

**STRATEGIES ADOPTED BY MULTINATIONAL COPORATIONS IN  
KENYA TO COPE WITH THE CHALLENGES OF GLOBAL FINANCIAL  
CRISIS**

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**A management research project submitted in partial fulfillment of the requirements of the  
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Administration, School of Business, University of Nairobi.**

**APRIL2010**

## DECLARATION

I declare that the Research Project is my original work and has never been submitted anywhere for any accademic purpose.

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The project has been submitted for examination with my approval as the Univercity supervisor

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## DEDICATION

This project is dedicated to my father Mr. Francis Kirapash and my mother Mrs Jane Kirapash for their support and encouragment.

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## ACRONYMS AND ABBREVIATIONS

<b>EAC</b>	<b>East African Community</b>
<b>MNC</b>	<b>Multinational Corporations</b>
<b>WW11</b>	<b>World War II</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>ODA</b>	<b>Overseas Development Assistance,</b>
<b>WDC</b>	<b>World Development Corporation</b>
<b>CMA</b>	<b>Capital Markets Authority</b>
<b>WTO</b>	<b>World Trade Organization</b>
<b>NYSE</b>	<b>New York Stock Exchange</b>
<b>GSA</b>	<b>Glass-Steagall Act</b>
<b>CBK</b>	<b>Central Bank of Kenya</b>
<b>FDIC</b>	<b>Federal Deposit Insurance Corporation</b>

## CHAPTER ABSTRACT

The objectives of the study were to determine the global financial crisis challenges encountered by multinational corporations in Kenya as well as to establish the strategies adopted by these multinationals corporations in Kenya to cope with the global financial crisis challenges.

To meet these objectives, the pertinent primary data was collected. The data was collected using questionnaires that were dropped to selected multinational corporations in Kenya from various business sectors and later picked. The respondents were senior managers bestowed with necessary responsibilities of decision making in the organization. Data was the analyzed qualitatively.

The study established that the global financial crisis indeed pose various challenges to the multinational corporations in Kenya. On the other hand political, economical, demographical, legal, environmental, technological and cultures forces are some of the factors hindering multinational corporations in Kenya to cope with this challenges. Despite all this factors the multinational corporations in Kenya are able to adopt various strategies in order to be able to face up with the challenges of global financial crisis, though there is still a lot of room for improvement by the corporations to effectively use these strategies to their advantage.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background

Strategy has been widely accepted as an effective method of mobilizing resources to attain firm's objectives. Sparc (2002) describes strategy as the way of meeting the needs that have been identified, along with the intended outcome of success for the venture in the market. Many firms in Kenya, both public and private have adopted

Multinational firms have pursued a multitude of strategies for international expansion, as described in the World Investment Report (UNCTAD, 1998) and cited by Yeaple (2003). Firms have opened foreign affiliates to perform activities ranging from R and D to after-sales service, and including production of parts and components, assembly, and wholesale and retail distribution, among others. Some firms procure parts from subsidiaries in many countries and assemble them in a single location. Others concentrate production of parts in one place and assemble final products in several plants located close to their customers. Still others erect an integrated plant in a low-wage country and use it to serve consumers around the globe. The motives for foreign direct investment (FDI) are similarly diverse, but the potential for factor-cost savings, for transportation-cost and trading-cost savings, and for the realization of economies of scale seem to be among the primary inducements.

However, the current global financial crisis has occurred in United States, Asia and European countries which are home countries of many multinational corporations in Kenya. This financial crisis has evolved differently from other major crises that have hit the developing world in recent decades. Not only is it occurring in a world of unprecedented financial globalization, where the financial sector plays a historically large role in economic activity, but it is also an "imported" crisis, with origins outside the developing world. The crisis also comes on the heels of a major global shock from high food and fuel prices that has imposed a heavy economic burden on many countries and significantly increased the incidence of poverty and vulnerability.

### 1.1.1 Response Strategies

A response is 'an action or feeling produced in answer to something; in other words a reaction.' Responses are decisions or actions taken by firms, are company wide in scope and involve the deployment of the firm's resources in their implement. Strategic responses involve changes to the organization strategic behavior (Ansoff and McDonnell, 1990). The change can be gradual, evolutionary or even more dramatic to be revolutionary (Thompson 1997). (Pearce and Robinson 1988) defines strategic responses as the set of decisions and actions that results in the formulations and implementation of plans designed to achieve a firm's objectives. It is thus a reaction to what is happening in the environment of an organization

With this latest financial crisis, growth is slowing and is likely to weaken even more sharply. Developing country exports to developed countries are falling, capital is being withdrawn from emerging markets and short-term credit is drying up. This could trigger a fall in production and investment by the productive sector. Sharply tighter credit conditions and weaker growth are likely to cut into government revenues and governments' ability to invest to meet education, health and gender goals. Countries dependent on exports, remittances or foreign investment, exhibiting high current account deficits or rising inflation, and those with extensive fuel/food subsidies are most vulnerable to a sharp slowdown—especially if accompanied by a significant tightening of financial market conditions. Coming on the heels of the food and fuel price shock, the global financial crisis could significantly set back the fight against poverty

The current global financial crisis has resulted in decline in Foreign Direct Investment from traditional sources. From the foregoing there are fears that promised external investments in new projects or joint ventures are unlikely to materialize soon. Anecdotal evidence is bearing this out - no major new deals have been concluded in the recent past. The World Bank reports that the number of infrastructure deals that reached financial closure went down by 40 per cent from a year earlier. Projects are either being delayed or cancelled out of fears of failure to realize the anticipated returns with economic decline. This will have far reaching implications for infrastructure financing. Remittances have recently become a significant source of external

financial in-flows. They have been directed to the housing sector and support local demand for goods and services. The source of most remittances is the developed countries in the west and it is therefore feared that declines and job losses in those economies will affect these flows. Remittances have increased in recent times due to increased wealth of the Diaspora as well as increase in numbers of remitters with increased migration of skilled persons.

In Kenya, the principal sources of savings come from corporations or companies. This is because the government tends to run a budget deficit and is, therefore, not a major saver. Individuals also tend to consume most of their earnings due to rampant poverty. The extended family system also tends to take a major portion of ones potential savings. The wealthier tend to engage in conspicuous consumption. This is why only the major corporations tend to be the principal savers.

The principal corporations operating in Kenya are subsidiaries of multinational corporations. The savings from these corporations come from retained earnings after payment of dividends. Depreciation expenses also are a form of savings. When these corporations earn profits they tend to declare hefty dividends averaging over 60% of their earnings. These are then repatriated out of Kenya to their shareholders who often are the parent companies.

The net implication of this situation obtaining in Kenya is that the private sector which is dominated by foreign owned corporations is not only a major source of de-savings but also a net exporter of capital from Kenya. So long as these corporations are not re-investing in Kenya their surplus profits, Kenya will continue to have a low investment rate. The major arguments for this behaviour by corporations are that there are not profitable ventures in Kenya or they have to focus on their core business which means they cannot diversity too much.

### 1.1.2 Global Financial Crisis

A financial crisis is a situation when money demand quickly rises relative to money supply. Until a few decades ago, a financial crisis was equivalent to a banking crisis. Today it may also take the form of a currency crisis. Many economists have come up with theories on how a financial crisis develops and how it could be prevented. There is, however, no consensus and financial crises are still a regular phenomenon. A stock market crash is an example of a financial crisis.

The Global Financial Crisis refers to the global credit, banking, currency, and trade crisis which emerged in September 2008. The genesis of the crisis can be traced to the availability of cheaper credit in the world financial system since 2000. The situation encouraged banks to undertake riskier projects. They were riskier because their true risks were not analyzed or appropriately priced. Specifically, mortgage lending to borrowers who in ordinary circumstances would not have been eligible for these facilities pushed up housing prices [sub-prime mortgage]. While housing prices were on the rise, institutions could easily realize the underlying security. Further, institutions that originated the mortgages would securitize them i.e. issue mortgage backed securities that other institutions would then invest in.

The housing bubble burst; house prices declined in the United States and it became harder to realize mortgage securities. Financial institutions that invested in mortgage backed securities found themselves holding "worthless assets." The crisis escalated against a backdrop of lack of trust between institutions as the exposures to these assets amongst the various institutions could not be ascertained. This resulted in a credit and liquidity crunch as well as loss of customer confidence. The effects have spread to consumers who are uncertain about the future and firms which cannot access credit. At the household level, the households that acquired these mortgages have found themselves in negative net worth. The crisis: The financial crisis led to a liquidity/ confidence crisis which led to an economic crisis hence

economic recession. But what is disturbing is that we do not seem to be at the bottom- markets still jittery and falling. The guarantees and bailouts do not seem to have calmed the market or work as fast as anticipated.

