EFFECT OF MULTINATIONAL CHINESE FIRMS IN COMPETITION WITH THE LOCAL FIRMS IN KENYA

BY:

GICHUKI ANN WAMBUI

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DECLARATION

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

Signature.. Date.....08-11-2012.............................

GICHUKI ANN WAMBUI

D61/63023/2010

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

Signature..Date.....8-11-2012.............................

DR. JOHN YABS

LECTURER,

SCHOOL OF BUSINESS,

UNIVERSITY OF NAIROBI

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DEDICATION

I dedicate this project to my beloved husband Bonaventure Kimani Kambo, for the invaluable support, love and encouragement.

ABSTRACT

Globalization is the ongoing social, economic, and political process that deepens and broadens the relationships and inter-dependencies amongst nations, their people, their firms, their organizations, and their governments. International competition involves the battle between businesses to win consumer acceptance and loyalty in the international field. As multinationals diversify through foreign direct investments in other countries, they are posing major threats to the local firms which in return have resulted to various tactics to ensure that their market share is not threatened by new entrants. This study was set to determine the effect of Multinational Chinese Firms in competition with the Local Firms in Kenya.

The study was conducted on a sample of 15 Multinational Chinese Firms and 25 Local Kenyan Firms doing business in Kenya. Data was collected using questionnaires which were delivered to both Local firms and Multinational Chinese firms targeting middle level employees. The results were analyzed and the findings from the study indicate that Local Kenyan Firms are being adversely affected by the Multinational Chinese Firms in terms of pricing, quality and marketing of their products. To remain competitive, the local firms have resulted to price reduction thus affecting their profits, advertisement thus increasing their expenses and quality improvement thus a need for them to invest more in research and development.

The findings of this study are important because they will assist in developing policies and strategies that will ensure that Local Kenyan Firms are able to compete successfully with the Multinational Chinese Firms in Kenya. This include as identified in the study, becoming more innovative, responding efficiently to customers' needs, developing affordable products, developing new & better quality attractive products and being proactive in coming up with competitive strategies to beat competition.

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ABBREVIATIONS

FDI	Foreign Direct Investment
UNCTAD	United Nations Conference on Trade and Development
MNCs	Multinational Corporations
JBIC	Japan Bank for International Cooperation
OLI	Ownership, Location and Internalization
SMEs	Small Medium Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

One of the most dramatic and significant world trends in the past two decades has been the rapid, sustained growth of international business. Markets have become truly global for most goods, many services, and especially for financial instruments of all types. World product trade has expanded by more than 6 percent a year since 1950 but the most dramatic increase in globalization has occurred in financial markets. This pervasive growth in market interpenetration makes it increasingly difficult for any country to avoid substantial external impacts on its economy. The international economic environment is now increasingly characterized by its dynamism and globalization.

At present, the international economic environment is increasingly dynamic and global, which is reflected in the enormous growth of world trade and another in the foreign direct investment boom (Forsnäs, H., Ballance, R., 1990). The goal of any multinational company is to obtain competitive advantages that enable it to outperform the competition. The decision on what and how many markets to address, how to enter, the type of organization to adopt are incremental decisions that require more thorough analysis of strategic nature. Large number of companies are facing internationalization as a way to grow, without realizing that sell abroad may reduce their profits and involve risks not run in the domestic market. Being international is expensive, because the issue is not bigger but better (Canals, J., 1996).

1.1.1 Internationalization of business

The process of internationalization is inherently a rational decision making activity triggered primarily by forces external to the organization (Ellis & Williams 1995. p. 48). The retail management literature has tended to see internationalization as the movement from the domestic market to the global market also known as the spread of operations (Alexander & Myers 2000. p. 342). This internationalization process is a major dimension of the ongoing expansion process of most business firms (Melin 1992. p. 101).

Several studies of international business have indicated that internationalization of the firm is a process in which the firms gradually increase their international involvement (Johanson & Vahlne 1977. p. 23). The process of internationalization of business is done in several stages; The first stage of international business development is the internationalization process of trading goods while the second is the internationalization of production. The third stage involves the internationalization of the firm. In this case, the main way of achieving internationalization is direct investment, and which form it takes is the implementation abroad. Axinn and Matthyssens argue, that today, firms are internationalizing in greater numbers than ever before and they are internationalizing faster than ever before.

