APPLICATION OF CREDIT AVAILABILITY BY BARCLAYS BANK OF KENYA AS A MARKET ENTRY ATTRACTION FOR MULTINATIONALS

BY:

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DECLARATION

This management research project is my original work and has not been presented for a degree in any other University

SIGNED DATE

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This management research project has been submitted for examination with the approval as the university supervisor

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DEDICATION

To my family, The CHEGE'S and all my friends and colleagues for their understanding, support, challenge and encouragement throughout the course.

ABSTRACT

International Business entails business transactions between businesses, countries, governments, individuals and it involves goods and services.

Credit availability affects the entry strategy of multinational by the fact that any failure to get access to external finance, or reduced internal liquidity, hampers the firm ability to finance the recurrent costs to serve foreign markets and decreases firms' survival in foreign markets.

This study is to bridge the knowledge gap by to determining the application of credit availability as a market entry attraction to multinational firms into Kenya focusing at Barclays Bank. The study sought to answer the questions how do banks such as Barclays Bank of Kenya apply such market attractions like credit availability to encourage entry into the Kenyan market?

The objective of the study was to determine the application of credit availability as a market entry attraction to multinational firms into Kenya with special reference to Barclays Bank.

The study used primary data which was collected using an interview guide that has open-ended questions that enabled to collect qualitative data as well as get a better understanding and insightful interpretation of the results from the study.

The study found out that Barclays Bank does offer various credit facilities to facilitate multinationals have operations in Kenya therefore it does use credit availability as a market entry attraction for multinationals to operate in Kenya.

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ABBREVIATIONS AND ACRONYMS

MNC's	Multinational Corporations
GDP	Gross Domestic Product
NGO	Non -governmental Organizations
BPT	Bargaining Power Theory
TCA	Transactional Cost Analysis
BBK	Barclays Bank of Kenya
ATI	African Trade Insurance Agency
EPC	Export Promotion Council
CRM	Customer Relationship System

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

International Business entails business transactions between businesses, countries, governments, individuals and it involves goods and services. As a field of study it is based on three cornerstones namely participants, activities and the environment in international business. The participants include governments, individuals, and companies, inter governmental organisations, NGO's and financial institutions. The activities include exports, imports, portfolio investments and direct investments.

The credit availability affects the entry strategy of multinational by the fact that any failure to get access to external finance, or reduced internal liquidity, hampers the firm ability to finance the recurrent costs to serve foreign markets and decreases firm survival in foreign markets. Additionally, financial constraints act as a barrier to firms foreign expansion by decreasing the firms ability to finance the entry costs into new export markets; thus, they push firms to avoid losing destinations and by the same token may increase firms survival in a given foreign market.

Environmental events tend to be more complex for multinational firms than they are for corporations operating within one nation because they face multiple political, economic, legal, social and cultural changes at varying rates in each country they do business in (Kim and Olsen, 1993). In order to be effective while growing, hospitality organizations must respond to the opportunities, challenges, risks and limitations posed by the external environment (Costa, 1997). To better understand the external forces of change and so develop effective responses which secure or improve their position in the future, organizations need to scan their business environment (Auster and Choo, 1994). In this context, environmental scanning may be regarded as the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action (Costa and Teare, 1996; Hambrick, 1982).

Companies that want to expand their activities in global markets need to expand in foreign markets will be influenced by the internal and external environment of the target country by conducting a market research and analysis. One of the fundamental steps that need to be taken prior to beginning international marketing is the environmental analysis. It is very important that an organization considers its environment before beginning the marketing process. In fact, environmental analysis will determine whether or not a given company will enter in the foreign market.

It is very important for companies whether in domestic or international, large or small, that want to conduct business without taking in consideration the political environment of the country where they intend to operate (Cateora & Graham, 1999). An examination of target country's political orientation and environment is part of the preliminary screening stage of market select. Any company considering doing business outside of their own country should carefully study the government structure of the target market as well as the political systems of the targeted country.

Interest in politics is the first dimension listed in many frameworks examining export environments. This is largely due to the fact, foreign firms must endeavour to make their activities politically acceptable or they may be subjected to politically condoned harassment (Cateora & Graham, 1999).

Government involvements in business are related with making policies how best to promote the national interest. Any firm engaging in international marketing should also be aware of the importance of sovereignty to national governments and its consequences for global business (Keegan & Schlegelmilch, 2001).

The legal environment is an important variable to consider in international business due to the impacts that court of law decisions may have upon a company's globalisation attempts. Companies face a vast amount of problems in their efforts to develop successful global marketing programs. Just as cultural, political, geographical differences pose as threats to global firms so too do the varying legal systems of the world and their affect on business transactions (Cateora & Graham, 1999).

The international marketer needs to pay attention to the economic development and performance of a country in international business. The stage of economic growth within a country has a great impact firms' international strategies. Economic growth affects a countries attitude towards foreign business activity, the demand for goods and the distribution system found within the country.

So, a study of the economic climate is important especially to gain understanding with regard to developing countries and secondly in respect to market potential and market growth. The existing level of economic development allows the firm to estimate the degree of market potential as well as allowing them to prepare for economic shifts and emerging markets (Cateora & Graham, 1999).

According to Dunning (1993), a multinational or a transnational enterprise is an enterprise that engages in foreign direct investment and owns or controls value-adding activities in more than one country.

In respect of international expansion, Hoffman and Schniederjans (1990) stress that although it offers many benefits to the firms operating, there are also many complex issues associated with global expansion. Some of these issues have been identified by Dymsza (1992) who highlights the following as the most relevant: firm must deal with multiple political, economic, legal, social and cultural environments as well as various rates of change within each of them, between national and foreign environments are complex because of national sovereignty issues and widely differing economic and social conditions, separation, cultural and national differences, and variations in business practices all tend to make communication between headquarters and overseas affiliates difficult, of present and future competition may be more difficult to undertake in a number of countries because of differences in industrial structure and business practices and degree of significant economic, marketing and other information required for planning varies a great deal among countries in availability, depth and reliability.