The country's anticipated economic growth fully relies on the economic activities of Kenya's population which is feeling the pinch of hard economic times. Customers have stopped making luxury purchases to meet the basic needs as inflation bites deep into their pockets and goods become more expensive. The impact of the global financial crunch on Kenya's economy is no doubt already being felt in many sectors of the country's economy. These effects can be divided into two: The first round effects which were basically financial in nature resulted in the depreciation of the exchange rates, run-down of the international forex reserves, short-term capital outflows and sell-offs at the stock market. The second effects which are economic in nature and are causing a slow down international demand of commodity exports, decline in tourism, slow down in Foreign Direct Investment and Overseas Development Assistance, and a risk averse credit market.

Loss of international markets as a result of the decline in demand for our exports especially those directed at the developed economies. The recession may reduce the demand for Kenyan export goods. This will vary in the major markets and will largely depend on key export markets and the price and income responsiveness of the goods being exported. The Africa region remains Kenya's dominant export market followed by European Union. The share of exports to the African region was 45.2 per cent of Kenya's total exports in 2007 followed by the European Union with 26.4 per cent. The EAC accounted for 63 per cent of Kenya's market in the region. Global manufacturing output declined by nearly three per cent in 2008. This has affected the demand for commodities which make up most of Africa's exports. It is projected that global commodity prices will continue declining in 2009 with a slight recovery in 2010.

Export market realization could be further dampened by trade distortions and protectionist measures that countries could adopt. The experience and national debates in America and Europe are not encouraging in this regard and could lead to similar decisions by other countries that Kenya exports to. The last time the world experienced a financial crisis was in 1997-98 with the collapse of the Asian markets. Then ODA to Sub-Saharan Africa declined by over 30 per cent. It is feared that despite all the pronouncements to the contrary developed countries will be under extreme pressure in their home economies to meet obligations for external assistance. Also the country's economy which has been on the growth path for the last five years, showed decreased growth in 2008. This has largely been attributed to the violence at the beginning of the year, the drought as the global commodity price rise in the first and second quarter of the year and the impact of the global crisis later on.

Though Kenya's banking sector has been largely unaffected by the financial crisis, real fears have been expressed that the attendant economic crisis will have implications on decisions by banks. Especially vulnerable export sectors are susceptible to a credit squeeze as they come under increasing scrutiny. There are also fears that Government will rely more on debt instruments to raise money and attract banks and crowd out the private sector. Reliance by the Government on increased domestic borrowing could drive interest rates up which would have far reaching implications on the economy in general and in the growth of higher defaults within the sector. In addition higher interest rates would discourage business growth and the expansion of any capital investment.

Dumping of cheap exports from China and other similar economies which would reduce market for Kenyan Products and a decline in global commodity prices will have an impact on manufactured goods. Local producers fear that goods that cannot be offloaded in markets in the traditional developed countries will be diverted at very low prices to markets in developing countries. Some sectors of local industry are already reporting declining orders in their regional



and local markets with an increase in import of manufactured goods. Should the global crisis be allowed to barter the productive sector, Kenya will experience shrinkage in jobs with attendant social and other crisis. It is imperative that all actors work together to identify measures to cushion the economy from extreme adverse effects

### **1.1.3 Multinational Corporations in Kenya**

A multinational corporation is a firm or a corporation that has its facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they co-ordinate global management. Very large multinationals have budgets that exceed those of many small countries. Nearly all major multinationals are American, Japanese or Western European, such as Nike, Coca-Cola, Wal-Mart, AOL, Toshiba, Honda and BMW.

Most of the largest companies, by revenue, are American or Japanese. In 1996, 162 of the 500 largest companies globally were from the United States and 126 from Japan. Only a few of the largest companies are from developing countries. An exception is China, which has three entries in the top 500 list (Fortune Magazine, Top 500 and Biggest revenues and increases in revenues: <http://www.fortune.com>) In contrast to the 1950s and 1960s, when Greenfield FDI was the most popular method of market entry, cross-border mergers and acquisitions have become an increasingly important means of entering foreign markets since the mid-1980s. Most of the multinational corporations in Kenya and in the developing world have entered the country through cross- border mergers and acquisitions. According to UNCTAD, the total value of worldwide cross-border mergers and acquisitions rose in 1996, for the sixth year running

Multinational corporations have played an important role in globalization. Countries and sometimes sub national regions must compete against one another for the establishment of MNC facilities, and the subsequent tax revenue, employment, and economic activity. To compete, countries and regional political districts sometimes offer incentives to MNCs such as tax breaks, pledges of governmental assistance or improved infrastructure, or lax environmental and labor standards enforcement. This process of becoming more attractive to foreign investment can be characterized as a race to the bottom, a push towards greater autonomy for corporate bodies, or both.

The creation of profitable enterprise – is essential to global poverty reduction. Multinational corporations reduce poverty by connecting local business with world markets and bringing access to credit and technology. As efficient engines of change, MNCs also alter the conditions that create poverty. Yet MNCs are absent from some of the poorest regions in the world. The risks of investment are too high. So, the potential benefits of MNCs are not reaching the world's neediest places. There is a gap between need and investment. The challenge is to close that gap: to facilitate investment by MNCs in poor regions by minimizing risk, and by making the investment profitable and thus sustainable. To address this challenge, we propose a new institution, the World Development Corporation (WDC).

According to Dr. Yabs (2007), in 1945 immediately after WWII, the first multinational corporations to come to Kenya include Dalgeti, CMC, Dunlop Ford motor company, Singer Sewing machines and other. As years went by international firms invested more in Kenya under Foreign Direct Investment. Under FDI there was transfer of substantial amount of resources by MNC from other countries to Kenya with the aim of exploiting internalization strategy. This entailed keeping secrets within the company and its subsidiaries and controlling the management. In later years, MNCs preferred direct investment and started to reinvest their earning back under inward direct investment as opposed to outward direct investment.

Outward FDI in reference to Kenya refers to MNCs located in Kenya either national or international that are taking funds out of Kenya and investing elsewhere. Inward FDI in relation to Kenya refer to those MNCs that are located in Kenya and bring in more funds for investment in Kenya or reinvest their earnings from their operations in Kenya.

MNCs came to Kenya to look for good investment environment so that their firms can prosper. This includes the presence of vibrant economy, stable government, predictable government policies, and good industrial relations with trade unions. Beside good investment environment, firms would like to invest in a country whether there is a possibility to borrow locally. If the prevailing interest rates are in a certain country, then firms may not invest there. The level of inflation rate can also influence investment decisions in MNCs. A country with high inflation rated scare away investors. Central banks and reserves boards should ensure that inflation rated are kept at bay. The level of taxation in a country can also scare investors away. Taxation in Kenya is rather high and there are some MNCs that are not comfortable with the taxation system prevailing in Kenya. Most firms would like to invest in areas with developed infrastructure, where there is easy access to water, roads, telephone, electricity and commercial services. The cost of power is very important especially for the manufacturing firms.

## **1.2 Research problem**

Financial sector development fosters economic growth and reduces poverty by widening and broadening access to finance and allocating society's savings more efficiently. However, the financial sector has been facing the greatest international financial crisis since the Great Depression. Since September 2008, the world has seen unprecedented events that are re-shaping the international financial system and challenging liberal economic orthodoxy, which had gone practically unquestioned since the 1990s under US leadership. The sub-prime

mortgage crisis that erupted in August 2007 has become a systemic financial crisis whose epicenter is no longer just in the US, but rather has spread to Europe, Japan and the enter world and is having a powerful impact on the growth of the emerging economies.

Several studies have been conducted on the impact of global financial crisis in Kenya. Mwega (2008) examines the effect so far of global financial crisis to Kenya and its possible impact. The author went ahead and looked at the elements of global financial shock, which focus on the type and the magnitude of the shock. He also looked at the effect of this global financial crisis on growth, investments, poverty, inequality and debt. Capital markets authority (2008) examined global financial crisis; its impact on Kenya and the possible strategies to mitigate effects. This study indicates that the current global financial crisis has reduced direct investment in Kenya by developing countries due to foreign investors focus on consolidating their financial position. The study does not however indicate the effect of this global financial crisis on MNCs present in Kenya and their strategies to cope with it. Up to this time, no study has been done to ascertain the strategies used by multinational corporations in Kenya to cope with the challenges of global financial crisis considers that this global financial crisis originated from the home countries of this MNCs. There is therefore an urge to study the challenges of global financial crisis and the strategies used by MNCs in Kenya to cope with these challenges. This study seeks to find out; what are the major causes of global financial crisis and its challenges on MNCs in Kenya? And what are the strategies used by this multinational corporations in Kenya to cope with the challenges of the current global financial crisis?