But what makes companies internationalize? According to Ellis and Williams (1995) there are three possibilities that might stimulate firms to go abroad. It can either be a strong pull, push or a combination of both factors. Pull factors entice companies away from their existing market caused by international market attractiveness. In contrast push factors arise out of perceived difficulties in a company's existing markets, and the opportunities to overcome these by moving into cross border markets. The International Stages Theory (Uppsala model) which was developed by Johanson and Wiedersheim Paul (1975) and those of Johanson and Vahlne (1977) claim that when faced with unknown markets, incomplete information, and being in a state of constant incertitude, an enterprise develops in foreign markets by adopting a process which evolves by increments as it progressively acquires international experience. The Uppsala model is supported by many studies which have shown both small and large enterprises passing through distinct and gradual stages during the development of their international affairs (Johanson and Vahlne, 1990; Oviatt and Phillips McDougall, 1994).

The internationalization process is not necessarily sequential but it is often irregular (Welch and Luostarinen (1988). Some companies do internationalize rapidly by associating themselves with other large international networks of enterprises in their field. The selection of foreign markets, as well as the choice of the mode of entry, is normally provoked by opportunities as a result of formal and informal contacts and not by active research methods. According to a study by Baird, Lyles and Orris (1994), an internationalization strategy consists of a combination of exportation, alliances and foreign direct investment strategies.

Although, they criticized the "stages" theory, Welch and Luostarinen (1988) admit the existence of a certain number of dynamic factors which explain why an important number of enterprises choose to progress gradually in their internationalization process. These factors are expressed as follows: resource availability, the acquaintance level of the foreign market, the importance of communication networks, the perceived risk, and the willingness of the manager to enter foreign markets. According to Oviatt and McDougall (1994), firm believers of the Internationalization Stages Theory, the theory is less applicable in a growing number of situations where the technology, the industry's environment, and the capacity of an enterprise have changed.

1.1.2 Multinational Corporations

A multinational corporation is a business enterprise with manufacturing, sales, or service subsidiaries in one or more foreign countries, also known as a transnational or international corporation. There are four categories of multinational corporations: a multinational, decentralized corporation with strong home country presence, a global, centralized corporation that acquires cost advantage through centralized production wherever cheaper resources are available, an international company that builds on the parent corporation's technology or R&D, and a transnational enterprise that combines the previous three approaches.

As they enter foreign markets, MNCs may help emerging economies in the modernization of their economies and industries by transferring technology, knowhow and skills, by providing access to export markets, by intensifying competition, or by offering better/cheaper goods and services than those offered by local producers (De Mello, 1999; UNCTAD, 1999; JBIC Institute, 2002). On the other hand, MNCs may stifle economic development by locking in host economies in low value added activities and by crowding out local investments and jobs. Furthermore, anti competitive practices of MNCs may reduce consumer welfare and build consumption patterns that are unsuited for host countries (Caves, 1996; Buckley and Ghaury, 2002; Cypher and Diez, 2004).

As noted by numerous authors, it must be concluded that MNCs obviously are both 'boon' and 'bane' for emerging economies (Caves, 1996; Nunnenkamp, 2004; Dicken, 2004; Görg and Greenaway, 2004; Endewick, 2005) and therefore the key issue is when foreign direct investment (FDI) by MNCs is beneficial to economic development and when it is not. A lot of literature has pointed out numerous factors that condition FDI impacts, such as government policies (Dunning, 1997), MNC investment motives (Endewick, 2005), MNC entry strategies (Görg and Greenaway, 2004), absorptive capacity of local industry (Narula and Lall, 2004), or the extent to which MNCs link up to local firms and industries (Altenburg, 2000; Giroud and Scott Kennel, 2006). One of the key issues related to MNCs' role in economic development is the way in which MNCs interact with local firms and industries. Are MNCs inciting local industries to become more effective by exposing them to competition and demonstrating advanced production methods, or are they on the contrary using their market power to crowd out local firms?