1.1.1 Market entry strategies

Multinational firms use different entry strategies in order to penetrate a particular market they are interested in operating. The entry strategies will depend on the level of control they would wish to have over operations. They include joint ventures, franchising, strategic alliances, mergers & acquisitions as well as establish a relationship with a foreign agent or distributor or set up a local office in the intended market.

1.1.2 Market entry attractions

It is necessary to understand the context within which a country's political, economic, and social institutions have emerged, its history, geography, culture, and demography while thinking of emerging in foreign markets. It is difficult to understand the business environment in a country without studying the current political system and institutions, government policies, and a variety of data and other information on the country's economy.

There are many market attractions that influence entering into foreign markets.. However each single organisation will be more attracted to a type of attraction depending on their backgrounds, nature of the company, strategic objectives as well as the resources. In many cases, there are many obstacles that companies have to meet while deciding to enter other markets, for example; safety, environmental, packaging, labeling, patents, trademarks and copyrights, are factors that businesses depend on being successful. The company will be interested to invest in country where it can run smooth business having overcome the obstacles.

1.1.3 Credit Availability

The availability of credit depends on a bank's overall exposure to a given country (each bank applies a 'country limit') or commodity, and the net collateral value (assets, stocks) an individual borrower may be able to provide (pledge).

The cost of credit to a borrower is built up from the regular lending rate to include all the considerations discussed under trend and trade specific risks. Each consideration adds to the base lending rate until one arrives at an interest rate at which both the risk factors and the bank's profitability are adequately covered. This is why lending rates differ from country to country, and from borrower to borrower.

1.1.4 Banking Industry and credit Availability

Almost half of MNCS have a credit facility of some kind from a bank or other financial institution long-term relationships enable banks to collect private information on the credit worthiness of MNCS firms. Recent evidence suggests that the cost of credit is reduced when banks forge relationships with MNCS. Petersen and Rajan find that MNCS firms that have established a relationship with a bank are less likely to use expensive trade credit, and Berger and Udell (1995) find that MNCS firms with banking relationships pay lower interest rates on lines of credit. There has been a recent trend toward increased competition in the banking sector. Banks are no longer protected from com-petition by barriers to in-state branching and interstate banking. Moreover, nonbank financial institutions have become increasingly important providers of credit to new businesses. In recent years, a number of studies have questioned how these developments toward increased competition will affect relationship lending. Competition makes it easier for borrowers to switch lenders, which can reduce the incentive to invest in relationships at the outset. On the other hand, Boot and Thakor (2000) argue that competition may raise the rewards to activities that allow lenders to differentiate themselves from other lenders, thereby raising the incentive to invest in relationships. Developments toward greater competition have probably reduced the costs of providing credit on average. Conventional analysis of market power would clearly predict that more market openness and an expansion of the number of competitors should lead to reduced prices, making customers better off.

Petersen and Rajan (1995) present a model in which market power helps new businesses by allowing banks to forge long-term relationships with them. They argue that with market power, banks can subsidize borrowers during some periods because they can extract rents during other times. In competitive markets, however, firms have access to alternative sources of credit, so banks cannot offer low prices early on because they lack the market power to recover those investments later.

Entrepreneurship and Bank Credit Availability along these lines, While Cetorelli and Gambera (2001) find that industries that rely heavily on external finance grow faster in countries with concentrated banking systems than they do in countries with more open and competitive banking, they find a negative overall effect of banking concentration on economic growth. Fisman and Raturi (2000) use data from five African countries to show that trade credit is more prevalent when suppliers are in competitive industries. Recent cross-country evidence also suggests that banking competition fosters a more competitive and open industrial sector, particularly for bank-dependent sectors (Cetorelli (2001)). Cetorelli argues that banks with market power may favor firms with whom they have already established long-term relationships, thereby reducing credit availability to potential new firms who threaten to compete with incumbents and render the bank's loans to those incumbents less valuable. Thus, even though concentration in banking may raise the rewards to investments in long-term relationship, banking concentration may still harm potential entrepreneurs looking to start new businesses.

1.1.5 Barclays Bank of Kenya

Barclays Bank is one of the leading banks in Kenya having opened its doors in 1916. Barclays Bank of Kenya is currently the largest business unit in the Barclays Africa family in terms of contribution to profit and size of operations. In Kenya, it boasts of a balance sheet worth US$ 1 billion, which is equivalent to 10% of the country's GDP. Barclays Kenya was listed on the Nairobi Stock Exchange in 1986 and currently has 34,000 shareholders. Barclays has the largest range of card products offering in the market and holds the largest market share. The bank's financial performance over the years has built confidence among its shareholders, with a reputation as one of the leading blue chip companies on the Nairobi Stock Exchange. Barclays has provided custodial and securities services to major institutional investors since it was started 300 years.

Barclays bank of Kenya has 117 branches around the country of Kenya. The financial service of this bank is of international standards. The bank is a leading institution in matters of retail market in Kenya. Almost 30% of the retail market share of Kenya is under the control of Barclays. Computer and web linkage in all the branches helps in the smooth transactions within all the branches. It also has the highest number of Automated Teller Machines (ATMs) in Kenya with over 236 ATMs spread across the country.

1.2 Research Problem

Most scholars trace the first attempt to systematically explain the activities of firms outside their natural boundaries to Hymer's 1960 dissertation (published in Hymer, 1976). By observing a substantial growth in the activities of US firms abroad, he found that in order to compete with indigenous firms, foreign entrants must possess some specific advantages including intellectual property rights and intangible assets embodied in the human capital of the firm, such as management, engineering, marketing and financial capabilities. These specific advantages give a firm some degree of monopolist power to overcome its lack of knowledge about local environment innate in the local firms which foreign entrants can only acquire at a cost, and also serve to compensate for the foreigner's costs of operating abroad.

