FACTORS INFLUENCING MNCs IN CHOOSING NAIROBI KENYA AS AFRICA REGIONAL HEADQUATERS

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DECLARATION

This research project is my original work, and has not been submitted for examination in any other institution or 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

I dedicate this study to the most loving family in the world. My father Walter Mugeni, my wonderful mother Rose Mugeni and my loving sister Duffy Mugeni and my brother Juma Mugeni. This could not have happen without you.

ABSTRACT

Several multinational companies have set up base in Africa over the past years. This has led to a need of having Africa regional head quarters. Kenya can boast of being The African regional headquarter of 20 multinational companies. This research was carried out mainly to determine why multinationals would choose Kenya out of all the countries in Africa to be a regional headquarter. This study focused on variables such as location, economic status, political stability, market potentiality and labor as the main factors that would qualify Kenya to be a regional headquarter. In addition, this study was able to find out whether the country of origin and type of industry had an effect on choosing of Nairobi Kenya as a regional headquarter. Due to the findings of the study, it can be concluded that market potentiality has the greatest influence on choice of Kenya as a regional head quarter. Availability of skilled labor and the Kenyan economy influenced the decisions of MNCs to enter Kenya. The conclusion of the research showed that the USA has the highest number of MNCs with Africa headquarters in Nairobi. The media industry is the most invested industry in Kenya followed by NGOs. Highest entry of regional office set up by MNCs in Nairobi was in 2012 and 2011. This was a period when the economy of Kenya was growing but ironically just before the general elections period. This shows that many MNEs could still continue operations despite Kenya have a shaky political arena.A large number of the multinational firms used FDI as a mode of entry. It was also found out that most firms used both the centralized and decentralized system of decision making.10 MNCs have between 1-5 branches in Africa which is the most in number. These are followed by 3 MNEs which have between 16-20 branches in Africa. M-pesa has been a great determinant that has led to Kenya's popularity. MNCs like Kiva and GSM mainly chose Kenya because of m-pesa which has enhanced their operations within the Kenyan market.Good international relations between Kenya and China have also led to major investments by Chinese in Kenya. The Chinese have set up several head offices in Kenya mainly due to the government relationships. Several Multinationals have chosen Kenya to be the East Africa HQ but however not African regional headquarters. Improvements on our economy, literacy levels, better infrastructure and better political situations will see many of those firms get promoted to African headquarters. However, findings have also indicated that several firms demoted Kenya from being the African head office. For example Nokia from Finland demoted the Kenyan office. This study recommends that there should be efforts channeled by the government to increase economic growth, literacy levels, better infrastructure and create a calm political scene. These efforts will definitely lead to many Kenyan offices getting promoted to African headquarters. Another recommendation is that Kenyan government should also create good international relations with several other countries which will lead to more investment.

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ABBREVIATIONS AND ACRONYMS

MNCs : Multinational Corporations

MNEs : Multinational Enterprises

HQs : Headquarters

FDI : Foreign Direct Investment

UK : United Kingdom

USA : United States of America

WOS : Wholly Owned Subsidiary

KIPPRA *:* Kenya Institute for Public Policy Research and Analysis

KNBS : Kenya National Bureau of Statistics

KenInvest : Kenya Investment Authority

CHAPTER ONE: INTRODUCTION

1.1. Background of the study

Generally, International Business is conducting of business transactions crossing national borders at any stage of the transaction. This involves movement of goods, services resources, knowledge, or skills to satisfy the objectives of both private and public enterprise.

International business led to establishment of Multinational Corporations (MNCs).An MNC is a firm which has been registered in more than one country or that has operations in more than one country. Such companies have offices and/or factories in different countries and usually have centralized or regional head offices where global management is coordinated. Nairobi Kenya is the regional African headquarters for 20 MNCs. An MNC can also be referred to as an international corporation, multinational enterprise (MNE) or a transnational corporation.

There are vast numbers of MNCs around the world which vary widely in size and specialization. MNCS have far reaching effects which are as they affect the daily lifestyle of consumers. In different scenarios, MNCs have both positive and negative effects to both the home country as well as the host country. KCB, Kenol-Kobil, Nakumatt, East African Portland Cement Company Ltd, Nation media& East African Breweries are examples of homegrown MNCs. Firms like Unilever, Proctor and gamble, Barclays bank and Samsung are MNCs with branches in Kenya. This study is based on National Competitive advantage.

1.1.1. Concept of International Business

International business is the exchange of goods and services among individuals and businesses in multiple countries. It can also be defined as a specific entity, such as a multinational corporation or international business company that engages in business among multiple countries. International business comprises all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. An international business has many options for doing business, it includes, exporting goods and services, giving license to produce goods in the host country, starting a joint venture with a company, Opening a branch for producing & distributing goods in the host country and providing managerial services to companies in the host.

1.1.2. Concept Market Entry Strategies of MNCs

A market entry strategy is the method of penetrating a foreign market in order to sell goods/ services. Exporting which is the most popular strategy involves the direct sale of goods and / or services in another country. Licensing on the other hand is where an MNC allows a company in your host/target country to use your intangible property (trademarks, production techniques or patents.)Franchising which is not so different from franchising involves intellectual selling of property rights to a franchisee. Joint venture however consists of two companies establishing a jointly-owned business. One of the owners will be a local business (local to the foreign market). Foreign direct investment (FDI) is an entry strategy whereby investors directly invest in facilities in a foreign market. In the case of a wholly owned subsidiary, money goes into a foreign company but instead of money being invested into the company, the foreign business is bought outright. Finally, piggybacking is a strategy that involves two non-competing companies working together to cross-sell the other's products or services in their home country

These entry modes greatly influence the performance of the MNC in the foreign market. Organizations that operate in international markets need to make the most important decisions in order to select a best mode of entry choice into foreign markets. This paper attempts to clarify some of the issues arising in international market selection. A firm must assess before entering a particular market the potential factors that play a significant role during the process of decision making for the potential market selection. One of the main objectives of this paper is to find out what are the unique factors that cause Multinational enterprises to set up Regional Africa headquarters in Nairobi, Kenya. This paper will concentrate on secondary sources of research regarding the internationalization of businesses.