### **1.3 The research objective.**

1. To determine causes of the current global financial crisis and its major challenges
2. To establish the challenges of global financial crisis faced by multinational corporations in Kenya
3. To determine the strategies multinational corporations in Kenya have adopted to cope with the challenges of global financial crisis

### **1.4 Importance of the study**

The study is relevant to the management of Multinational Corporation in Kenya, the government, and researchers in international business in several ways:

First, the study is significant to the management of multinational corporations in Kenya as the management would be able to ascertain the extent to which the global financial crisis has affected they parent companies.

Secondly, the researchers in international business discipline may use this study as a basis for further research in the same discipline or other related fields.

Finally, the government agencies that deal with ensuring that organizations and the country in general is able to cope with the challenges of this global financial crisis as it can use this information to be able to support the multinational corporations in Kenya in they strategies.

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## CHAPTER TWO: LITERATURE REVIEW

### 2.1. Environmental challenges to organizations

According to Andrews (1987), the environment of a business organization is that of any other organic entity, is the pattern of all the external conditions and influences that affects its life and development. Porter (1985) argues that the global uncertainty in environmental changes increased dramatically in the 1970s due to fluctuating raw material prices, swings in financial and currency markets, deregulation, electronic revolution, and growth of international completion. Ansoff and McDonnell (1990) argue that, the "Industrial Revolution" of 1820 to 1900 was extraordinary strategic turbulence period and from 1900 to 1930s the focus was placed on mass production to decrease the unit cost. Drucker (1980) argues that turbulence is irregular, non-linear, erratic; but underlying causes can be analyzed, predicted and managed

The major challenges facing organizations are to identify the opportunities and threats posed by the changing environmental conditions (Porter 1980); and major global changes have been the government policy including competition and technological evolution (Mintzberg et al. 2003; Burns, 2004; Porter, 1985). Andrews (1987) argues that the environmental influences relevant to strategic decision are in the industry, the total business community, the city, state and the world, and categorized as technology, economic, physical, social and political; whereby changes is fastest in technology and less rapidly in political. Johnson and schools (2004) and Johnson et al. (2006) argue that the broad environment is macro-environment, described by PESTEL framework, categorizing environmental influences in six main types; political, economic, social, technological, environmental and legal environments.

According to Kotter (2001), a central feature of modern organization is interdependence, where no one has complete autonomy; employees tied to each others by their work, technology and

hierarchy, presenting a special challenge to change process and requires alignment of people. Senge (2006) observes that the limits of growth and organizational learning often frustrate organizational changes. Durcker (2002) argues that the rapid growth put enormous strain on business by outgrowing facilities and management capabilities, thus requiring continuous adaption to changes.

### **2.1.1 Government challenges.**

Government policy changes have significant and tangible effects on industry structural change, through full-blown regulation of key variables such as entry barriers into industry, competitive practices, or profitability. Less direct government influence occurs through regulation of product quality and safety, environmental quality, and tariffs or foreign investments. Emerging industries face delays in gaining recognition and approvals and firms with unique technology are forced to license by regulations (Porter, 1980; 1985).

Government policy and chance affect competitive advantage by influencing four determinants of advantage- the diamond framework: - factor conditions; demand conditions; related and supporting industries and; firm structure, strategy and rivalry (Porter, 1990). Government bureaucracies and regulations increase costs and impede the ability to stay in business (Drucker, 1980) and anti-trust laws are formal attempt to limit competition antimonopoly and fair trade laws restrain competition( Mintzberg et al. 2003). Government dictate particular course or direction by exercising extensive regulation and MNCs seeking business in parts of the world are subjected to conditions such as joint ventures or local alliances in order to be licensed to operate (Porter, 1985; Johnson and Scholes, 2004).

### **2.1.2 Economic challenges**

Economic challenges occur due to the nature and direction of the economy in which an organization operates. An organization needs to consider the economic trends in the segments that affect its industry and these include the availability of credit, the level of disposable income of the citizenry and propensity of propensity of people to spend. Prime interest rates, inflation rates and trends in the growth of the national economy are other economic challenges.

### **2.1.3 Political challenges**

Pierce and Robinson 1997 state that the direction and stability of political factors are a major consideration for managers on formulating company strategy. Political challenges can define the legal and regulatory environment within which an organization must operate. These include labour laws, administrative laws, pricing policies, taxation, antitrust and unfair completion and so on. Political constraints are placed on organizations through fair trade decision, anti-trust laws, tax programmers, minimum wage legislation pollution and pricing policies, administrative jawboning and many other actions aimed at protecting employees, consumers, the general public and the environment.

### **2.1.4 Social challenges**

These are challenges that are involved with the beliefs, values, attitudes, opinions and lifestyles of the organizations external environment as developed from the cultural, ecological, demographic, religious, educational and ethnic conditioning of the population (Pierce and Robinson 1997). As social attitudes change the demand for products or services also change. These social factors are dynamic and constantly changing resulting in the efforts of individuals to satisfy their desires and needs by adapting to the changing environmental factors. Translating social change into forecasts of business effects is a difficult process at best;



nevertheless, informed estimates of the impact of such alterations as geographic shifts in populations and changing work values, ethical standards and religious orientation can only help a strategizing firm in its attempts to prosper.

### **2.1.5 Technological challenges**

In order to promote innovation and compete with other organizations in the same industry, an organization must be aware of the technological changes that might influence the industry (Pierce and Robinson 1997). Creative adaptation of technology can enhance possibilities for new products, for improvement in existing product or in manufacturing processes. All organizations need to have an understanding of both the existing technology and advances and future technological advances that can affect their product. A technological breakthrough can have a sudden and dramatic effect on a firm's environment. It may spawn sophisticated new markets and products or significantly shorten the anticipated life of a manufacturing facility.

## **2.2 Organizations and the environment**

Today's organizations have to deal with dynamic and uncertain environments. In order to be successful, organizations must be strategically aware. They must understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their strategic abilities adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. Organizations must be able to act quickly in response to opportunities and barriers. The environment faced by an organization can be categorized into: the external environment which comprises everything outside an organization that might affect it. It is the non-specific dimensions and forces in its surroundings that might affect its activities and, the internal environment which consist of conditions and forces within the organization.

Several authors have discussed the increasing complexity and velocity of changes in organizational environments. Among these authors, D'Aveni (1994) classified organizational environments as hypercompetitive, and Eisenhardt (1989) describe the environments as changing at high velocity. Despite contradicting evidence McNamara (2003), mention that it is generally accepted that completion is now more complex and unfolds at a faster pace than it has in the recent past. Under this approach, managers view time itself as a source of competitive advantage and adopt proactive such as "competing against time" (Stalk and Hout'1990) or "just in time" management system (Deming, 1986). As a result, the combination of technological possibilities with managerial agency, led to the acceleration of the rate of change, transforming "speed" in a major feature of contemporary business landscapes.

Organization need to transform vigilance into competitive moves. In other words, they need to be speedy. As such organizations designed for efficiency according to machine-like metaphors (Shenhav, 1999), may quickly become no longer adapted to the environment. Under a complexity approach, simplicity is a major feature of new organizational forms (Child and McGrath, 2001). This simplicity materializes into local simple structures that regulate without constraining. These simple structures offer the organization the coordination mechanisms necessary to assure a common purpose, without leading to the inertia that this level of integrations entails (Meyer 1982). They allow the requisite amount of efficiency, but are not so efficiency-oriented that effectiveness may be jeopardized. Simple structures, in short, care about the organization's "evolvability" (Rindova and Kotha, 2001), with change being the result of adoptions in terms of structure, processes and competences. Change is generated in multiple parts of the organization, with strategic shifts being introduced, in some cases, without the explicit participation of top executives (Burgelman, 1996). Structural simplicity facilitates capacity of response because it invites and allows people to tackle problems at the local level.

Empowered employees may respond quicker to challenges simply because they have not to wait for others and for others to take action (Wall, 2004). Faster response, in turn, may be critical to grab unexpected opportunities and to neutralize competitive threat within the available time span. In rapid environment, where competitive advantage may be eroded by faster competitors, structural simplicity facilitates rapid action.