Hymer (1996) argued that the existence of special advantages is only the necessary condition for foreign firms to invest successfully abroad, but not yet enough to explain the motivation for moving their production to another country. A foreign firm can exploit its advantages through producing at home and then exporting or through licensing or making joint venture with local partners.

Researchers have frequently analyzed issues related to multinational activities. Damaris (2011) studied corporate social responsibility of multinational corporations. She concentrated on corporate social responsibilities for the multinational firms listed in Nairobi stock exchange. Susan (2011) studied factors influencing exit of multinational oil company. Onyoro 2011 studied competitive strategies and performance of multinational commercial banks in Kenya. However the past studies have not addressed the application of credit availability by Barclays Bank of

Kenya as a market entry attraction.

This study was to bridge the knowledge gap by to determining the application of credit availability as a market entry attraction to multinational firms into Kenya focusing at Barclays Bank. The study sought to answer the questions how do banks such as Barclays Bank of Kenya apply such market attractions like credit availability to encourage entry into the Kenyan market?

1.3 Research Objective

The objective of the study was to determine the application of credit availability as a market entry attraction to multinational firms into Kenya with special reference to Barclays Bank.

1.4 Value of the Study

This study would be of great importance to the management of multinational firms in understanding the role of credit availability in attracting international firms in Kenya. The study increased managers understanding on how to use credit available to expand to foreign markets.

To the government agencies and relevant authorities would be helpful in designing the right policies that will attract foreign firms in the country so as to support financial institutions in offering credit to multinational firms.

The study will be of importance to Barclays Bank as it will help the bank to place itself strategically so as to attract multinational companies to bank with them hence increase its clientele base and general performance. Also to the entire banking industry it will facilitate the management with information in attracting international firms in Kenya. To the general academic fraternity it will be of great importance to future academia in understanding and expounding on the application of credit availability as a market entry attraction.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are pricing entry mode and theoretical framework, relevance of sustainable bank finance and support mechanisms to multinational companies and multinational market entry strategies.

2.2 Entry Strategies

Major entry mode includes exporting, licensing/franchising, joint ventures, and full ownership. Exporting involves a company selling its physical products which are manufactured outside the target country to the target country (Tallman and Shenkar, 1994). Licensing and franchising arrangements are non equity associations between an international company and a party in the host country in which technology or management systems are transferred to the host party (Shane, 1994). A joint venture is an arrangement whereby the firm is required to share equity and control of the venture with a partner from the host country. An additional entry alternative is full ownership of facilities in the host country, whereby the parent company takes a 100 percent equity stake in the operation in the foreign country. Full ownership can involve either acquiring an existing business or investing in new facilities in the host country (Root, 1994). In weighing foreign market entry alternatives, a central consideration is the level of control the firm will have over the operation. Control has been defined as, “the ability to influence systems, methods, and decisions” (Anderson and Gatignon, 1986). In general, when a firm moves from licensing/franchising to joint venture to wholly-owned subsidiary (WOS), the firm’s investment and the degree of control that the firm has over the operations increase (Root, 1994).

While exporting is generally viewed as a low commitment form of market entry, it is not as easily classified on this continuum. As has been noted in prior studies, there can be a wide spectrum of commitment and control of the exporting firms, since some exporting arrangements (i.e. indirect exporting) simply involve selling to an intermediary such as an export trading company, while other arrangements involve forging relationships with distributors. For this reason, past theories of modal choice have not been designed to predict the choice between exporting and the other three alternatives (e.g. Erramilli and Rao, 1993). An additional factor that makes it difficult to compare exporting cases to other modes of entry is that exporting involves production in the home country, while the other modes involve production in the host country. When a MNC approaches a host government about entering into a licensing, joint venture, or full ownership mode of entry, the firm is acknowledging that it believes there are advantages associated with host country production that would not be afforded by exporting (Erramilli and Rao, 1993). The main issue from a bargaining power perspective (the theory being tested in this study) becomes the level of control the MNC will have over the venture. Exporting, however, does not involve host country production and, hence, does not involve bargaining with the government (at least not in the same context as the other three types of arrangements). Thus, it is not appropriate to compare exporting cases to licensing, joint venture, and WOS cases. For this reason, exporting cases are not included in our analysis.

In the entry mode literature, there is a consensus that two major theoretical perspectives have emerged as viable frameworks for examining MNCs' entry mode choice (Tallman and Shenkar, 1994). The first framework, transaction cost analysis (TCA), has been used in several empirical studies of Western MNCs' entry mode choice (e.g Anderson and Gatignon, 1986; Erramilli and Rao, 1993). TCA theory posits that a company will internalize operations that it can perform at a lower transaction cost than would be the case if the firm exported or entered into a contractual arrangement with a local partner. The second framework, bargaining power (BP) theory, views entry mode choice as an outcome of negotiations between the firm and the government of the host country. While the BP framework is well developed from a theoretical standpoint, it has not been tested as extensively as TCA in the entry mode choice context, though there are a few notable exceptions (Gomes-Casseres, 1990

2.3 Concept of credit

Among other factors, funding specificities of various dimensions of enterprises arise from their access to external financing funds. Furthermore, the degree and form of an inclusion in financial markets highly depends on the informational costs related to the proposed investment project and its promoter. In addition to the information production service, financial intermediaries provide "market knowledge, transaction efficiency and funding capability" (Santomero, 1997). Moreover, banking intermediaries might locally provide long-term relationship lending services rather than pure transactions lending. In addition to the latter, Berger and Udell (2005) argue that transactions lending is not a single homogeneous lending technology as it involves financial statement lending, business credit scoring, asset-based lending, factoring, fixed-asset lending and leasing.

Credit availability and affordability to MNCs' may also vary due to banking industry consolidation, large corporate clients' orientation, financial distress, foreign ownership presence, MNCs' financial capacity, investment potential and other "soft" or borrower-specific information. With reference to the latter, Wenner *et al.* (2007) state "the credit evaluation technologies commonly used are very expensive and tend to increase operating costs, and as a result, the interest rates charged by financial institutions". Therefore a logical conclusion would be that the banks will be more oriented toward local MNCs' debt finance.