1.1.3. Concept of Regional Organizations and Structures of MNCs

Multinational corporations are large organizations spread across one or more international regions, and their organizational structures scale accordingly. An organizational structure is the hierarchical arrangement of lines of authority, communications, rights and duties of an organization. It determines how the roles, power and responsibilities are assigned, controlled, and coordinated, and how information flows between the different levels of management. The structure of an MNC depends on the organization's objectives and strategy.

This study shall focus on the regional structure of MNCs. In the regional structure, region and country managers have a great deal of autonomy in how they adopt the strategies of the product divisions to the particular circumstances in their regions and countries. Local responsiveness is its main achievement. For example, Bharti Airtel is an international telecommunications company. It is divided according to the regions; Indian Subcontinent, Airtel Africa and British Crown Dependency islands of Jersey and Guernsey.

1.1.4. Focus on Companies with African Regional Headquarters in Nairobi

There are several MNCs with branches in Kenya. However, some MNCs chose Nairobi as the regional Africa headquarters. As at July 2013, there is a total of 20 MNCs which have their Africa headquarters in Nairobi Kenya. (See Appendix 3).This study will focus on all of those MNCs in order to determine why they chose Kenya and not other countries such as South Africa and Egypt. All the 20 MNCs will be studied.

1.2. Research Problem

Since gaining independence Kenya’s has grown economically socially and politically leading her to be one of Africa’s top states. Nairobi has grown to be an important business center in Africa. Since independence, Kenya, a nonaligned country, has seen substantial foreign investment and significant amounts of development aid, some from Russia, some from China and others from the high developed countries. Michael Porter (1990) said that the competitive advantage of a nation depends on collective competitive advantages of nations firms. Kenya mainly exports horticultural products, tea, coffee, fish, cement, pyrethrum, and sisal. The leading imports are crude petroleum, chemicals, manufactured goods, machinery, and transportation equipment. Africa is Kenya's largest export market, followed by the European Union with major destinations for exports are the United Kingdom (UK), the Netherlands.

Kenya’s main revenue earners are Tourism, Mining and minerals, Energy, Forestry and fishing and Agriculture. These items produced give Kenya a significant competitive advantage as a country. This has led to development of several industries and firms in Kenya. The competitive advantage of Kenya is a key factor that leads foreign investors to set up their MNCs offices in Nairobi. However, Kenya is not as rich as she is expected to be because she exports inexpensive goods that saturate the global market but do little to substantially raise the amount of money coming into the country. Kenya is also significantly in debts resulting from foreign aid. Between 60 and 70 percent of industry is still owned from abroad.

Despite all the demerits, such as national debts, and post-election violence, Nairobi Kenya still emerges as a suitable location for African regional headquarters. Kenyan policies on foreign investment generally have been favorable since independence, with occasional tightening of restrictions to promote the africanization of enterprises. Foreign investors have been guaranteed ownership and the right to remit dividends, royalties, and capital. In the 1970s, the government disallowed foreign investment unless there was also some government participation in the ownership of an enterprise.

Having identified that foreign investors are heavily investing in Kenya, there is need to find out why Kenya is regarded as being a lucrative business spot. This paper will unveil the unique factors that cause Multinational enterprises to set up base in Kenya. This study shall reveal why Multinational enterprises have set up regional Africa headquarters in Nairobi, Kenya. This study will also be able to tell if Kenya indeed met the Multinational companies' expectations?

Research questions involved are: What are the unique factors that cause Multinational enterprises to set up base in Kenya? What are the unique factors that cause Multinational enterprises to set up regional Africa headquarters in Nairobi, Kenya? Which country has the highest number among the MNCs under study? Which industry in Kenya has been heavily invested in?

1.3. Research Objectives

1. To find out what are the unique factors that cause Multinational enterprises to set up regional Africa headquarters in Nairobi, Kenya.

2. To determine if Kenya has indeed met the Multinational companies' expectations.

1.4. Value of the Study

The value of this study will accrue to various stake holders.

Findings of this study will help foreign investors as well as local businesses to understand the importance of Nairobi, Kenya as a vital business center in Africa.

This study will also give relevant insight to the government of Kenya, financial consultants and researchers/scholars to understand what makes Kenya unique among all 56 countries in Africa.

These findings will also form a basis for other studies for researchers and scholars.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

The process of reading, analyzing, evaluating, and summarizing scholarly materials about a specific topic. The results of a literature review may serve as part of a research article, thesis, or grant proposal. It is an evaluative report of information found in the literature related to your selected area of study. It gives a theoretical base for the research and help you (the author) determine the nature of your research. the main purpose of a literature review is to convey to the reader what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are.

2.2. Concept Market Entry Strategies of MNCs

A market entry strategy is the method of penetrating a foreign market in order to sell goods/ services. (Fred and Jonathan, 2012) The market entry strategies are:

Exporting-is the direct sale of goods and / or services in another country. It is the marketing and direct sale of domestically-produced goods in another country. This strategy does not require that the goods be produced in the target country therefore; no investment in foreign production facilities is required. Majority of the costs in this case are the marketing expenses. The main players in this case are: Exporter, Importer, Transport provider and the Government.

Licensing- this strategy allows a company in your host/target country to use your property. That is intangible property – for example, trademarks, production techniques or patents. The licensee will pay a fee in order to be allowed the right to use the property.

Licensing requires very little investment and can provide a high return on investment. The licensee will also take care of any manufacturing and marketing costs in the foreign market.

Franchising-Franchising is somewhat similar to licensing in that intellectual property rights are sold to a franchisee. However, the rules for how the franchisee carries out business are usually very strict – for example, any processes must be followed, or specific components must be used in manufacturing.

Joint venture- consists of two companies establishing a jointly-owned business. One of the owners will be a local business (local to the foreign market). The two companies would then provide the new business with a management team and share control of the joint venture. The common objectives in a joint venture are market entry, risk/reward sharing, technology sharing and joint product development, and conforming to government regulations.