The idea of organizational environment as generators of novelty through interaction, competitive rivalry and creative destruction, can be found in all economics and complexity theory (Kirzner, 1993; Roberts and Eisenhardt, 2003). The difference is that complexity theory places competitive environment at the edge of chaos (Kauffman, 1995), achieving a synthesis between preserving structure and buffering (Thompson, 1967), while responding to surprises. Contrary to the predictions of classical economics they may not tend towards equilibrium. Indeed, they may never pass through the same state more than once (Levy, 1994), which explains why surprises and discontinuity are pervasive features of complex system, to exogenous factors that can be strategized away. In surprising environment like the global financial crisis, organizations need to rapidly adapt to unexpected conditions. They need to take action voluntarily, unexpectedly, with the available –not the optimal- resources. In other words, they have to improvise, conferring a strategic nature to improvisation (Perry, 1991). The accumulation of these improvisations may change the organization in some fundamental aspects.

### **2.3 Organizational response strategies**

Ansoff and McDonnell (1990) see strategic management as a systematic approach to position and relate the firm to its environment in a way that will assure its continued success and make it secure environment surprises. Hamamel and Prahalad (1989), perceived an organization as a foundation for sustained competitive advantage when it poses skills or resources that provide

superior value to customers and that are difficult to imitate. In a turbulent environment, the more enduring advance is ability to anticipate evolving customer needs and to generate new values creating capabilities based on that knowledge.

Aosa (1992) stated that strategy will only make sense if the markets to which it relates are known; and pointed out that the nature of the industry in which the company operates need to be understood. The structure of an industry and trend in that industry will help the current and future attractiveness of that industry. In the 1990's, many companies have acknowledged the critical importance of being customer oriented, customers pay attention to after sales services, and responsiveness of employers (Kotler, 1997). Hamael and prahalad (1989) noted that restructuring and re-engineering, while both are legitimate and important tasks, they have more to do with sharing today's business than with building tomorrow's industry. Therefore MNCs must reinvest and repackage themselves in order to remain competitive both in the home and host countries. They will require an application of various strategies approaches to be viable, proactive and efficient customer service oriented.

Organization responses addresses the organization as a whole with two main areas of attention: first, strategic response, under which falls the corporate-level responses, whereby the corporate perspective encompasses those tasks that need the fullest scope to be addressed properly. They deal, primarily with the issue pertaining to the definition of the overall mission of the firm, the validation of proposal emerging from business- level and operational responses, the identification and exploitation of linkage between distinct businesses related unit and the allocation of resources with strategic priorities (Hill and Jones, 2001). The business perspective includes all the activities necessary to enhance the competitive position of each individual business unit within the industry. The operational perspective deals with developing the necessary operational competences in finance, administrative infrastructure, human resources,

technological, procurement, logistics, manufacturing, distribution, marketing, sales and services needed to sustain competitive advantage

### 2.3.1 Strategic responses

Pearce and Robinson (2002) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1980) argues that knowledge of the underlying source of competitive pressure provides the ground work for strategic agenda in action. According to Ansoff and McDonnell (1990), when firms are faced by unfamiliar changes, they should revise their strategies to match the turbulence level.

Pearce and Robinson (2002) say that there is need to adopt new strategies that match the challenges from the environment. Reengineering downsizing, self-management and outsourcing are some of the dominant strategies that have been used for restructuring in the 1990's. Ansoff and McDonnell (1990) assert that the management system used by a firm is a determining component of the firm's responsiveness to environment, diagnosis their impact on the firm, decides what to do and implements the decisions. Burnes (2000), the concern in real time responses is to minimize the sum to total losses and restore profitability to ensure organization's success in a turbulent and surprising environment.

Global trend have had adverse effect on many sectors. Every organization therefore has to develop strategies that will enable it fit within the environment it operates in. this is necessary because the environment is dynamic, multi-faceted and complex; as a result of which organizations have to plan how to respond to the challenges posed by it. An organization can either plan on how to cope wit many changes brought about by the environment are handle the as they emerge (Ellis and Williams1995). In view of the foregoing, strategies to be adopted

within the MNCs in Kenya should reflect and underscore the macroeconomic, social, political events in Kenya as well as the increasing pressure of globalization and fair trade practices as advocated by the World Trade Organization (WTO), and policies within and outside the sector in determining its key elements.

Hill and Jones (2001) stated that strategic choice is a process of choosing among the alternatives generated by SWOT analysis. The strategic alternatives generated can encompass business level, function level and global strategy. They also noted that by planning, an organization is able to identify the problems and plan how to solve them by using appropriate strategies. An organization's strategy depends on where it wants to go and how it intended to get there. This applies to both levels of strategy under the strategic responses: that is, corporate-level strategy and business-level strategy. At each level of strategy there are responses that have to be adopted to ensure organizational success.

Corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization the meet the expectations of owners or major stakeholders and add value to different parts of the enterprise. This includes issues of geographical coverage, diversity of product/services or business units and how resources are to be allocated between the different parts of the organization (Hill and Jones, 2001). Corporate strategy is at the level of whole organization. Many organizations (especially larger one consist of a number of businesses) which are linked together to varying degrees in terms of ownership, objective, product, management , marketing and finance among other. The degree of linkage can vary significantly from corporation and corporation. In terms of strategy, the degree of integrations, coordination and commonality between the individual businesses can also vary enormously (Hill and Jones, 2001).

At a general strategic level, Ansoff and McDonnell (1990) suggests three reasons why firms diversity. The objectives can not be achieved by continuing to operate in their existing market. Corporate strategy defines the scope of the firm in terms of industries and a market competes.

Corporate strategy decision includes investments in diversification, vertical integrations, acquisitions, and joint ventures, the allocation of resources between the different businesses of the firm, and divestments (Grant, 1998). Corporate strategies are the different corporate-level strategies that companies pursue in order to maximize their value. To create value, a corporate strategy should enable a company, or one or more of its business units, to perform one or more of the value creation functions at a lower cost, or perform one or more of value creation functions in a way that allows for differentiation and premium price (Hill and Jones, 2001)

Thus a company's corporate strategy should help in the process of establishing a distinctive competency and competitive advantage at the business level. Therefore there is a very important link between corporate-level strategy and competitive advantage at the business level. By establishing credible commitments or by taking hostages, companies may be able to use long-term contracts to realize much of the value associated with vertical integrations (Hill and Jones, 2001)

According to Thompson and Strickland (2003), business-level responses refers to plans of action the strategy manger adapt for using a company's resources and distinctive competences to gain a competitive advantage over it's rival in the market or industry. Companies therefore pursue a business level strategy to gain a competitive advantage that allows them to out perform rivals and achieve above average returns.

Business strategy is concerned with how the firms compete with a particular industry or market. If the firm is to prosper within an industry, it must establish a competitive advantage over its rivals. Hence, this area of strategy is also referred to as competitive strategy (Grant, 1998)). He also stated that business level refer to that organizational level at which the responsibility for the formulation of a multi functional strategy for a single industry or product-

market area is determined. The formulation of business level strategy means matching the opportunities and threats in the environment to the company's strengths and weakness by making choices about product, market and distinctive competencies, as well as investment necessary to pursue the choices. All companies must develop business strategy if they are to compete effectively and maximize their long-term profitability.

The company has enormous opportunity to develop its own niche and compete against low cost and differentiated enterprises which tend to be larger. It differ from corporate strategy In that whereas corporate strategy involves decisions about the entire organization, strategic decision under the business units are basically concerned with how customers' or clients' needs can best be met. According to Johnson and Scholes (2002), "business unit strategy is about how to compete successfully in particular markets". Companies choose to pursue a generic business-level strategy in order to gain competitive advantages that allow them to out perform rivals and achieve above average return. There are three basic generic competitive approaches: cost leadership, differentiation, and focus; which can also be combined in different.

### **2.3.2 Operational Responses**

Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organizations. Hence operational issues are mostly concerned with certain broad polices and policies for utilizing the resources of the firm to the best support of its long term competitive strategy.

According to Johnson and Scholes(2003), operational responses is third level of strategy, at the operating end of the organization, concern with how component part of the organization delivers effectively the corporate and business level strategies in terms of resources, processes and people. Thus operational strategy looks at how corporate/business level strategies can be



translated into concrete operational functions and processes in areas like marketing, research and development, manufacturing, material management, human resources and finances.