Financial institutions should understand the long-term viability of the borrower's business and focus on the strength of a borrower's business plan to manage risk rather than using portfolio management models that rely primarily on general inputs, such as borrower's geographic location or industry.

Domestic producers and exporters routinely rely on external capital because they have to incur substantial upfront costs that cannot be financed out of retained earnings or internal cash flows from operations. These costs may be sunk, in the sense that they need to be paid only once upon entry into an industry, market or product line, or recurrent per-period costs. Most upfront outlays are fixed in nature and, once met, have no bearing on firms' scale of operations, such as expenditures on R&D and product development, marketing research, advertising, and investment in fixed capital equipment. In addition, some variable expenses such 8 See for example Alfaro and Charleton (2007) and Alfaro et al. (2009) as intermediate input purchases, advance payments to salaried workers, and land or equipment rental fees are also typically sustained before production and sales take place.

Production for foreign markets is even more dependent on external financing than manufacturing for the home country for three reasons. First, exporting is associated with additional upfront expenditures.

Sunk and fixed costs of international trade include learning about the profitability of potential export markets; making market-specific investments in capacity, product customization and regulatory compliance; and setting up and maintaining foreign distribution networks. Variable trade costs comprise mainly shipping, duties and freight insurance. As with production, most of these expenses have to be incurred before export revenues are realized.

While access to external finance is important in all industries, some sectors depend considerably more on the financial system. This variation will be an important source of identification in our empirical analysis. The literature has identified two important determinants of sectors' financial vulnerability that are technologically determined, exogenous from the perspective of individual firms, and innate to the manufacturing process in an industry. First, firms in some sectors have substantially greater liquidity needs because they face higher upfront costs and thus require more outside capital (Rajan and Zingales, 1998)

Contracts between firms and investors are enforced with a certain probability, which in a world with multiple economies depends on the country's strength of financial institutions. When a financial contract is honored, the borrower repays the investor; otherwise, the firm defaults and the creditor claim the collateral. Industries, however, differ in their reliance on outside finance and in their availability of tangible assets, as described above.

In the absence of liquidity constraints, all firms with productivity above a certain cut-off level would become exporters, as in Melitz (2003). Financial frictions, however, interact with firm heterogeneity and reinforce the selection of only the most productive firms into exporting: Because more efficient companies earn bigger revenues, they can offer creditors a higher return in case of repayment, and are thus more likely to secure the necessary outside capital. Importantly, the exporting cut-off varies systematically across sectors, and is higher in financially more vulnerable industries. In particular, entrepreneurs would find it more difficult to begin exporting when they need to obtain more trade financing or when potential investors expect a lower return in case of default. Credit constraints can thus preclude potentially profitable firms from engaging in international trade and result in inefficiently low aggregate trade flows.

When companies require outside funds only for their fixed costs of production and cross-border trade, credit conditions would affect the selection of firms into exporting but not the level of their sales abroad. On the other hand, when firms face liquidity constraints in the financing of their variable costs as well, limited access to outside capital would also restrict their scale of operations. While the most productive (and least constrained) exporters could still export at first-best levels, less productive firms would only be able to do so if they ship lower volumes than would be optimal in the absence of financial frictions. Such firms can secure less outside credit than would be necessary to trade at first-best levels, and optimally use it to support lower export quantities which entail lower variable costs. The extent of this distortion would once again vary systematically across sectors. Specifically, firms would have to curtail their export volumes more if they are active in a financially vulnerable industry the country's production and trade. In contrast, below this threshold, not only is the level of financial development a source of comparative advantage, but conventional factor endowments may stop being a source of comparative advantage, in the sense that an increase in the capital stock would not alter production and trade patterns.

In the absence of liquidity constraints, firms' decision to sell in a particular country is independent of the decision to service other markets. By contrast, when firms have limited access to financing, they optimally add export destinations in decreasing order of profitability until they hit their budget constraint and exhaust their resources. This implies that, conditional on firm productivity, exporters in financially vulnerable sectors would transact with fewer trade partner countries.

2.4 Multinational Market Entry Strategies

A review of prior literature on foreign market entry modes and business practices in Japan led to the identification of several factors which may play a role in the foreign market entry mode decisions of Multinational corporations. The primary criterion for a factor to be included in the study, however, was that it must affect the relative bargaining power of Multinational corporations and host government. Following this criterion, eight factors are included in this study. These factors are: the stake of the Multinational Corporations; the stake of the host country; the need for local contribution to the venture; the riskiness of the investment; the intensity of competition for the investment; the level of resource commitment by the Multinational Corporations to the foreign market; and host government's restrictions; and the size of the Multinational Corporations.

2.4.1 Stake of the Multinational Corporations

Stake of the Multinational Corporations is defined as the extent to which a MNC perceives itself as having a high stake in winning the right to enter a foreign market based on strategic considerations (Hill et al., 1990). MNCs see some markets as important to have a presence in as part of an overall global strategy. A Multinational Corporations may also foresee synergy between the proposed venture and its existing operations leading to a competitive advantage. When the MNC believes it has a significant strategic stake in a foreign market or can realize global synergies in its operations its stake in the negotiations increases. As the Multinational Corporations's stake increases, its bargaining power decreases and it may be forced to settle for a lower control mode of entry than it desires. Thus, there is a negative relationship between the stake of the MNC and MNCs' choice of a high control entry mode.

2.4.2 Stake of the host country

Stake of the host country is defined as the degree to which the host government perceives a compelling need to attract the investment. When the host government believes that it has an important stake in attracting the venture, the bargaining power of the MNC will be increased (Gomes-Casseres, 1990). BP theory suggests that the host country is likely to perceive its stake to be high when it has a need to attract foreign capital and/or technology in order to spur economic growth (Yan and Gray, 1994). When the host country's stake is high, its relative bargaining position will be weakened, leaving a greater likelihood of the Multinational Corporations being able to negotiate full ownership. Thus, there is a positive relationship between the stake of the host country in attracting the investment and MNCs' choice of a high control entry mode.