Foreign direct investment- (FDI) is directly investing in facilities in a foreign market. This involves the direct ownership of facilities in the target country and therefore requires a lot of capital to cover costs such as premises, technology and staff. FDI can be done either by establishing a new business or acquiring an existing company. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment.

Wholly owned subsidiary is where money goes into a foreign company but instead of money being invested into the company, the foreign business is bought outright. The new owners then determine whether it continues to run as before or they take more control of the business.

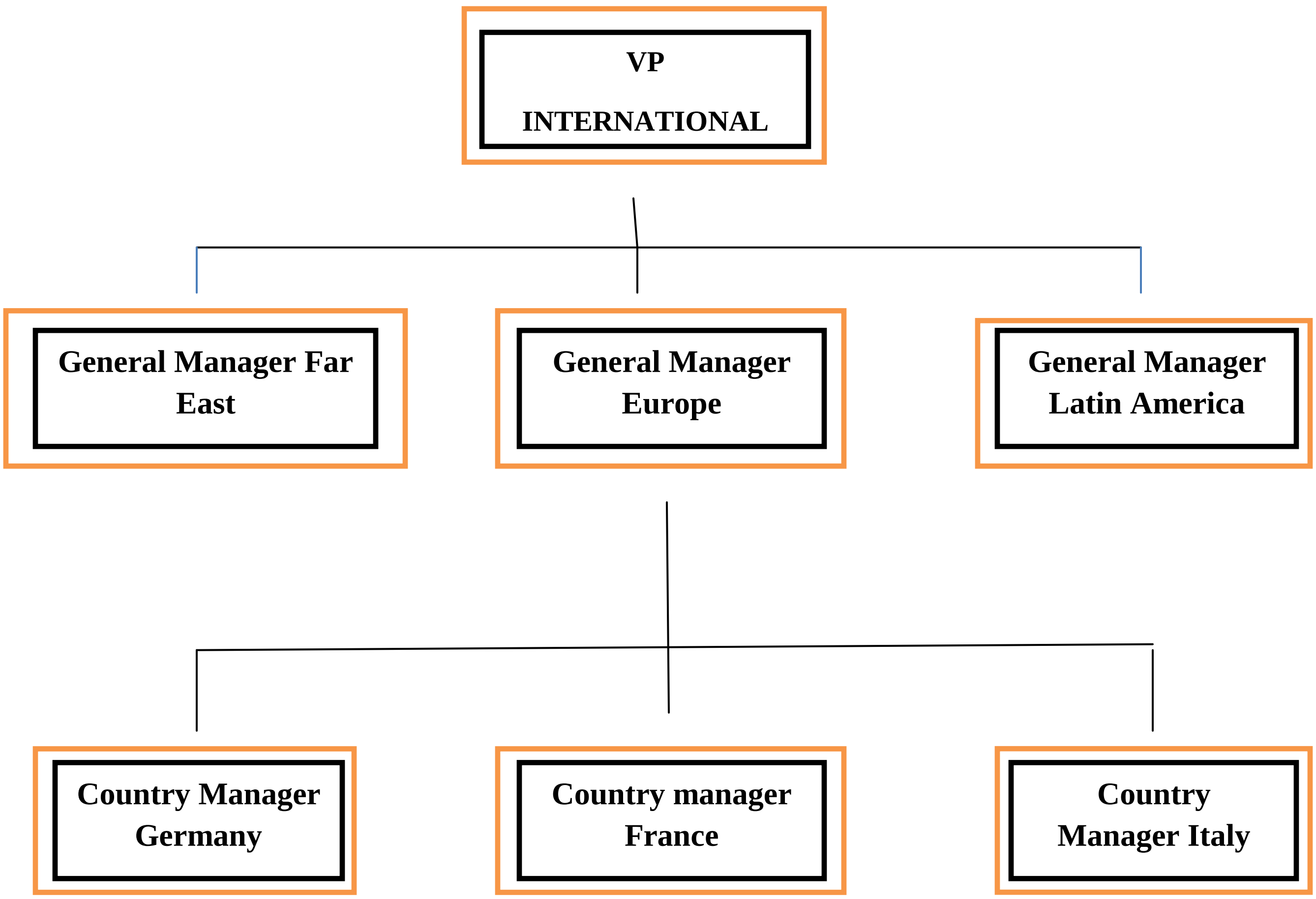
Piggybacking**-** Piggybacking involves two non-competing companies working together to cross-sell the other's products or services in their home country. Although it is a low-risk method involving little capital, some companies may not be comfortable with this method as it involves a high degree of trust as well as allowing the partner company to take a large degree of control over how your product is marketed abroad.

2.3 Concept of Regional organizations and structures of MNCs

An organizational structure is the reporting relationships inside the firm that specify linkages between people, functions and processes. (Cavusgil, Knight and Riesenberg, 2008) They classified MNC organization structure into two major types; centralized and decentralized structure. This classification was based on how much decision making responsibility a firm should retain at headquarters and how much it should delegate to foreign subsidiaries. Centralized structure**:** in this case the MNE headquarters retain considerable authority and control. Decentralized structure**:** in this case, MNE delegates substantial autonomy and decision making authority to subsidiaries. The larger the financial out lay or the riskier the anticipated result, the more involved the headquarters will be in decision making e.g. decisions on entering new markets. Much of the early work on international organizational structure took the logical approach of relating it to a company's international activities. According to Paul, Peter, Donald and Harold (1991), an MNC can be structured in 3 Major ways: International division, the regional structure, the mixed structure.

This study shall focus on the regional structure. In the regional structure, region and country managers have a great deal of autonomy in how they adopt the strategies of the product divisions to the particular circumstances in their regions and countries. Local responsiveness is its main achievement.

Figure 2.1: The regional structure of an MNC. (Paul, Peter, Donald and Harold (1991)



2.4. Michael Porters Competitive Advantage of Nations

Michael Porter (1990) said that the competitive advantage of a nation depends on collective competitive advantages of nations firms. Over time, the relationship is reciprocal as the competitive advantage held by a nation drives to development of new firms and industries with these same competitive advantages. For example, Japan is competent in technology industries (toshiba, hitachietc) overtime Japans national competitive advantage has led to development of new firms or industries in these fields. At both the firm and national levels, competitive advantage grows out of innovation. To further explain the competitive advantage of nations, Michael porter developed the diamond model.