Even though strategies may be focused on given function, as often as not they embrace two or more functions and require close cooperation among functions to attain companywide efficiency, quality and require innovation, and customer responsiveness goals. Strategic management is therefore wide and complementary, other types of management are like operations management and financial management, which are basically in the operational level of the organization. They focus on the short-term and aim at achieving efficiency in the use of resources and maximizing the returns for the stakeholders in the organization (Hill and Jones, 2001). Operational responses at the operating end of the organization, within the strategy of business, each area of value-adding activity or operational area ( design, procurement, production, marketing, distribution, finance, information system among other) will need to design and implement a strategy that supports the overall strategy of the organization, operational strategy is very important in the successful implementation of business strategy and its fine-tuning or tactical management (Andrew, 1987).

Thus a company can increase efficiency through a number of steps which includes exploiting economies of scales and learning effects, adopting flexible manufacturing technologies, reducing customer defection rates, implementing Just in time system, retting research and development function to design production that are easy to manufacture, upgrading the skills of employees through training, introducing self management teams linking pay to performance, building a company wide, commitment to efficiency through strong leadership, and designing structures that facilitate cooperation among different functions in pursuit of efficiency goals.

Superior quality can help a company both to lower its cost and differentiate its product and charge a premium price. Achieving superior quality demands an organization-wide commitment to quality and clear focus on the customer. To achieve superior innovation, a company must build skills in basic and applied research, design good processes for managing development projects and achieve close integration between the different functions of the enterprise, primarily through the adoption of a cross- function product development teams and partly parallel development processes (Johnson and Sholes, 2003).

Achieving superior customer responsiveness often requires that the company achieve superior efficiency, quality and innovation. To achieve superior customer responsiveness, a company needs to give customers what they want when they want it. It must ensure a strong customer focus, which can be attained through leadership; training employees to think like customers; bring customers into the company by means of superior market research; customizing the unique group; and responding quickly to customers' demands (Hill and Jones, 2001)

#### **2.4 Previous global financial crisis**

The Wall Street Stock market crash of 1929 occurred during a period of declining real estate values in America (which peaked in 1925). In 1920s, a precursor to the Crash was a time of prosperity and excesses (high price levels) in USA, despite warnings against speculation. NYSE was the largest stock market in the world then. DJIA took 25 yrs thereafter to attain pre-1929 levels. Due to the 1929 stock market crash, nationwide commercial bank failure and the Great Depression, the Glass-Steagall Act (GSA) 1933 was developed. GSA mandated separation between commercial banks, which take deposits and extend loans, and investment banks, which underwrite issue and distribute securities. Commercial banks too speculative in the pre-Depression era-investing their assets and buying new securities issues for resale to the public,

and issuing unsound loans to companies in which the bank had invested, and encouraging its bank clients to invest in those same stocks.

The 1987 market crash in USA was caused by sales through program trading, overvaluation, illiquidity, and Market psychology. In program trading, computers perform rapid stock executions based on external inputs, such as the price of related securities using common strategies for example arbitrage and portfolio insurance

The 1997 financial crisis that hit Asia was triggered by the devaluation of the Thai currency in July 1997 which prompted attacks on East Asian stocks and currencies. This was caused by widening current account deficit resulting from falling export performance due to exchange rate appreciation; rising capital inflows encouraging excessive imports; Exchange rates pegged to the US dollar resulted in Asian currency appreciation in line with US dollar but this made Asian exports uncompetitive. Insufficient foreign exchange reserves resulted in devaluation of Asian currencies and increased interest rates; and Increased financial liberalization-foreign bank lending to private sector on short term.

Arguments against Glass Steagall Act were: -reputation had come to mean everything in today's market, and that could be enough to motivate banks to self-regulate; - allowing banks to diversify in moderation offers the banking industry the potential to reduce risk. Consequently, in November of 1999 Congress repealed the GSA with the establishment of the Gramm-Leach-Bliley Act, which; eliminated the GSA restrictions against affiliations between commercial and investment banks; established the Federal Deposit Insurance Corporation (FDIC) in the USA; allowed banks to provide a broader range of services, including underwriting, insurance, and other dealing activities.

## 2.5 Components of the crisis

Most of the crises over the past few decades have had their roots in developing and emerging countries, often resulting from abrupt reversals in capital flows, and from loose domestic monetary and fiscal policies. In contrast, the current ongoing global financial crisis has had its roots in the US. The sustained rise in asset prices, particularly house prices, on the back of excessively accommodative monetary policy and lax lending standards during 2002-2006 coupled with financial innovations resulted in a large rise in mortgage credit to households, particularly low credit quality households. Most of these loans were with low margin money and with initial low teaser payments. Due to the "originate and distribute" model, most of these mortgages had been securitized. In combination with strong growth in complex credit derivatives and the use of credit ratings, the mortgages, inherently sub-prime, were bundled into a variety of tranches, including AAA tranches, and sold to a range of financial investors.

As inflation started creeping up beginning 2004, the US Federal Reserve started to withdraw monetary accommodation. With interest rates beginning to edge up, mortgage payments also started rising. Tight monetary policy contained aggregate demand and output, depressing housing prices. With low/negligible margin financing, there were greater incentives to default by the sub-prime borrowers. Defaults by such borrowers led to losses by financial institutions and investors alike. Although the loans were supposedly securitized and sold to the off balance sheet special institutional vehicles (SIVs), the losses were ultimately borne by the banks and the financial institutions wiping off a significant fraction of their capital. The theory and expectation behind the practice of securitization and use of derivatives was the associated dispersal of risk to those who can best bear them. What happened in practice was that risk was parceled out increasingly among banks and financial institutions, and got effectively even more concentrated. It is interesting to note that the various stress tests conducted by the major banks and financial institutions prior to the crisis period had revealed that banks were well-capitalized to deal with any shocks. Such stress tests, as it appears, were based on the very

benign data of the period of the Great Moderation and did not properly capture and reflect the reality (Haldane, 2009).

The excessive leverage on the part of banks and the financial institutions (among themselves), the opacity of these transactions, the mounting losses and the dwindling net worth of major banks and financial institutions led to a breakdown of trust among banks. Given the growing financial globalization, banks and financial institutions in other major advanced economies, especially Europe, have also been adversely affected by losses and capital write-offs. Inter-bank money markets nearly froze and this was reflected in very high spreads in money markets. There was aggressive search for safety, which has been mirrored in very low yields on Treasury bills and bonds. These developments were significantly accentuated following the failure of Lehman Brothers in September 2008 and there was a complete loss of confidence.

The deep and lingering crisis in global financial markets, the extreme level of risk aversion, the mounting losses of banks and financial institutions, the elevated level of commodity prices (until the third quarter of 2008) and their subsequent collapse, and the sharp correction in a range of asset prices, all combined, have suddenly led to a sharp slowdown in growth momentum in the major advanced economies, especially since the Lehman failure.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

The chapter is organized in this manner: first, the research design is discussed followed by the study location. The population of study is given, then the sample size, and the sampling technique. Data collection tools are then presented. It concludes with the description of the data analysis and procedure.

### **3.2 Study Design**

This research problem was best studied through the use of a descriptive survey. Descriptive research portrays an accurate profile of persons, events, or situations (Robson, 2002). Surveys allow the collection of large amount of data from a sizable population in a highly economical way. It allows one to collect quantitative data which can be analyzed quantitatively using descriptive and inferential statistics (Saunders, 1997). Therefore, the descriptive survey is deemed the best strategy to fulfill the objectives of this study.

### **3.3 Target Population**

According to the ministry of trade and industrialization (2002), there are approximately 115 multinational corporations operating in Kenya. The population of the study consists of all multinational corporations in Kenya with their headquarters in Nairobi-Kenya. The target population is 20 multinationals derived form major business sectors in which the multinational corporations in Kenya operates in which constitute 15% of the total population. These will constitute the sampling frame.

### 3.4 Sampling Design

A stratified random sampling technique will be employed to select the respondents. A stratum is a subset of a population that shares at least a common characteristic. The researcher will first identify the relevant stratum (the various business sectors), and their actual representation in the population. Random sampling will then be used to select a sufficient number of subjects from each stratum. Therefore out of the population of 115 multinational corporations in Kenya, 20 will be selected for the sampling. This is presented in table 1 below.

**Table 1: Sampling and Sample Size**

Designation	Population	Sample	Sample percentage
Manufacturing sector	15	2	13%
Banking sector	12	2	10%
Advertising sector	8	2	7%
Tourism sector	10	2	9%
Insurance sector	15	2	13%
Oil and petroleum sector	15	2	13%
Car assembling sector	8	2	7%
IT and telecommunication sector	12	2	10%
Others	20	4	17%
<b>Total</b>	<b>115</b>	<b>20</b>	<b>15%</b>

### **3.5. Data Collection**

Primary data was employed in the study. Primary data will be collected from the senior managers of the selected multinational corporations in Kenya in the various business sectors. The chosen respondents are those holding key departmental positions and the ones who are spear-heading the company.