2.4.3 Local Contribution to Multinational Corporations

Need for local contribution refers to the degree to which a MNC needs local capital, technology, or other resources to ensure the success of the venture. The need for local contribution increases the dependence of the MNC on the host country, since a completed deal allows the MNC to obtain resources and/or skills which complement its own. Thus, the host government has higher bargaining power and may be able to pressure the MNC into accepting a low control mode of entry (Yan and Gray, 1994). Multinational corporations, in particular, may be willing to partner with those Multinational Corporations they believe they can trust if the potential partner brings a tangible contribution to the venture. Thus, we would expect MNCs to be more likely to settle for a low control entry mode in situations in which the venture requires a local contribution. There is a negative relationship between the need for local contribution and MNCs' choice of a high control entry mode.

2.4.4 Level of Risks

Riskiness of the host country refers to the uncertainty associated with the success of the investment in the foreign market and can take the form of either: the political risk associated with doing business in the host country; or the financial risk associated with operating the venture. When there is a high level of risk, the number of alternatives available to the host government is likely to be limited, as most international Multinational Corporations will be cautious when considering entry into the market. From a bargaining power perspective, the availability and attractiveness of alternatives have a strong influence on negotiations.

The party having more attractive alternatives will tend to be more powerful, since it can exercise its best alternative to a negotiated agreement. Thus, based on BP theory, a high level of risk in a foreign country will improve the bargaining position of the MNC, making it more likely that the MNC will be able to negotiate a high control mode of entry (Contractor, 1990; Hill et al., 1990). Since Multinational Corporations, like other MNCs, have been exposed to both types of risk, they are likely to consider this factor in making entry mode decisions. Hence, MNCs would be more likely to insist on using a high control mode in risky markets. Thus, there is a positive relationship between the level of risk associated with the host country and MNCs' choice of a high control entry mode.

2.4.5 Intensity of competition

Intensity of competition is defined as the extent to which entry into the foreign market is pursued by a Multinational Corporations' competitors. When a foreign investment is pursued by a number of different MNCs, the alternatives available to the host government increase. In competitive environments, BP theory would suggest that the bargaining power of the host government increases and that the host country government would be less likely to make concessions to any individual MNC (Li and Guisinger, 1992; Tallman and Shenkar, 1994).

Since Multinational Corporations are especially prone to view the implementation of global strategies as essential to their success (Yip, 1996), they may frequently find themselves in competitive situations in which they are highly motivated to enter a market, but have to bargain in order to gain entry due to the presence of competitors. Hence, there is a negative relationship between the intensity of competition for a foreign investment opportunity and MNCs' choice of a high control entry mode.

2.4.6 Resource commitment and scope of the project

Resource commitment refers to the expectations the Multinational Corporations and host countries have in terms of resource commitment and scope of the project. Bargaining power theory suggests that high resource commitment levels increase the stake of both parties, but especially that of the MNC, since the company will want the opportunity to realize anticipated sales associated with a large capital commitment. While employment opportunities are often very appealing to host governments, it is unlikely that host governments will view a single investment as important enough to significantly alter their stake in negotiations (Fisher and Ury, 1981; Gomes-Casseres, 1990). Thus, when commitment is high, MNC's bargaining power is reduced, and they will be less able to negotiate a high control mode of entry, there is a negative relationship between the level of resource commitment required by a venture and MNCs' choice of a high control entry mode.

2.4.7 Government Restrictions in terms of laws and regulations.

Still another factor that can play a role in entry mode decisions is the level to which host government restrictions exist. Host government restrictions are laws and regulations that have an impact on the operations of a foreign Multinational Corporations and have an impact on a

MNCs' entry. Some of government restrictions include equity limits, local content requirements, and exchange controls (Contractor, 1990; Root, 1994). BP theory posits that these types of restrictions will reduce the Multinational Corporations' bargaining power and the ability of the MNC to negotiate for a high control mode, since they either explicitly or implicitly discourage such arrangements (Contractor, 1990; Li and Guisinger, 1992). Thus, there is a negative relationship between the presence of host government restrictions and MNCs' choice of a high control entry mode.

2.4.8 Size of the Multinational Corporations

The size of the Multinational Corporations is defined by the annual worldwide sales volume. BP theory suggests that large Multinational corporations, as a result of their scale, tend to have higher bargaining power in negotiating to enter foreign markets. (Bacharach and Lawler, 1981). Additionally, large Multinational corporations may be able to leverage their reputations into increased bargaining power. Therefore BP predicts that, there is a positive relationship between Multinational Corporations size choice of a high control entry mode.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used in gathering the data and aimed at explaining the research design, data collection methods and tools and data analysis related to the subject under study.

3.2 Research Design

The study adopted a descriptive a research design which according to Donald and Pamela (1998), is concerned with finding out the what, where and how of a phenomenon. The research design and methodology entailed collecting data useful in analysis and coming up with relevant recommendations and conclusions. This study integrated qualitative methods that dealt with non-numerical data which was relevant for this study.

3.3 Data Collection

The study used primary data which was collected using an interview guide that has open-ended questions that enabled to collect qualitative data as well as get a better understanding and insightful interpretation of the results from the study. It enabled a researcher to obtain current information which could not be captured in the other data collection techniques. The interview guide was administered to 5 senior managers, 10 head of departments and 15 team leaders in the bank making a total of 35 respondents.

3.4 Data Analysis

The interview conducted was tape recorded as well as notes taken so as to document the interaction as well as get direct quotes from the respondents that are relevant to this research topic. The tape recording text was translated for word which became the data for analysis.

The data analysis was edited for completeness and consistency then content analysis which is quantitative was used to analyze the respondents' view on the application of credit availability as a market entry attraction to MNCs' in Kenya and the findings was presented in a continuous prose.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter is concerned with analysis, presentation and interpretation of findings. The chapter seeks to address the general objective of this study which was to determine the application of credit availability as a market entry attraction to multinational firms into Kenya with special reference to Barclays Bank. The study also sought to answer the questions how do banks such as Barclays Bank of Kenya apply such market attractions like credit availability to encourage multinationals entry into the Kenyan market?