The diamond model: according to this model, competitive advantage at both company and national levels originates from presence and quality in the country of the major elements.

According to Cavusgil, Knight and Riesenberger (2008), the first aspect of the diamond model is Firm strategy. In this case, structure and rivalry refer to the nature of domestic rivalry and conditions of a nation that determines how firms are created, organized and managed. The presence of strong competitors in a nation helps to create and maintain national competitive advantage. Factor conditions is the second aspect which describes a nations position in factors of production such as labor, natural resources capital, technology, entrepreneurship and know-how. For example, India enjoys low-wage rate which gives them a competitive advantage in term of production. Thirdly, Demand conditions refer to the nature of home-market demand for specific products and services.

The strength and sophistication of buyer demand facilitates the development of competitive advantage in particular industries. The presence of discerning highly demanding customer pressures firms to innovate faster. Lastly Related and supporting industries refers to presence of clusters of suppliers, competitors, and complementary firms that excel in particular industries. The resulting business environment is highly supportive of the founding of particular types of firms. Operating within a mass of related and supporting industries provides advantage through information and knowledge.

2.5. International Business Theories

2.5.1. Classical Trade Theories

Classical trade theories explain national economy conditions--country advantages--that enable international exchange of goods and services to happen. International trade is complex and is impacted by numerous and often-changing factors. Trade cannot be explained neatly by one single theory, and more importantly, our understanding of international trade theories continues to evolve.

Mercantilism: This theory stated that a country's wealth was determined by the amount of its gold and silver holdings. Mercantilists believed that a country should increase its holdings of gold and silver by promoting exports and discouraging imports. Therefore, the objective of each country was that the value of imports is greater than the value of exports. By increasing exports and trade; these rulers were able to amass more gold and wealth for their countries.

Absolute Advantage (Adam Smith): focused on the ability of a country to produce a good more efficiently than another nation. If Country A could produce a good cheaper or faster (or both) than Country B, then Country A had the advantage and could focus on specializing on producing that good. Similarly, if Country B was better at producing another good, it could focus on specialization as well. By specialization, countries would generate efficiencies, because their labor force would become more skilled by doing the same tasks. Production would also become more efficient, because there would be an incentive to create faster and better production methods to increase the specialization.

Comparative Advantage (David Ricardo): if Country A had the absolute advantage in the production of 2 products, specialization and trade could still occur between two countries. Comparative advantage occurs when a country cannot produce a product more efficiently than the other country; however, it can produce that product better and more efficiently than it does other goods.

Heckscher-Ohlin Theory (Factor Proportions Theory): This theory is based on a country's production factors—land, labor, and capital, which provide the funds for investment in plants and equipment. Factors that were in great supply relative to demand would be cheaper; factors in great demand relative to supply would be more expensive. This theory, stated that countries would produce and export goods that required resources or factors that were in great supply and, therefore, cheaper production factors. In contrast, countries would import goods that required resources that were in short supply, but higher demand.

Leontief Paradox (Wassily W. Leontief): Leontief studied the US economy closely and noted that the United States was abundant in capital and, therefore, should export more capital-intensive goods. His research however showed that the United States was importing more capital-intensive goods. According to the factor proportions theory, the United States should have been importing labor-intensive goods, but instead it was actually exporting them. His analysis became known as the Leontief Paradox because it was the reverse of what was expected by the factor proportions theory.

Product Life Cycle Theory (Raymond and Vernon): stated that a product life cycle has three distinct stages. Firstly, the new product stages, secondly, the maturing product stage, and lastly the standardized product stage. The theory assumed that production of the new product will occur completely in the home country of its innovation. However when advancing to other stages of the product cycle, production will be one in other different countries. For example, the personal computer (PC) went through its product cycle. The PC was a new product in the 1970s and developed into a mature product during the 1980s and 1990s. Today, the PC is in the standardized product stage, and the majority of manufacturing and production process is done in low-cost countries in Asia and Mexico.

The theories have helped economists, governments, and businesses better understand international trade and how to promote, regulate, and manage it; these theories are occasionally contradicted by real-world events. Countries don’t have absolute advantages in many areas of production or services and, in fact, the factors of production aren’t neatly distributed between countries. Some countries have a disproportionate benefit of some factors.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter sets out various stages and phases to be followed in order to complete this study. It involves the outline for methods of collection, measurement and data analysis.

3.2. Research design

This study will adopt a cross-sectional survey research design. Cross-sectional studies are also known as cross-sectional analyses. It involves observation of all of a population, or a representative subset, at one specific point in time. They aim to provide data on the entire population under study, whereas case-control studies typically include only individuals with a specific characteristic, with a sample, often a tiny minority, of the rest of the population. They may be used to describe some feature of the population. This means that researchers record information about their subjects without manipulating the study environment. This study, aims to collected information about 20 selected companies out of a total of 46. The subjects of discussion shall not be manipulated in any way.

3.3. Population of the Study

A research population / the target population is generally a large collection of individuals or objects that is the main focus of a scientific query.

There are several MNCs with branches in Kenya. However, some MNCs chose Nairobi as the regional Africa headquarters. As at July 2013, there is a total of 20 MNCs which have their Africa headquarters in Nairobi Kenya. (See Appendix 2).The target population for this research is the total 20 Multinationals that have regional Africa headquarters in Nairobi, Kenya.

3.4. Data collection

Information was collected mainly through secondary sources. Secondary data is the data that have been already collected by and readily available from other sources .Secondary sources of data is usually publicly available. The secondary sources of data used for this study were: MNC company websites, financial statements, Publications, Media information- i.e. newspapers, TV, radios and magazines.

In the case where secondary data was not available, primary data was collected instead via use of a structured questionnaire. (appendix1) The option of secondary data was selected because it is cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all.

3.5. Data analysis

Before processing the responses, the collected information was edited for consistency and completeness. Statistical methods were used in analysis. Quantitative classification of data was done.