Are MNCs building broad local networks of related and supporting industries in host countries or are they rather creating enclave economies with few local linkages? In addition are MNCs investing in upgrading competencies of local firms and industries or are they on the contrary keeping local firms in low value adding routine functions and activities? In short, would local firms be better or worse off without the entry of MNCs? From the mid 1970s, microeconomic literature on MNCs emerged, literature that later would provide one of the main pillars of International Business.

Inspired by Stephen Hymer's seminal PhD thesis in 1960, early International Business literature, argued that multinationals possess special assets in comparison to local firms that allow them to overcome the disadvantage of foreignness (Hymer, 1960). Internationalization per se reinforces the multinational's advantages by providing opportunities to divide marketing risks, by slicing up the value chain on the base of the territories' comparative advantages, and by providing access to new resources and assets. Later, the International Business theory of MNCs directed more attention to advantages related to the ability to organize cross border transactions in the face of market imperfections (Buckley and Casson, 1976), the ability to leverage resources across borders (Peteraf, 1993) or the advantages related to coordinating knowledge diffusion and development across borders (Kogut and Zander, 1993). Dunning (1988; 2001) sought to integrate many of these understandings of MNCs in his 'eclectic' OLI framework, which has become a dominant framework for understanding MNCs within the International Business literature. Nevertheless, as argued by Forsgren (2002), the International Business theory embodies some fairly straightforward assumptions and predictions regarding MNC effects on host countries.

The early market power current within International Business argued that MNCs were essentially extensions of market power in foreign locations (Hymer, 1960).They are seen to crowd out local investment and reduce consumer welfare by suppressing competition. By the mid 1970s, this critical view was challenged by a number of scholars who argued that MNCs existed mainly to bridge market imperfections in cross border markets for intermediary goods., As such, MNCs were expressions of efficiency and therefore welfare enhancing (Rugman, 1981) and more recent (Peteraf, 1993) and (Kogut and Zander, 1993) view MNCs as beneficial to host countries.

1.1.3 Multinational Corporations – Local Firms relations

The theory on MNC-local firm relations is mainly informed by three economic traditions, namely trade economics, industrial organization and international business. In the original trade theory, production factors were assumed to be immobile while goods could move freely. A partial equilibrium comparative static approach was developed, aiming to evaluate the distribution of the gain for a capital scarce country of additional investments coming from a capital abundant country (MacDougall, 1960). Aliber (1971), in a similar way, argued that FDI was a consequence of a kind of arbitrage between countries with strong and weak currencies.

New Trade Economics allowed for the possibility of economies of scale and product differentiation (Helpman, 1984; Helpman and Krugman, 1985; Markusen,1984), paving the way for an understanding of MNCs in equilibrium models. New Trade Economics predicted that MNCs produce both crowding in effects and crowding out effects (Markusen and Venables, 1999). As MNCs possess some special advantages over the indigenous host country rivals, they may initially produce crowding out of local investment or they may in the longer run 'crowd in' due to high transportation costs that force the MNCs to source locally.

While New Trade Economic models abandoned the strict assumptions of the original neoclassical theory it is still inadequate in conceptualizing the variations and complexity in MNC strategy and effects. By the late 1950s and early 1960s, the Trade Economic partial equilibrium models were fundamentally challenged from an Industrial Organization perspective. The Industrial Organization literature on MNCs aimed to study the consequences of 'the entry into a national industry of a firm established in a foreign market' (Caves, 1971, p. 1). Markets are full of imperfections of the structural type proprietary technology, privileged access to inputs, economies of scale, control of distribution systems and product differentiation (Bain, 1956) that can be used by firms to increase their monopoly power and to internationalize.