4.2 General Information

The researcher obtained information from 5 senior managers, 10 head of departments and 15 team leaders working at Barclays bank making a total of 35 respondents. The researcher managed to get responses from all the 35 respondents, since the researcher had made adequate plans to meet respondents.

4.3 Role played by Barclays Bank in attracting foreign investments in Kenya.

The respondents indicated that Barclays Bank plays a crucial role in attracting multinational companies to the country. The respondents further indicated that the bank offers traditional treasury products at competitive prices and provide innovative risk management and hedging solutions to multinational companies since its has a presence and active participation in key financial markets, Barclays Bank of Kenya can price products competitively and offer the best advice to Multinational companies who apply for credit from the bank in order to make sound financial decisions which ensures success of the ventures by the multinational companies.

4.4 Initiatives taken by the management of Barclays Bank to attract the market on its credit products to multinational companies.

According to the findings Barclays Bank of Kenya has a Medium Term Note Programme in one of the largest corporate debt programmes in Kenya. The bond affords investors opportunities for secure returns over the life of the instrument and secures a yield pick up in comparison to existing instruments. According to the findings from the study, this is one of the initiatives that the bank has and which attracts majority of the multinational companies.

According to the findings from the study Barclays provides its customers with Call and fixed-term wholesale deposits in Kenya Shillings and a range of foreign currencies at highly competitive interest rates. Additionally, Barclays Bank treasury provides spot and forward foreign exchange in all major currencies against the Kenya Shilling as well as cross-currency trading in international markets. The respondents further indicated that Barclays Treasury provide advice on the management of exchange and interest risk and provide seamless hedging solutions to its clients which are vital for multinational companies.

According to the findings from the study Barclays bank has initiatives to attract multinational companies through corporate checking accounts, currency specific credit cards and lock boxes are also offered by commercial banking to help make foreign trade possible for a company. Lock boxes are particularly helpful for collecting payments from overseas customers and reporting receipts daily for cash management purposes. Currency-specific credit cards are also important in eliminating the cost of cross currency purchasing, which normally is done at expensive valuation levels.

According to the findings Barclays Bank offers loans to multinational companies for operations of these companies which always need to borrow money to cover purchases of raw materials, machinery parts, inventory and/or payroll. Since Barclays Bank has overseas branches or affiliates it simplifies the process of corporate finance throughout a company's organization by consolidating the transaction procedures, reporting and record keeping. It is much easier for a company manager to do business in her own language with a banker located nearby who handles her global business finance needs than it would be for her to develop banking relationships in every country where she does business. Barclays bank can also provide referrals to professional service firms in other countries, as well as arrange introductions to other companies appropriate as customers or for strategic partnerships.

4.4.1 What strategies does Barclays bank have on reducing information costs to multinational?

According to the findings Barclays Bank has taken great strides in reducing information costs to multinational companies through faster cheque clearing times; increased use of credit reference bureaus by banks; high industry productivity leading to improved financial performance; and increased use of agency outlets by banks. According to the findings Barclays bank has continued to play its in reducing information costs by working closely with our customers and has made significant investments in technology and product development to improve services offered.

4.4.2 Factors considered by Barclays while lending to multinational companies

According to the findings Barclays bank consider credit application by multinational companies through a credit vetting department, the bank analyzes the capacity of the company to repay back through credit referencing from other banks outside the country where the company operates accounting, the bank does a financial analysis of the financial statements of the borrower multinational company. The banks itself is more and more inclined to insist not only on complete statements, but also on statements certified by public accountants. Such a suggestion is not intended as a reflection on the honesty or capability of the corporation's own accounting force; it simply brings to bear in addition the judgment of an unbiased person of wide experience who is in a far better position to value assets than any officer or employee of the corporation.

4.4.3Challenges facing Barclays Bank while lending to multinationals

According to the findings Barclays bank was experiencing challenges while trying to ensure that there is adequate credit to multinational companies which are challenges on the operating environment, challenges associated with the current account deficit; the weakening of the Kenya Shilling against major currencies; high inflation; high energy costs; and the rise in international commodity prices, including oil.

4.4.4 Conditions set by Barclays bank when dealing with multinational firms

According to the findings Barclays Bank ability to obtain financing hinges on many factors: profitability, revenues, cash flow and credit history of the company applying for credit availability. Executives report that credit appears to be much easier to obtain for companies which are already flush with money; those companies which need financing the most are struggling to convince lenders to take a risk. Credit can be relatively easy to negotiate for large, profitable companies with steady cash flows. Barclays Bank sets standards for assessing credit to multinational companies based on merit of the company while at the same time taking precautious measures on the risk element of the investment being intended to be undertaken by the company.

4.4.5 Challenges that Barclays bank face in facilitating credit to multinational firms

According to the findings Barclays bank is facing competition from other commercial banks, it has been forced to repackage its products and invest much on innovation. This has actually decreased the returns to some extent since much of it is used in capital investments.

According to the findings the bank in bid to facilitate credit to multinationals, over the past two years the bank has rapidly invested in branch networks outside the country this has really taken a lot of capital from the bank compared to the returns. The bank find heavy investment in multiple distribution channels to be too expensive compared to the returns from these investments.

4.4.6 Financial Intermediaries

The study found that Barclays bank has financial intermediaries like African Trade Insurance Agency (ATI), Africa's only multilateral Export Credit Agency, in Export Promotion Council (EPC), which the bank uses in bid to influence multinational companies in promoting and enhancing cross-border trade and investment.

According to the findings Barclays has been at forefront of providing personalized Trade finance solutions and control up to 30% of market share of trade business in Kenya with trade finance flows currently exceeding Kenya shillings 19Billion.