The use of graphs and tables was adopted in data presentation. This led to easier understanding of information and also analysis. Qualitative data was also analyzed.

This was done via developing a thematic framework from key issues, concepts and themes. All acquired information was interpreted, explained and recommendations made.

CHAPTERFOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter contains the findings of the study based on the data collected from the field. The study sought to find out the main factors that lead MNCs to choose Nairobi Kenya as their African regional headquarter. This study focused on variables such as location, economic status, political stability, market potentiality and labor as the main factors that would qualify Kenya to be a regional headquarter. In addition, this study was able to find out whether the country of origin and type of industry had an effect on choosing of Nairobi Kenya as a regional headquarter. The data was analyzed and information presented in form of pie charts, bar graphs and cross tables.

4.2. Demographic information

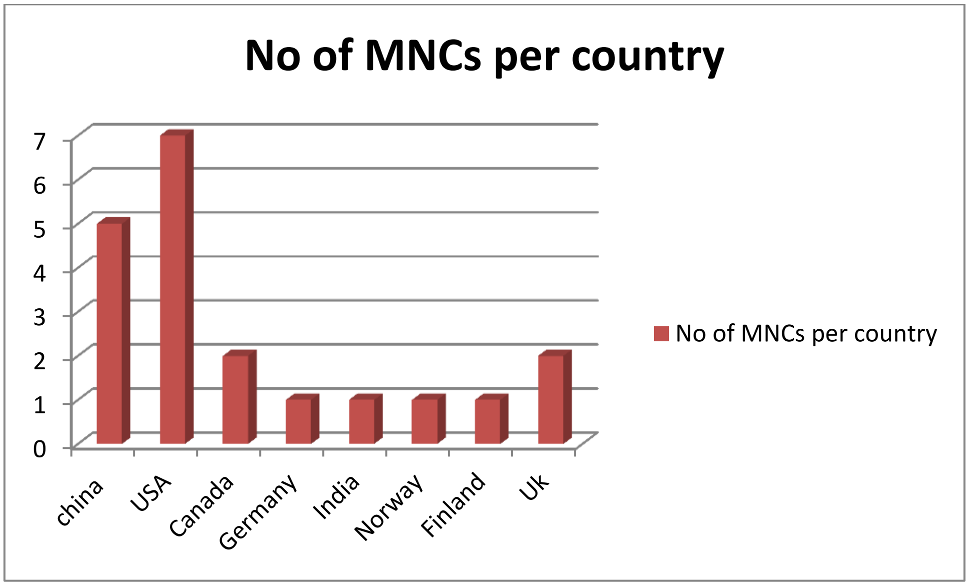
This study focused on 20 MNCs and descriptive analysis was done to represent some of the demographic information. This was on basis of country of origin year of entry and also industry of operation.

4.2.1. Country of Origin

Of all 20 MNCs with Africa regional HQ in Nairobi Kenya, several originate from similar countries. This also indicates the level of trust and belief that the country has in Kenya.

The findings are illustrated.

Figure 4.1: A bar graph indicating the number of MNCs per country of origin

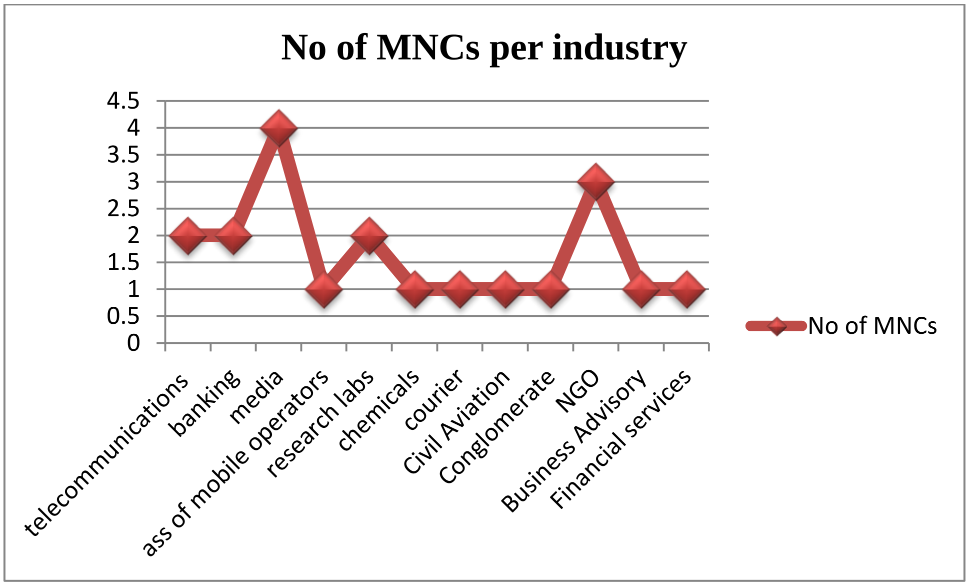


The USA has the greatest number of MNCs with Africa regional HQs in Kenya. The USA is closely followed by China. High entry of Chinese firms is mainly due to the good relations between Kenya and China as countries. This has led to high levels of trust between the two countries.

4.2.2. Industry

MNCs with Africa regional HQs in Kenya are involved in different industries. However some industries have more attraction towards Kenya as a country. The findings are illustrated in figure 4.2.