Microeconomic literature on MNCs in the mid 1970s argued that multinationals possess special assets over the local firms allowing them to overcome the disadvantage of foreignness (Hymer, 1960).The multinationals' ownership advantage is often reinforced by the ability they have to access finance, internationally and in the host economy, compared to local firms which are most of the time financially constrained. Later, the International Business theory of MNCs directed more attention to advantages related to the ability to organize cross border transactions in the face of market imperfections (Buckley and Casson, 1976), the ability to leverage resources across borders (Peteraf, 1993) or the advantages related to coordinating knowledge diffusion and development across borders (Kogut and Zander, 1993). Dunning (1988; 2001) sought to integrate many of these understandings of MNCs in his 'eclectic' OLI framework, which has become a dominant framework for understanding MNCs within the International Business literature.

International Business theory says little about the extent to which MNCs produce spillovers on local firms. But it can be inferred from the market power view that if MNCs are about extending market power to foreign locations, local firms may be harmed. Moreover, as recognized by modern International Business theory, as MNC boundaries are becoming increasingly fuzzy (Cantwell and Narula, 2001) and as MNCs are increasingly locating the development and exploitation of their ownership specific advantages in business networks and strategic alliances (Ghoshal and Bartlett, 1990), new opportunities for acquiring technology, knowledge and market access for local firms in emerging economies are provided.

1.1.4 Multinational Chinese Firms in Kenya

In the last decade, Chinese presence in Kenya for investment and trade purposes has drawn a lot of controversy among the local businessmen especially in the construction and manufacturing sectors whose infant industries have either been forced to close down due to inability to compete with the Chinese firms or in the verge of collapse. Chinese manufacturers are also setting up local production plants, signaling a change of tack in the battle for control of Kenya's consumer market they have been serving through direct imports. This is expected to create thousands of jobs for young Kenyans but also escalate the battle for control of East Africa's rapidly growing consumer market that is also being eyed by Western companies.

Chinese companies have expanded their economic footprint in Kenya since President Kibaki came to power in January 2003, riding on the government's deliberate decision to look East for new investments and aid. Kenya Investment Authority (KIA) says at least 18 Chinese companies have set up shop in Nairobi in the past two years targeting diverse markets such as footwear, consumer electronics and beverages with an initial investment cost of over Sh7 billion. Chinese companies are coming to Kenya with an aim of penetrating the larger East African market where demand for goods and services is growing. The removal of barriers to movement of people, goods, and services in the region is attracting more foreign investments, with Kenya gaining from its strategic position as an infrastructure, transport, and financial services hub.

1.2 Research Problem

The African markets are currently flooded with cheap consumer and capital goods supplied by Chinese firms sometimes backed with financial support from the Chinese government. The local firms in Kenya are very uneasy with the rate at which various Multinational Chinese firms are penetrating the Kenyan market posing a threat to local firms survival. The worry is that with the cheap imports from China, the technological capability and learning process necessary to cope with the current realities and future demands will never be developed in Kenya. Hence making it a challenge for the government as it works towards the attainment of Vision 2030.

Research in strategic management has long studied multinationals' strategies and performance in overseas markets. It has examined such firms' entry mode decisions (Kogut, 1983; Chang, 1995), their interactions with other multinationals (Henisz and Delios, 2001; Chang and Park, 2005; Miller and Eden, 2006), and their ability to cope with the socioeconomic environments of the host countries they enter (Rosenzweig and Singh, 1991; Ghoshal and Westney, 1993;

Kostova and Zaheer, 1999). Yet it has typically studied these phenomena only from the perspective of multinational firms. Except for studies on joint ventures, it has paid little attention to local firms, which compete with multinationals in local markets (Meyer, 2004). In contrast, economists have long considered how local firms can benefit from foreign entrants' technology spillovers and thereby improve their own technological efficiency (Caves, 1974; Blomstrom,1986; Hejazi and Safarian, 1999; Sinai and Meyer; 2004). Yet for the most part, economists have also neglected host countries' competitive environments and have viewed local firms, especially those in emerging and developing economies, as passive recipients of technology spillovers.

This is attributable to the assumptions that foreign entrants' advantage over local firms is sufficiently large to compensate for their liability of foreignness and to limit competition from local firms (Hymer, 1960; Caves, 1971). However, currently some local firms in developing countries are successfully challenging foreign entrants (Dawar and Frost, 1999; Zeng and Williamson, 2003). It is against this background that this study seeks to determine the effect of Chinese Multinationals in Competition with the local firms in Kenya. This study will therefore seek to answer the question: What is the effect of Multinational Chinese firms in Competition with the Local Firms in Kenya?