The study found that Barclays has been at forefront of providing personalized trade finance solutions and control up to 30% of market share of trade business in Kenya with trade finance flows currently exceeding Kenya Shillings 19Billion.

According to the findings from the study Barclays recognizes the role that institutions such as the

African Trade Insurance Agency contribute to facilitating global trade by mitigating some of the associated risks therein and the benefits of using of Export credit investment insurance for both political risk and commercial risk cover as an alternative method of credit enhancing transactions and mitigating risks, thereby facilitating access to finance on more competitive terms and conditions. This includes using the commercial cover policies as alternative security.

4.4.7 Competition in the Banking Industry

According to the findings in order for Barclays Bank to enhance good relations with multinational companies and curb competition from other banks Barclays bank handle customer complaints with sensitivity and in due regard for the needs and understanding of each complainant. Whilst ensuring quick turn-around on resolution of customer queries and complaints, the banks rely on this information to continuously improve sales and service processes. The bank assess the root cause of complaints made and in instances where the complaint is upheld in favour of the customer, The bank ensures that any learning arising is fed back to the relevant business units to avoid future repetition. The launch of the 24-hour contact centre has immensely contributed to reducing the turn around time on complaint resolution. According to the findings the banks also have a Customer Relationship System (CRM) that supports banks objective of efficiently handling customer complaints whenever they arise. The study found that Barclays Bank has been working hard to enhance good relations with multinational companies and curb competition from other banks. Barclays bank handle customer complaints with sensitivity and in due regard for the needs and understanding of each complainant. Whilst ensuring quick turn-around on resolution of customer queries and complaints, the banks rely on this information to continuously improve sales and service processes. The bank assess the root cause of complaints made and in instances where the complaint is upheld in favour of the customer, The bank ensure that any learning arising is fed back to the relevant business units to avoid future repetition. The launch of the 24-hour contact centre has immensely contributed to reducing the turn around time on complaint resolution. According to the findings Barclays bank has Market discipline through targeted communication of bank lending rates, fees and charges. This initiative is expected to result in increased competition in the banking sector with attendant lowered costs and enhanced access. When the banking rates and fees are lowered the banks can easily enter into retail segments by pricing their products at considerable price to their customers (Ahmad and Buttle, 2002).

4.5 Discussions of Key Findings

After analyzing the response from the interviews conducted with the respondents, some key findings were noted as initiatives taken by the management of the Bank to attract and market its credit products as well as the challenges they face when it comes to dealing with multinationals companies.

4.5.1 Initiatives taken by the management of Barclays Bank to attract and market its credit products to multinational companies

The study found that Barclays Bank of Kenya has a Medium Term Note Programme which is one of the largest corporate debt programmes in Kenya. The bond affords investors opportunities for secure returns over the life of the instrument and secures a yield pick up in comparison to existing instruments. According to the findings from the study, this is one of the initiative that the bank has and which attracts majority of the multinational companies.

The study also found that Barclays bank provides its customers with Call and fixed-term wholesale deposits in Kenya Shillings and a range of foreign currencies at highly competitive interest rates. Additionally, Barclays Bank treasury provides spot and forward foreign exchange in all major currencies against the Kenya Shilling as well as cross-currency trading in international markets. The study also found that Barclays treasury provide advice on the management of exchange and interest risk and provide seamless hedging solutions of to its clients which are vital for multinational companies.

4.5.2 Challenges that Barclays bank face in facilitating credit to multinational firms

The study found that Barclays bank was experiencing challenges while trying to ensure that there is adequate credit to multinational companies the challenges on the operating environment, challenges associated with the current account deficit; the weakening of the Kenya Shilling against major currencies; high inflation; high energy costs; and the rise in international commodity prices, including oil.

Barclays bank assists its multinational clients steer through the prevailing local and global economic conditions, the bank puts together the inaugural Barclays Economic Forum; a discussion facilitated by colleagues from different parts of the Group and external consultants. During the Economic Forum, clients get an expert view on the status of the global markets and the impact this has on their businesses.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the general objective of this study which was to determine the application of credit availability as a market entry attraction to multinational firms into Kenya with special reference to Barclays Bank.

5.2 Summary of findings

The study found that Barclays Bank of Kenya has a Medium Term Note Programme is one of the largest corporate debt programmes in Kenya to multinational companies. The study found that Barclays provides its customers with Call and fixed-term wholesale deposits in Kenya Shillings and a range of foreign currencies at highly competitive interest rates. Additionally, Barclays Bank treasury provides spot and forward foreign exchange in all major currencies against the Kenya Shilling as well as cross-currency trading in international markets.

The study also found that Barclays Bank offers loans to multinational companies for operations of these companies which always need to borrow money to cover purchases of raw materials, machinery parts, inventory and/or payroll. Since Barclays Bank has overseas branches or affiliates can it simplifies the process of corporate finance throughout a company's organization by consolidating the transaction procedures, reporting and record keeping.

The study also found that Barclays Bank has taken great strides in reducing information costs to multinational companies through faster cheque clearing times; increased use of credit reference bureaus by banks; high industry productivity leading to improved financial performance; and increased use of agency outlets by banks.

The study also found that Barclays bank evaluates credit application by multinational companies through a credit vetting department, the bank analyzes the capacity of the company to repay back through credit referencing from other banks outside the country where the company operates accounting, the bank does a financial analysis of the financial statements of the borrower multinational company

The study also found that Barclays bank was experiencing challenges while trying to ensure that there is adequate credit to multinational companies the challenges on the operating environment, challenges associated with the current account deficit; the weakening of the Kenya Shilling against major currencies; high inflation; high energy costs; and the rise in international commodity prices, including oil.

The study found that Barclays bank is facing competition from other commercial banks, it has been forced to repackage its products and invest much on innovation. This has actually decreased the returns to some extent since much of it is used in capital investments.

The study found that Barclays Bank enhance good relations with multinational companies and curb competition from other banks Barclays bank handle customer complaints with sensitivity and in due regard for the needs and understanding of each complainant. Whilst ensuring quick turn-around on resolution of customer queries and complaints, the banks rely on this information to continuously improve sales and service processes.