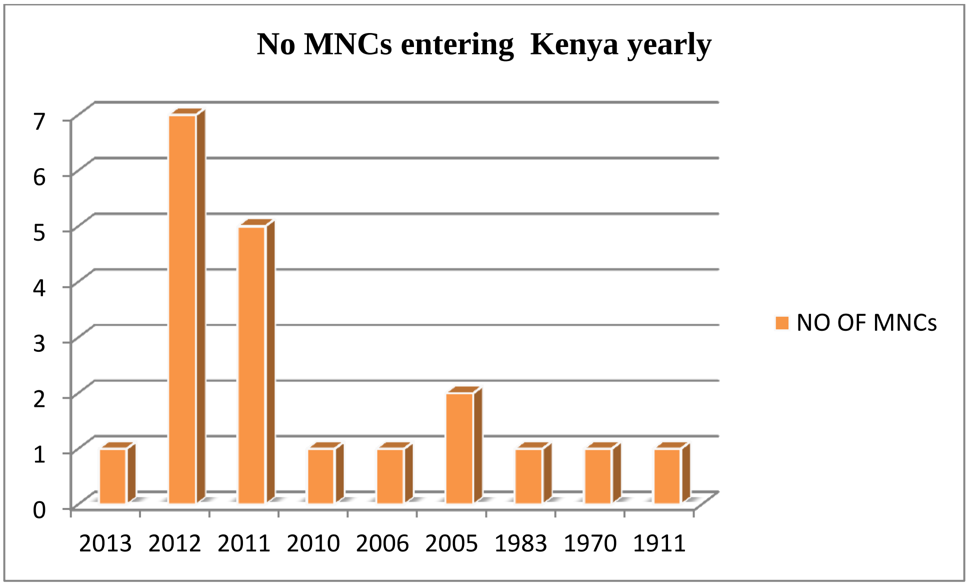
Figure 4.2: A frequency polygon showing the number of MNCs according to industries



4.2.3. Year of entry

The year in which many MNCs came into Kenya is a very important factor as well. Chronological classification has been used in this case. The illustration of the years of entry is presented in the bar graph below.

FIGURE 4.3. A bar graph illustrating the no of MNCs {with African HQs in Nairobi} entering Kenya yearly.



The year 2012 and 2011 saw the most numbers of firms set up MNCs in Kenya.

This was a period when the economy of Kenya was growing but ironically just before the general elections period. This shows that many MNEs could still continue operations despite Kenya have a shaky political stability.

4.2.4. Total number of Subsidiaries in Africa

This helps to show the level of dominance of Kenya as a country. For example, if an international firm has 30 branches in Africa and chooses Kenya as the HQ, there are several factors that cause Kenya to stand tall among all the African countries.

By using quantitative classification, this study has grouped the MNCs according to the number of subsidiaries they have in Africa. 10 MNCs have between 1-5 branches in Africa which is the most in number. These are followed by 3 MNEs which have between 16-20 branches in Africa. This is illustrated in table 4.0

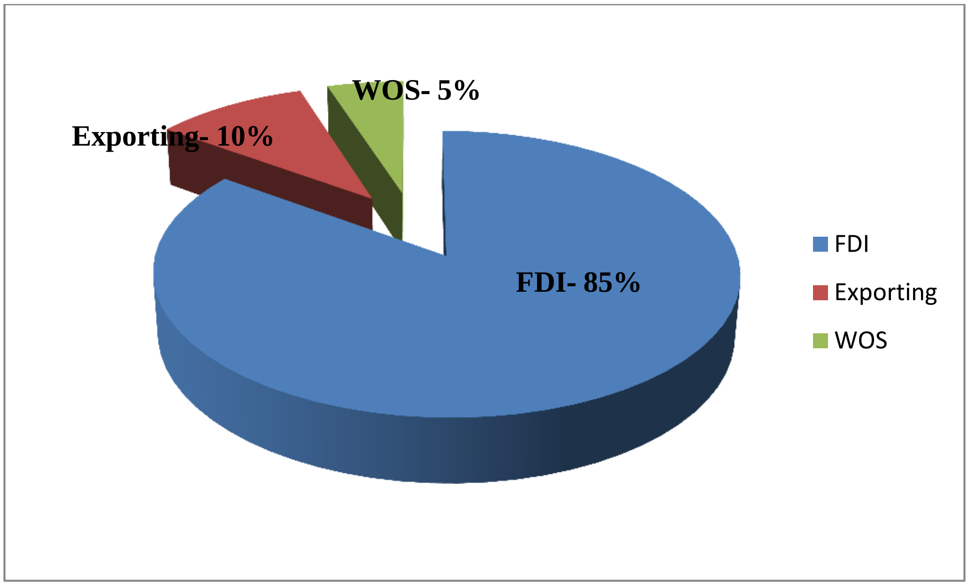
TABLE 4.1. A table showing the total number of subsidiaries in Africa as per MNC clusters

Number of MNCs	**Total number of subsidiaries in Africa**
10	1-5
1	6-10
2	11-15
3	16-20
2	21-25
1	26-30
1	31-35

4.3. Market entry strategies of MNCs

According to the findings of this study, some of the market entry strategies initially used to enter Kenya are: exporting, Foreign direct investment (FDI) and wholly owned subsidiaries. It is important to note that currently, all MNCs that were studied have branches / subsidiaries in Kenya.

FIGURE 4.4 . A pie chart showing entry strategies used by MNCs



According to the diagram, the most popular entry strategy is foreign direct investment.

The 1% is Bharti Airtel used wholly owned subsidiaries to acquire all their branches in Africa.

4.4. Regional organizations and structures of MNCs

This study investigated the operational structure as well as the organizational structure of MNCs in question. Under organizational structure; centralized and decentralized structure. In the regional structure, there is the international division, regional structure and mixed structure.

4.4.1. Organizational structure

This structure is mainly based on the decision making of the firm. Some firms have adopted a central system where decisions are made at the HQ and flow downward the hierarchy. Others use the decentralized where each subsidiary makes their own decisions completely. It is argued that it is impossible to only use one and that international firms usually use both structures. The table below shows findings based on decision making.

TABLE 4.2. A table showing MNCs organizational structures

Organizational structure	No of MNCs
centralised	4
decentralised	6
Both	10

4.4.2. Operational structure

This study has focused on the regional structure. However findings show that many MNEs have adopted a mixed structure as opposed to just the regional structure. This is illustrated in the table shown below.