Primary data was obtained by questionnaires which will be administered on drop and pick basis. The questionnaires comprises of both open-ended and closed-ended questions. The closed-ended question was constructed on the basis of the members of the population study and literature collected in the process of preparing for the study. The open-ended portion allowed the respondents to freely express their response.

### **3.6 Data Analysis and Presentation**

Data collected was summarized and analyzed according to the identified study theme; namely, forces and challenges of global financial crisis, strategic objectives, strategies adopted to cope with these challenges and other organizational responses. The data collected which is qualitative in nature, was analyzed using conceptual content analysis which is best suited method of analysis. Conceptual content is defined by Frankfort-Nachmias and Nachmias (1996) as a technique for making inferences by systematically and objectively identifying specific characteristic of messages and using the same approach to relate trends.

According to Mugenda and Mugenda (2003), the main purpose of content analysis is the study of existing information in order to determine factors that explain a specific phenomenon. To conduct the conceptual content analysis, the data collected was coded on the theme basis of strategic responses, the challenges of global financial crisis, strategies used to cope with these challenges and various organizational responses. The method does not restrict respondent to answers and has potential of generating more information in much detail.



## **CHAPTER FOUR: DATA ANALYSIS AND INTERPRATATION**

### **4.1: Introduction**

This chapter presents the analysis and findings with regard to the objective and discussion of the same. The data was collected from the sample of 20 multinational corporations in Kenya. Respondents were the senior managers in each of the 20 multinational corporations in Kenya. The findings are presented in percentages and frequency distributions, mean and standard deviations.

### **4.2: Characteristics of surveyed multinational corporations**

A total of 20 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 20 questionnaires used in the sample, 17 were returned. The remaining 3 were not returned. The returned questionnaires' represented a response rate of 85%, which the study considered adequate for analysis.

#### **4.2.1: Profiles of the respondents**

As shown in table 2, 12% of multinational corporations are listed at NSE while the remaining 88% were not registered at NSE.

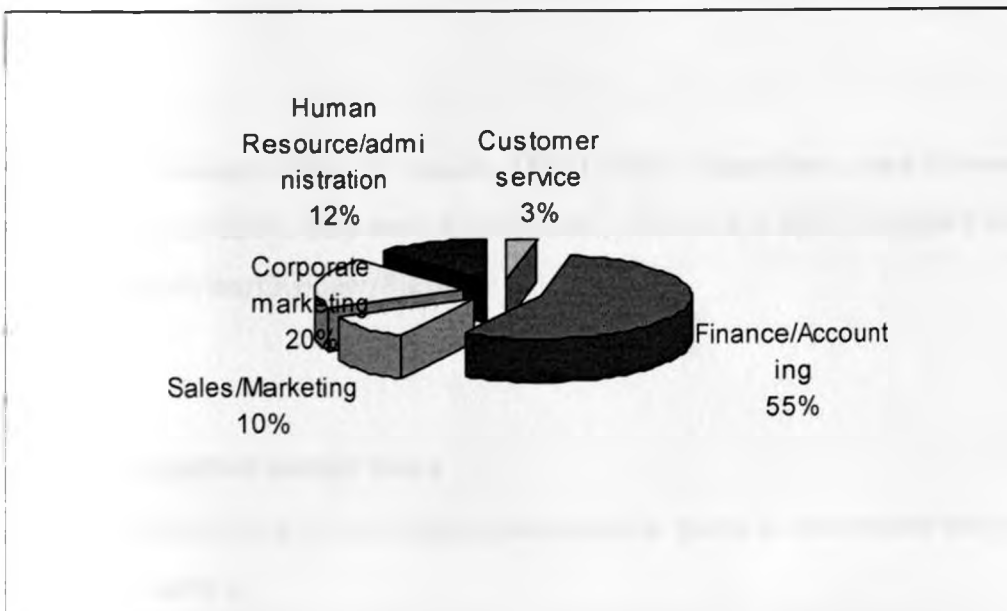
**Table 2: Listing in the Nairobi stock market**

	Frequency	Percent	Cumulative Percent
Listed	2	12	12
Not listed	15	88	100
Total	17	100	

**4.2.2: Distribution of respondents on department**

As can be observed, in figure 1, the respondents were made up of 55% from finance and accounts department, 12% from human resource/administration, 20% from corporate marketing, 10% from sales/marketing department and 3% from customer service department.

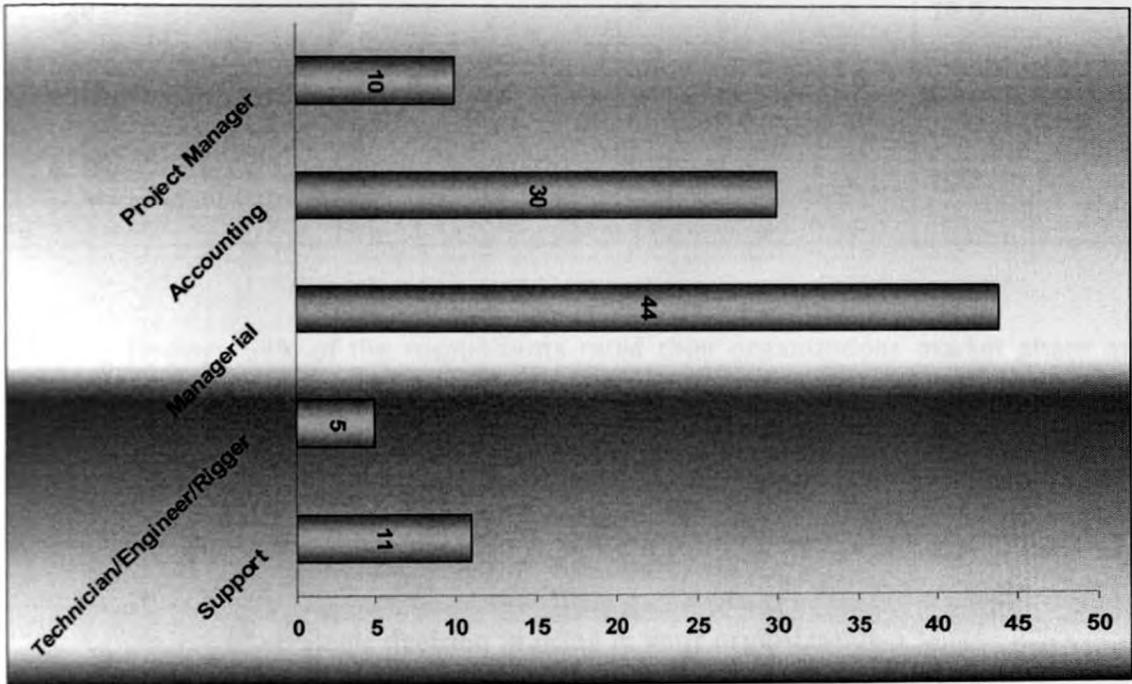
**Figure 1: Departmental Composition**



### 4.2.3: Position in the department

The respondents were to indicate their respective positions in the organizations.

