What is the minimum number of years one needs to have worked before becoming a manager

Less than a year ☐ 1-5 years ☐

5-10 years ☐ Over 10 years ☐

9. What is the average salary of senior managers in your bank

100,000-150,000 ☐ 150,000-200,000 ☐ 250,000-300,000 ☐

350,000-500,000 ☐ Over 500,000 ☐

Size

10. To which category does your company belong to in terms of its investment in Kenya (Figures in Kshs '000)

Less than 10,000 ☐

10,000 – 100,000 ☐

100,000 – 200,000 ☐

Over 200,000, ☐

Don't know ☐

11. How many customers does your company have (Figures in '000)

Less than 100 ☐ 100-200 ☐ 200-500 ☐ 500-1000 ☐

Over 1000 ☐ Don't Know ☐

12. How many branches in Kenya does the company have

0 – 10 ☐ 10 – 20 ☐ 20 - 30 ☐

30-40 ☐ 40-50 ☐ Over 50 ☐

First mover Advantage

13. Has your company ever been the first to bring a product into the market

Yes ☐ No ☐

14. If yes what was the product ______________________________

Cost Advantage

15. Are there any cost advantages gained by the firm operating in Kenya

16. Yes [ ] No [ ]

17. If yes please list some of the cost advantages ______________________________

____

____

____

Knowledge of the local Environment and culture

18. Do You think your company has a good understanding of the following in Kenya. Please tick those You think the company has a good understanding of

Population factors such as population density, population growth rates [ ]

Average income of Kenyans [ ]

Natural resources [ ]

Infrastructural Development [ ]

Economic Development [ ]

19. Do You think your company has a good understanding of the following. Please tick those You think the company has a good understanding of

Peoples tastes [ ]

Peoples Preferences [ ]

Peoples lifestyles [ ]

[ ]

Government Protection and Assistance

20. Below are some of the incentives the government provides. Please tick those that apply to your company

Concessions on duties [ ]

[ ]

Concessions on Tariffs

Concessions on Taxes ☐

Government Grants ☐

Government Subsidies ☐

21. Please list any others ____

____

____

Thank you for taking time to answer this questionnaire

APPENDIX IV

MULTINATIONAL BANKS IN KENYA

1. Bank of Baroda
2. Bank of India
3. Barclays Bank
4. Citibank N.A.
5. Credit Agricole Indosuez
6. Dubai
7. Habib AZ Zurich
8. Habib Bank
9. Middle East Bank
10. Stanbic
11. Standard Chartered

LOCAL BANKS IN KENYA

1. African Banking Corporation
2. Akiba
3. CFC
4. Charterhouse Bank
5. Chase
6. City Finance
7. Commercial Bank of Africa
8. Consolidated Bank
9. Co-Operative Bank
10. Credit Bank
11. Daima Bank
12. Delphis
13. Development Bank
14. Diamond Trust
15. Equatorial Commercial
16. Fidelity Commercial
17. First American
18. Fina
19. Giro Commercial
20. Guardian
21. Imperial
22. Industrial Development Bank
23. Investment and Mortgages
24. Kenya Commercial Bank
25. K-Rep
26. National Bank
27. National Industrial Credit
28. Paramount - Universal
29. Prime Bank
30. Southern Credit
31. Transnational
32. Victoria Commercial