TABLE 4.3. Operational Structures of MNEs

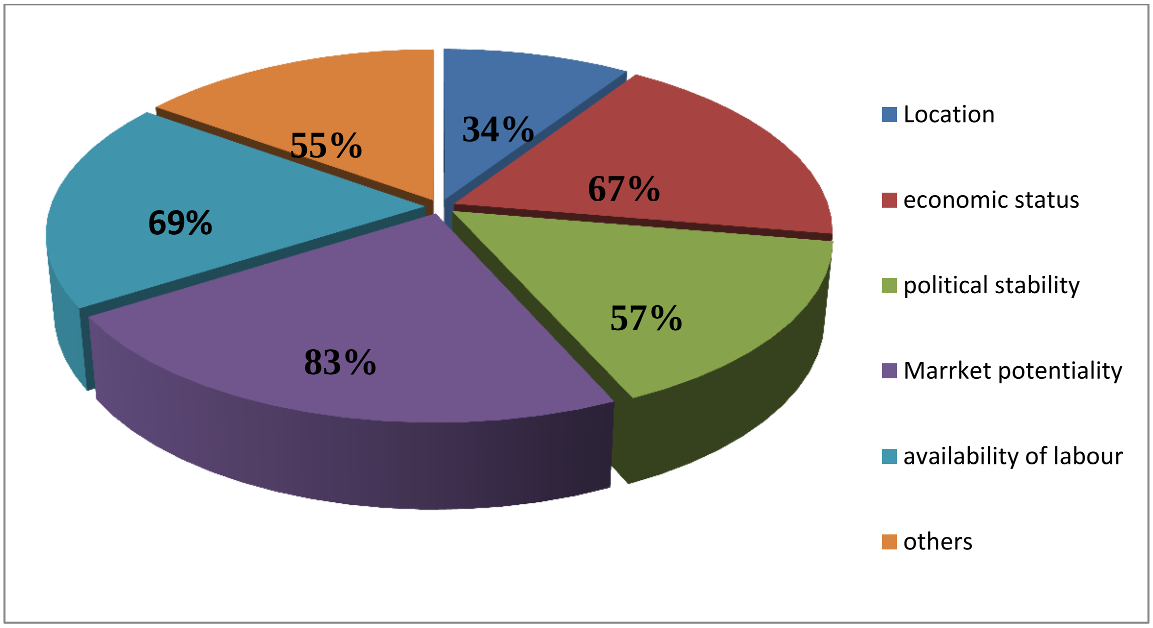
Operational structure	No of MNCs
International division	**0**
Regional structure	**14**
Mixed structure	**6**

In the regional structure, region and country managers have a great deal of autonomy in how they adopt the strategies of the product divisions to the particular circumstances in their regions and countries. Local responsiveness is its main achievement.

4.5. Factors influencing Choice of Kenya as African regional HQ.

This study focused on 5 major factors that influenced MNCs to choose Kenya as the Africa regional HQ. They are location, economic status, political stability, market potentiality, availability of labor and others. The table below shows the findings regarding the factors.

FIGURE 4.5: Pie chart showing factors influencing choice of Kenya as Africa regional HQs



CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter provides a summary of findings on the research, the conclusion, and recommendations of the study which sought to establish the main reasons for MNCS choosing Kenya as Africa HQ.

5.2. Summary

This study mainly sought to establish the reasons as to why international firms have chosen Kenya as their African head office. According to the findings of this study, Location as a factor has 34% influence on the decision to select Kenya Africa regional HQs. Location could be influenced by the access to the port which allows easier importation of goods. However, location as a factor has the least influence on this decision. This is so because Kenya is located at the far east of Africa and thus not central enough to access the rest of Africa.

On the other hand, economic status has 67% influence on the decision to have Kenya as a regional HQ. Kenya's economy has been in a strong and steady state as compared to many African countries. A great innovation like M-pesa has been a great factor that has led to the growth of Kenyan economy. Local firms like Safaricom, EABL and many others have driven the Kenyan Economy to a high level. The steady economy has led to several firms choosing not only to invest in Kenya but also to set up an African base in Kenya.

57% of the MNCs chose Kenya because of its political stability. Political stability is essential when choosing a base to invest in. Egypt has lost some key investors due to the political unrests that have taken place in the past years. Investors need to be assured of their security as well as business stability by the show of a stable political environment.

Market potentiality is the main factor that has led to setting up of MNE HQs in Kenya. The Kenyan market is a ready market for many products and services. Firms usually invest where they are assured of a ready market for their products. M-pesa has been a great determinant that has led to Kenya's popularity. MNCs like Kiva and GSM mainly chose Kenya because of mpesa which has enhanced their operations within this market.

69% of MNEs chose Kenya because of the labor available in Kenya. Kenya has skilled laborers as the level of education has gone high. In this case, MNCs do not have to import labor from the home country or elsewhere. Many firms would like to acquire skilled laborers who are equal to the task. For example, a firm like Standard Chartered Bank has employed 1690 employees in Kenya and has been able to outdo competitors.

Apart from the main five factors, there are other varied numbers of different factors that have led to MNCs setting up base in Kenya. For example, IBM research lab and Blackberry's decision to enter Kenya was influenced by the high level of ICT innovativeness in Kenya. Availability of raw materials and resources led to entry of BASF and GE into Kenya. Good international relations between Kenya and China have also led to major investments by Chinese in Kenya. The Chinese have set up several head offices in Kenya mainly due to the government relationships.

Further findings of this study show that the USA has the highest number of MNCs with Africa headquarters in Nairobi. The most invested industry in Kenya is the media industry then followed by NGOs. Highest entry of regional office set up by MNCs in Nairobi was in 2012 and 2011. A large number of the multinational firms used FDI as a mode of entry. It was also found out that most firms used both the centralized and decentralized system of decision making.

Several Multinationals have chosen Kenya to be the East Africa HQ but however not African regional headquarters. Improvements on our economy, literacy levels, better infrastructure and better political situations will see many of those firms get promoted to African headquarters. However, findings have also indicated that several firms demoted Kenya from being the African head office. For example Nokia from Finland demoted the Kenyan office.

Findings of this study also showed that some MNCs group Africa and the Middle East as one region therefore placing the regional headquarters in countries like Dubai and Qatar.

The following table shows the summarized findings.