Figure 2: Position in the department



As indicated above in figure 2, majority (45%) of the respondents were in managerial position, 30% were accountants, 11% were support staff, 10% were project managers and the remaining 5% were technician/Engineer/Rigger

### 4.2.4: Organization market share

The respondents were to rank their organizations in terms of the market share. The results are as shown in table 3

**Table 3: Organization market share**

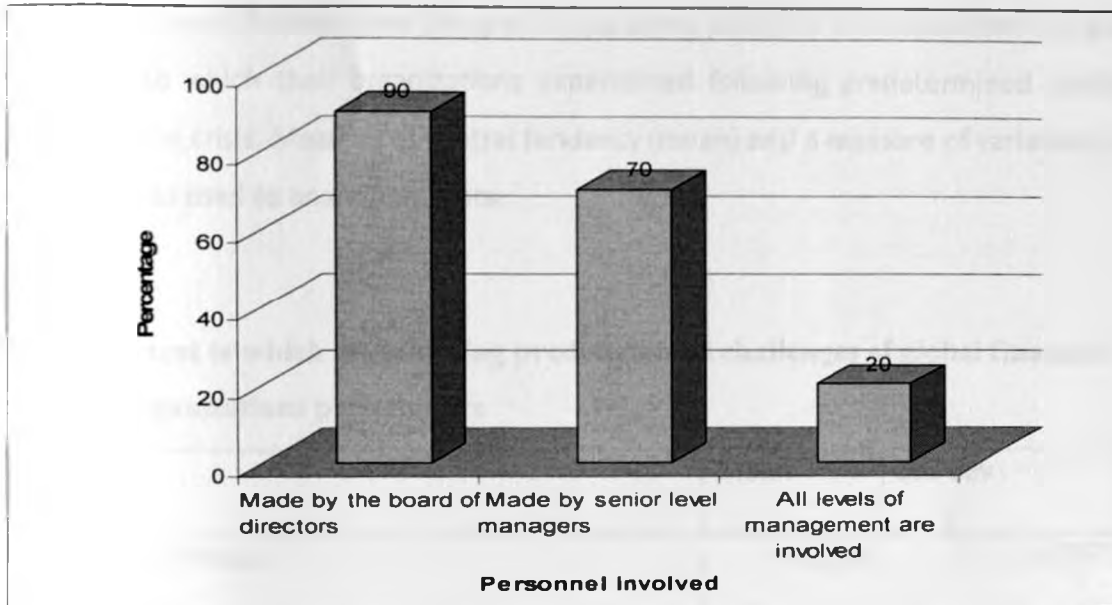
	Frequency	Percentage
Medium	5	29.4
Average	3	17.6
Above average	9	53
<b>Total</b>	<b>17</b>	<b>100</b>

From the findings 53% of the respondents rated their organizations market share as above average, 17.6% as average and 29.4% as medium. This shows that most of the organizations performed above average.

#### **4.2.5: Autonomy of strategic decision making in your organization**

The respondents were asked to state who are responsible for strategic decision making in their organization. The findings show that different organizations use different personnel in making strategic decisions. Specifically, 90% of the respondents indicated that the autonomy of strategic decision making lies on the board of directors, 70% were of the opinion that senior level managers are responsible for strategic decision making while only 20% were of the opinion that all levels of management are involved in strategic decision making.

**Figure 3: Autonomy of strategic decision making in your organization**



#### **4.2.6: Mode of organization benchmarking**

Benchmarking is an external focus on internal activities, functions, or operations in order to achieve continuous improvement (McNair and Leibfried, 1992). Benchmarking is the process of improving performance by continuously identifying, understanding (studying and analyzing), and adapting outstanding practices and processes found inside and outside the organization and implementing the results (American Productivity and Quality Center, 1997). The findings show that, all the respondents unanimously agreed that their organizations benchmark with similar organizations both locally and abroad. Local toughest organizations assist them in gauging their performance locally while toughest international organizations assist them in competing competitively at international level. Benchmarking enable organizations own practices to be challenged, identify what needs to be changed, provide ideas on how to change and highlight what is possible and achievable.

### 4.3: Challenges of global financial crisis

This section covers findings from the specific questions posed to the respondent's to determine the extent to which their organizations experienced following predetermined challenges of global financial crisis. Measure of central tendency (mean) and a measure of variation (standard deviation) was used to analyze the data.

**Table 4: Extent to which the following predetermined challenges of global financial influence organizations performance**

	Mean	Std dev
Inflated cost of input	4.1739	0.6767
Increased volatility of foreign currency	3.0652	0.7118
Labour unrest	3.0000	0.7717
High inflation rates	4.2609	1.2046
Failure of stocks and financial	4.1304	0.8329
Reduced internal and external finance	3.5652	0.8282
High interest rates	3.4348	1.2229
Increase in cost of borrowing	4.2391	0.8936
Increase in bad debts	2.9348	1.4047
Decrease in private capital flow	2.4261	1.1412

The results are shown in table 3. From the findings to a great important; High inflation rate (mean of 4.2609), increase in cost of borrowing (mean of 4.2391), inflated cost of input (mean of 4.1739), failure of stocks and financial (mean of 4.1304)

On a moderate extent; reduced internal and external finance (mean of 3.5652), high interest rates (mean of 3.4348), increased volatility of foreign currency (mean of 3.0652), restructuring (mean of 3.0652), Diversification (mean of 3.1522) liquidity injection (mean of 3.000), recapitalization (mean of 2.9348), and Introducing trade policy measures (mean of 2.8478).

In general the following were the main challenges of global financial crisis, reinvestment, and government regulation (e.g. food prices), financial infrastructure, cut interest rate by CBK) and market integrations

#### **4.4: Response Strategies**

This section covers findings from the specific questions posed to the respondent's to determine the extent to which their corporation adopted the following strategies to cope with the challenges of global financial crisis. Measure of central tendency (mean) and a measure of variation (standard deviation) was used to analyze the data.

**Table 5: Extent to which the following strategies were adopted by organizations in response to challenges of global financial crisis**

	Mean	Std dev
Financial infrastructure	4.3478	0.7368
Restructuring	4.2391	0.7050
Liquidity injection	4.1304	0.8329
Reinvestment	2.9348	1.4047
Cut interest rate by CBK	2.1261	1.1412
Rebranding	3.1522	1.0742
Shift of deposit to state owned banks	3.6696	0.9799
Government regulation (e.g. food prices)	2.3348	1.4047
Recapitalization	4.0652	0.7118
Introducing trade policy measures	2.2261	1.1412
Market integrations	4.2304	0.8329
Diversification	4.2609	0.8282
Restoring productivity growth	3.5478	0.7050

The findings in table 4 above show that organizations adopted eight strategies in dealing with the financial strategies. These strategies were (very great/great extent); Financial infrastructure (mean of 4.3478), restructuring (mean of 4.2391), diversification (mean of 4.2609), Market



integrations (mean of 4.2304), liquidity injection (mean of 4.1304) and Recapitalization (mean of 4.0652).

On the other hand, the results indicate that on moderate extent; shift of deposit to state owned banks (mean of 3.6696), restoring productivity growth (mean of 3.5478), rebranding (mean of 3.1522), Reinvestment (mean of 2.9348).

To the least extent the following strategies were adopted; Government regulation (e.g. food prices) (mean of 2.3348), introducing trade policy measures (mean of 2.2261) and Cut interest rate by CBK (mean of 2.1261).

#### 4.5: Constrains on effective response to the challenges global financial crisis

The respondents were to rate the constraints on effective response to challenges on global financial crisis. The results are shown in table 5.

**Table 6: Constrains on effective response to the challenges global financial crisis**

	Mean	Std dev
Political factors	4.16	1.12
Social and cultural factors	3.11	.956
Legal factors	2.89	1.12
Technological factors	4.11	.956
Economical factors	3.63	1.24
Environmental factors	4.61	1.17
Government policies	3.39	1.25

From the findings to a large extent environmental factors (mean of 4.61), political factors (mean of 4.16) and technological factors (mean of 4.11). On the other hand to a moderate extent; Economical factors (mean of 3.63), Government policies (mean of 3.39) and legal factors (mean of 2.89).

The study has identified the following challenges of green business, which are based on the findings of the study and the responses of business owners, which are almost unanimously in favour of green business with the following essential financial issues.

The study suggests that the government should provide financial support to green business owners. It also suggests that government should provide training to green business owners to help them to overcome financial issues.

The study also suggests that green business owners should be encouraged to work together and share their experiences. It also suggests that government should provide financial support to green business owners to help them to overcome financial issues. The study also suggests that government should provide training to green business owners to help them to overcome financial issues.

The study also suggests that government should provide financial support to green business owners to help them to overcome financial issues. It also suggests that government should provide training to green business owners to help them to overcome financial issues. The study also suggests that government should provide financial support to green business owners to help them to overcome financial issues.

## CHAPTER FIVE: SUMMARY, CONCLUSION, RECOMMENDATIONS

### 5.1 Summary Discussions and conclusion

The objectives of this study was to determine causes of the current global financial crisis and its major challenges, to establish the challenges of global financial crisis faced by multinational corporations in Kenya and to determine the strategies multinational corporations in Kenya have adopted to cope with the challenges of global financial crisis.

From the findings, majority of the organizations had above average market shares in their respective markets. It was apparent that autonomy of strategic decision making in most organization lies with the board of directors and senior level managers

The respondents unanimously agreed that their organizations benchmark with similar organizations both locally and abroad, that is, local best organizations assist them in gauging their performance locally while toughest international organizations assist them in competing competitively at international level. Bench marking enable organizations own practices to be challenged, identify what needs to be changed, provide ideas on how to change and highlight what is possible and achievable.