The study also found that Barclays bank has a bright future in attracting multinational companies in Kenya since it has an efficient customer resolution mechanism. The bank assess the root cause of complaints made and in instances where the complaint is upheld in favour of the customer.

5.3 Conclusion

The study concludes that study loans offered to multinational companies attract new investments in the country since the cash obtained is used for operations of these companies which always need to borrow money to cover purchases of raw materials, machinery parts, inventory and/or payroll.

The study also concludes that since Barclays Bank has overseas branches or affiliates it simplifies the process of corporate finance throughout multinational companies by consolidating the transaction procedures, reporting and record keeping.

The study further concludes that found that Barclays Bank has taken great strides in reducing information costs to multinational companies through faster cheque clearing times; increased use of credit reference bureaus by banks; high industry productivity leading to improved financial performance; and increased use of agency outlets by banks. The credit reference ensures that the multinational companies' transactions are expedited on time.

The study also concludes that Barclays bank evaluates credit application by multinational companies through a credit vetting department, the bank analyzes the capacity of the company to repay back through credit referencing from other banks outside the country where the company operates accounting, the bank does a financial analysis of the financial statements of the borrower multinational company

The study further indicates that Barclays Bank has high chances of huge operations with multinational companies due to good relations to these companies and curb competition from other banks, The study also found that Barclays bank has a bright future in attracting multinational companies in Kenya since it has an efficient customer resolution mechanism.

5.4 Limitations of the Study

There were some limitations in carrying out the research project. As a part time student who needs to balance with studies with full time employment which involve a lot of

travelling out of the station, the researcher was no able to undertake an extensive and exhaustive research due to the limited research. There was a limitation on the financial resources as the researcher is a self-sponsored student relying on savings to progress his studies. There were challenges during data collection as the respondents of the research were top level management who were very busy in the daily running of the company. Some statistics were also not available due to their sensitivity to the company to support arguments and views of the management. The researcher however worked at winning the confidence of those involved in this research by giving them the reasons for the research and assuring them of confidentiality.

5.5 Recommendations for the organization

The study recommends that for a mutual co existence of Barclays bank and Multinational companies, both should believe in company's mission and purpose. It's not possible to sell a lender on company unless they are organized and passionate about reasons of financing.

Multinational companies should be prepared with details about what each company is trying to accomplish, analysis of the marketplace and the opportunities in the area. Do your homework.

Multinational should ensure that they are exercising a disciplined approach to managing their company's finances before they seek credit. For instance, making sure that accounts receivables are up to date. Are there assets that are unused or underused? Check

5.6 Recommendations for policy and practice

It will take some time for the banking industry to work through this current set of challenges and for the financial markets to recover. During that recovery, the economy will need a strong and stable financial system that can make credit available. The challenge for Barclays Bank is support for prudential bank intermediation that helps restore the health of the financial system and the economy as a whole to ensure that credit is always to multinational companies

Barclays bank should deploy capital and liquidity, but in a responsible way that avoids past mistakes and does not create new ones. Bankers should operate prudently in the current challenging environment, but should not let fear drive their decisions.

The Government should take some concrete steps to support the drive towards greater access to credit. Some of the measures included: reviewing the legal, regulatory and supervisory frameworks for the financial sector to improve them.

5.7 Recommendation for Further Studies

From the study and related conclusions, the researcher recommends further research in the area of the role of government in attracting investment in Kenya.

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APPENDICES

APPENDIX I: UNIVERSITY INTRODUCTORY LETTER

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 17/10/2012

TO WHOM IT MAY CONCERN

The bearer of this letter IRENE NJORI CHEGE

Registration No. D61/61639/2010

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

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 your assistance to enable him/her collect data in your organization.

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
17 OCT 2012
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

APPENDIX II: STUDENT INTRODUCTORY LETTER

Dear Sir/Madam,

APPLICATION OF CREDIT AVAILABILITY BY BARCLAYS BANK OF KENYA AS A MARKET ENTRY ATTRACTION FOR MULTINATIONALS

I would wish to request for permission to carry out a research at your company on the above mentioned topic.

I am a student at the University of Nairobi, School of Business and I am carrying out this research to fulfill the requirements for the award of the degree of Masters of Business Administration.

This study is purely for academic purposes and its findings, which will be made available to you, will not be in any way used in ways detrimental to your organization/ company.

I am looking forward for a favorable response.

Yours Sincerely,

Irene Njoki Chege

SUPERVISOR

Dr. John Yabs

APPENDIX III: INTERVIEW GUIDE

APPLICATION OF CREDIT AVAILABILITY BY BARCLAYS BANK OF KENYA AS A MARKET ENTRY ATTRACTION

1. Which credit facilities are offered by Barclays Bank to Multinational Firms?
2. Who are involved in the facilitation of credit facilities to multinational firms?
3. What role does Barclays bank play in attracting foreign investments in Kenya?
4. Which conditions does Barclays bank set when dealing with multinational firms intending to operate in Kenya?
5. What initiatives are taken by the management of Barclays Bank to attract the market it credit products to multinational companies?
6. Which challenges does Barclays bank face in facilitating credit to multinational firms?
7. What are the other factors leading to entry strategy for multinational firms?
8. What strategies does Barclays bank have on reducing information costs to multinational?
9. What strategies does Barclays bank intend to use in order to retain the multinational firms that are operating in Kenya?
10. What prospects does Barclays bank have to reach multinational firms that have not operated in Kenya?
11. What are the credit terms offered by Barclays bank to multinational companies?
12. Does Barclays bank have financial intermediaries while facilitating credit to Multinational Companies?
13. How does the Barclays bank intend to overcome competition from other financial institutions offering credit to multinationals?

14. Which circumstances would lead Barclays bank to decline credit Multinational Company?

15. Which future prospects does Barclays bank have in attracting Multinational companies through credit?