TABLE 5.1.: Compiled Summary of findings of 20 MNCs

MNC	Country	Industry	Year	Subsidiar	Entry mode
Research In Motion	Canada	Telecommunications	2011	22	Exporting
Bank of China	China	Banking	2012	3	FDI
China Central TV	China	Media broadcasting	2012	1	FDI
China Daily	China	Media	2012	1	FDI
China Radio Int	China	Media	2006	1	FDI
Xinhua News Agency	China	Media new agency	2011	3	FDI
GSM Association	UK	Asc of mobile operators	2013	2	FDI
Nokia Research Hub	Finland	Research	2011	1	FDI
BASF	Germany	Chemicals	2011	7	exporting
BhartiAirtel	India	Telecommunications	2010	17	WOS
Eltek	Norway	Courier	2012	1	FDI
Standard Chartered Bank	UK	Banking	1911	14	FDI
ICAO	Canada	Civil Aviation	1983	3	FDI
General Electric	USA	Conglomerate	2005	5	FDI
IBM research lab	USA	Research lab	2012	20	FDI
Kiva	USA	NGO- micro-credit	2005	15	FDI
Rockefeller Foundation	USA	NGO	1970	30	FDI
RTI International	USA	NGO	2012	33	FDI
Stratlink Global	USA	Business Advisory	2012	23	FDI
Visa Inc.	USA	Financial services	2011	20	FDI

Table 4.4 was compiled from the results attained from this study. This is therefore a summary of vital information regarding all the 20 MNCs.

5.3. Conclusions

Due to the findings of the study, it can be concluded that market potentiality has the greatest influence on choice of Kenya as a regional head quarter. Availability of skilled labor and the Kenyan economy influenced the decisions of MNCs to enter Kenya.

Further conclusions are that the USA has the highest number of MNCs with Africa headquarters in Nairobi. The media industry is the most invested industry in Kenya followed by NGOs. Highest entry of regional office set up by MNCs in Nairobi was in 2012 and 2011. A large number of the multinational firms used FDI as a mode of entry. It was also found out that most firms used both the centralized and decentralized system of decision making.

Good international relations between Kenya and China have also led to major investments by Chinese in Kenya. The Chinese have set up several head offices in Kenya mainly due to the government relationships.

5.4. Limitations of the Study

Lack of information from relevant government offices. The researcher visited KIPPRA, KNBS, KenInvest to no avail, no relevant information was acquired.

Lack of cooperation from some of the data givers who only gave scanty information.

5.5. Recommendations

Based on the challenges faced in order to acquire information, this study recommends that Government offices should allow access to basic information of MNCs within Kenya to enhance and enrich scholars. This because this research carried out is of benefit to the country as a whole.

This study also recommends that there should be efforts channeled by the government to increase economic growth, literacy levels, better infrastructure and create a calm political scene. These efforts will definitely lead to many Kenyan offices geting promoted to African headquarters.

This study has proven that good international relations between Kenya and China have led to the Chinese investing heavily in Kenya. This study recommends that Kenyan government should also create good international relations with several other countries which will lead to more investment.

5.6. Suggestions for Further Research

Based on the findings it was determined that several firms have demoted the Kenyan office from being the African regional HQs. Further research can therefore be done in order to find out the underlying reasons as to why the demotions take place as well as to minimize the levels of demotions.

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APPENDIX 1: QUESSTIONNAIRE

Instructions: (*please read the instructions given and answer the questions as appropriately as possible.*) kindly answer and fill each section as provided. Be as objective and accurate as possible.

SECTION A: General Information

1. Name of your MNC?...

…………………………………………………………………………………………

2. Country of origin?...

3. Industry (Mining, telecommunications etc.) ....

…………………………………………………………………………………

4. Products sold / services rendered?..

………………………………………………………………………………

5. In how many countries do you operate worldwide? ....

6. In how many countries do you have subsidiaries in Africa? ....

7. What is your main reason for going international? ....

…………………………………………………………………………………

SECTION B: Kenyan subsidiary

8. During which year did you set up base in Kenya? ....

9. Mode of entry used when entering Kenya? ....

10. Why did you use that specific mode of entry? ....

…………………………………………………………..................................

11. Have you used the same mode of entry for all your subsidiaries in Africa?

Yes [ ] No[ ]

12. How many branches do you have in Kenya?...

13. According to your analysis, what are the major environmental threats and weaknesses in Kenya?

Environmental threats:……………………………………………………………………

……………………………………………………………………………………………….

………………………………………………………………………………………………..

………………………………………………………………………………………………..

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

Environmental opportunities :……………………………………………………………

……………………………………………………………………………………………….

………………………………………………………………………………………………..

………………………………………………………………………………………………..

…………………………………………………………………………………………………

………………………………………………………………………………………………

14. What are you main reasons for choosing Kenya as an African regional headquarter?

{On a scale of 1-5, please tick where appropriate. 5 being the highest priority while 1 is the lowest}

the lowest}	1	2	3	4	5
Location	[ ]	[ ]	[ ]	[ ]	[ ]
Economic status	[ ]	[ ]	[ ]	[ ]	[ ]
Political stability	[ ]	[ ]	[ ]	[ ]	[ ]
Market potentiality	[ ]	[ ]	[ ]	[ ]	[ ]
Availability of labor	[ ]	[ ]	[ ]	[ ]	[ ]
Others	[ ]	[ ]	[ ]	[ ]	[ ]

If others please specify:…………………………………………………………………

…………………… ……………………………………………………………………….

………………………………………………………………………………………………..

15. Type of organizational structure(in aspect of decision making)

Centralized structure [ ]

Decentralized structure [ ]

16. Type of operational structure

International division [ ]

The regional structure [ ]

The mixed structure [ ]

17. In how many regions do you operate?………………………………………………….

Thank you for your participation.

APPENDIX 2: LIST OF MNCS WITH REGIONAL AFRICA HEADQUARTERS IN KENYA

1. Research In Motion
2. Bank of China
3. Central Television
4. China Daily
5. China Radio International
6. Xinhua News Agency
7. GSM Association
8. Nokia Research Hub
9. BASF
10. BhartiAirtel
11. Eltek
12. LG
13. Standard Chartered Bank
14. ICAO
15. General Electric
16. Kiva
17. Rockefeller Foundation
18. RTI International
19. Stratlink Global
20. Visa Inc.