To a great important challenges of global financial crisis amongst the organizations were high inflation rate, increase in cost of borrowing, inflated cost of input, failure of stocks and financial, while to a moderate extent, reduced internal and external finance, high interest rates, increased volatility of foreign currency, restructuring, diversification, liquidity injection, recapitalization, and Introducing trade policy measures were rates as challenges of global financial crisis facing organizations. This shows that the effect of global financial crisis was felt by all the multinational organizations in the country.

The mitigation strategies adopted by the multinational organization in response to global financial crisis to a great extent were financial infrastructure, restructuring, diversification, Market integrations, liquidity injection and Recapitalization

It was noted that specific Constrains on effective response to the challenges global financial crisis which have a great influence were; environmental factors, political factors and technological factors.

Causes of current global financial crisis are not unique to any specific market blocks and the impact of the same affects the entire global economy at different time period. it is therefore recommended that each player in the industry be they multinationals or local organization must understand and put in place measures to identify the impact of global financial crisis as early as possible.

Currently, the findings indicate that high inflation rate, increase in cost of borrowing, inflated cost of input and failure of stocks were the main challenges of global financial crisis. it is therefore recommended that multinational organization not only put more emphasis on coming up with the strategies to mitigate major challenges but also put in place mitigation strategies for other non key challenges.

The study concluded that multinational organizations were felt the impact of global financial crisis. Specifically multinational cost of operations increased and profitability reduced due to high inflation rate, increase in cost of borrowing, inflated cost of input.

The study also concluded that multinational organization adopted strategies unique to their areas of operations which were then benchmarked both locally and internationally to encounter the challenges of global financial crisis.

## **5.2 Limitations of the study**

This study was based on a sample limited to multinational corporations operating in Kenya. It did not cover other firms operating in Kenya. The scope and depth of study was also limited by the time factor and financial resource constraints. This put the researcher under immense time pressure.

The researcher also encountered immense problems with the respondents' unwillingness to complete the questionnaires promptly. Some of them kept the questionnaires for too long, thus delaying data analysis.

## **5.3. Recommendations for Further Research**

The study confined itself to multinational corporations in Kenya. This research therefore should be replicated in local corporations and the results be compared so as to establish whether there is consistency on the strategies firms adopt in order to cope with the challenges of global financial strategies.

I would also recommend that further research is done to ascertain the influence of the global financial crisis on the countries organizational performance and whether the impact of global financial crisis is long term or short term.

## **5.4 Recommendations for policy and practice**

The multinational corporations in the country have a lot of potential especially because they bring in technological innovation and transfer of knowledge as well as earn the country foreign currency and providing employment. The study has shown that the environment is ever changing and companies need to keep up with these changes by ensuring that they put in place the necessary measures that will guarantee their sustainability.

I would therefore recommend that the firms on a continuous basis conduct environmental analysis so as to detect any environmental changes in good time and be pro-active in developing and applying the necessary strategies instead of doing it in a haphazard manner or on a 'wait-and-see' basis.

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# APPENDICES



## UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS MBA PROGRAM - LOWER KABETE CAMPUS

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE..... 30/10/09 .....

### TO WHOM IT MAY CONCERN

The bearer of this letter ..... *Mary Kiripash* .....

Registration No: ..... *061/70207/2008* .....

is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you UNIVERSITY OF NAIROBI  
SCHOOL OF BUSINESS  
MBA OFFICE  
P. O. Box 30197  
NAIROBI

*DR. W.N. IRAKI*  
**DR. W.N. IRAKI**  
CO-ORDINATOR, MBA PROGRAM

## **APPENDIX 2: QUESTIONNAIRE**

This questionnaire is designed to collect views on the strategies adopted by multinational corporations in Kenya to cope with the challenges of global financial crisis. The information collected will be used strictly for academic purposes only and will be treated with utmost confidence. Your views and opinions will assist the researcher to come up with useful information on the strategies adopted by multinational corporations in Kenya to cope with the challenges of global financial crisis.

### **SECTION A: GENERAL INFORMATION**

- 1) What is the name of your organization
  
- 2) Please indicate when and how your organization was established
  
- 3) Please indicate whether your organization is listed in the Nairobi stock market or not  
Listed                    ( )  
Not listed                ( )
  
- 4) What department do you work in?  
Customer service                    ( )  
Finance/Accounting                    ( )  
Technical/Engineering                    ( )  
Sales/Marketing                    ( )  
Corporate marketing                    ( )  
Human Resource/administration                    ( )

5) What is your position in the department?

Support ( )

Technician/Engineer/Rigger ( )

Managerial ( )

Accounting ( )

Project Manager ( )

Other (specify) .....

6) How would you rank your organization in terms of market share ( Tick where appropriate)

Low ( )

Medium ( )

Average ( )

Above average ( )

Intense ( )

7) What is the autonomy of strategic decision making in your organization?

Made by the board of directors ( )

Made by senior level managers ( )

Made by middle level managers ( )

All levels of management are involved ( )

8) How does your organization benchmark itself?

With similar organizations abroad ( )

With similar organizations locally ( )

With similar organizations both locally and abroad ( )

**SECTION B: CHALLENGES OF GLOBAL FINANCIAL CRISIS**

9) To what extent does your corporation experienced each of the following challenges of global financial crisis. (Use a 5-point rating scale, where 1=not at all 2=little extent 3=moderate extent 4= great extent 5= very great extent.)

	1	2	3	4	5
Inflated cost of input	( )	( )	( )	( )	( )
Increased volatility of foreign currency	( )	( )	( )	( )	( )
Labour unrest	( )	( )	( )	( )	( )
High inflation rates	( )	( )	( )	( )	( )
Failure of stocks and financial markets	( )	( )	( )	( )	( )
Reduced internal and external fiancé	( )	( )	( )	( )	( )
High interest rates	( )	( )	( )	( )	( )
Increase in cost of borrowing	( )	( )	( )	( )	( )
Increase in bad debts	( )	( )	( )	( )	( )
Decrease in private capital flow	( )	( )	( )	( )	( )
Others (kindly specify and rate accordingly)					
-----	( )	( )	( )	( )	( )
-----	( )	( )	( )	( )	( )
-----	( )	( )	( )	( )	( )

**SECTION C: RESPONSES STRATEGIES**

10) To what extent has your corporation adopted each of the following strategies to cope with the challenges of global financial crisis? (Use a 5-point rating scale, where 1=not at all 2=little extent 3=moderate extent 4= great extent 5= very great extent.)

	1	2	3	4	5
Financial infrastructure	( )	( )	( )	( )	( )
Restructuring	( )	( )	( )	( )	( )
Liquidity injection	( )	( )	( )	( )	( )
Reinvestment	( )	( )	( )	( )	( )
Cut of interest rates by CBK	( )	( )	( )	( )	( )
Rebranding	( )	( )	( )	( )	( )
Shift of deposit to state owned banks	( )	( )	( )	( )	( )
Government regulations (e.g food prices)	( )	( )	( )	( )	( )
Recapitalization	( )	( )	( )	( )	( )
Introducing trade policy measures	( )	( )	( )	( )	( )
Market integrations	( )	( )	( )	( )	( )
Diversification	( )	( )	( )	( )	( )
Restoring productivity growth	( )	( )	( )	( )	( )
Others (kindly specify and rate accordingly)					
-----	( )	( )	( )	( )	( )
-----	( )	( )	( )	( )	( )
-----	( )	( )	( )	( )	( )

11) To what extent does each of the following factors constrains your effective response to the challenges global financial crisis? (Use a 5-point rating scale, where 1=not at all 2=little extent 3=moderate extent 4= great extent 5= very great extent.)

	1	2	3	4	5
<b>Political factors</b>					
<b>Social and cultural factors</b>					
<b>Legal factors</b>					
<b>Technological factors</b>					
<b>Economical factors</b>					
<b>Environmental factors</b>					
<b>Government policies</b>					
<b>Others( kindly specify and rate accordingly)</b>					

### **APPENDIX 3: LIST OF COMPANIES**

1. Coca cola limited
2. Unilever east Africa
3. AIG insurance
4. British American asset management
5. General motors limited
6. Toyota east Africa
7. Olibia company
8. Shell BP limited
9. BAT limited
10. Hilton hotel
11. International hotel group
12. Document handling limited
13. Meask limited
14. Dimensional data
15. Telkom Kenya limited
16. Zain limited
17. Ogilvy and Mather
18. Saatchi & Saatchi
19. Nokia limited
20. Man truck contraction company

Source: top 100 awards ([www.top100@kpmg.co.ke](http://www.top100@kpmg.co.ke) )