1.3 Research Objective

The research objective of the study was to investigate the effect of Multinational Chinese Firms in competition with the Local Firms in Kenya.

1.4 Value of the Study

To the local firms, the study findings will be of much importance to the local firms in Kenya because the identification of the impact of the multinational Chinese firms on competition will enable them to identify ways to counter the threats posed by the said companies by developing strategies to fight off the competition either through better quality products, lower prices as well as more diversified products for the customers. In the end the local firms will be able to protect their current market share from being taken away by the new comers in the market.

From the study findings the government will also be able to identify the most threatened local firms by the multinational Chinese firms. This will in addition enable them to identify various ways in which they can be able to intervene for the local firms and develop policies to either protect the local firms from the fierce competition, make the competitive environment more bearable for all the players in the market or even offer them various incentives to enable them to be in a position to compete favorably for survival. This will be a guide to the government in the long run as it strives to develop its local industry as it works towards meeting the much anticipated Vision 2030 of becoming a middle income economy by the year 2030.

To the current and potential scholars in the business field especially those who have interest in the effect of multinational Chinese firms in Kenya, the findings from this study will provide information to expand the one that already exists because i intend to give suggestions for further studies. This will mainly include the areas in which the presence of the Multinational Chinese firms are having the biggest effect and which strategies can be applied to ensure that the multinational Chinese firms and the local firms compete on a level playing field towards the attainment of Vision 2030.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two covers the literature review including, globalization, international business and trade, international competition and competition between Multinational firms and local firms.

2.2 Globalization

Globalization is the ongoing social, economic, and political process that deepens and broadens the relationships and inter-dependencies amongst nations, their people, their firms, their organizations, and their governments. Some of the factors driving globalization include, increase in and expansion of technology, liberalization of cross border trade and resource movements, development of services that support international business, growing consumer pressures, increased global competition, changing political situations and the expanded cross national cooperation. However, there exists some criticism with respect to globalization which include threats to national sovereignty, economic growth and environmental stress as well as growing income inequality and personal stress.

2.3 International business and Trade

International business facilitates globalization process and it refers to all business activities carried out across national borders. International business activities normally include transaction of economic resources such as goods, capital, services in form of technology, skilled labour, transportation e.t.c as well as international production. The major objectives of international business include sales expansion, minimization of competitive risk ,resource acquisition and diversification of their products or services. In the present day world, international business has become indispensable and its role has increased in significance both at the macroeconomic and microeconomic levels. A country specializes in the production of those goods for which it has maximum advantage for export and imports those goods which it cannot produce or for which it has no specific advantage. This is the basis of international trade. International Business is essentially about understanding the existence, conduct and performance of firms involved in cross border business transactions and therefore the efficiency or welfare effects of these transactions received little attention.

Basically, welfare issues remained the domain of trade economists and industrial economists and to some extent political scientists analyzing the role played by MNCs in policy formulation at the national and international level (see for example Spar and Yoffie, 1999; Moran, 2002). Insofar as International Business analyzed spillovers, it was mainly in the context of finding effectively controlled strategies avoiding spillovers. To many International Business theorists, the very purpose of the MNC was to avoid knowledge and technology being spilled over to other firms.

Various theories have been developed by various scholars to explain international trade. Mercantilism proposed that a country should try to export more than it imports, in order to receive gold. Adam Smith developed the theory of absolute advantage that stressed that a country should produce goods or services if it uses a lesser amount of resources than other countries. David Ricardo stated in his theory of comparative advantage that a country should specialize in producing and exporting products in which it has a comparative advantage and import goods in which it has a comparative disadvantage.

Hecksher-Ohlin's theory of factor endowments stressed that a country should produce and export goods that require resources that are abundant in the home country. Leontief tested the Hecksher-Ohlin theory in the U.S. and found that it was not applicable in the U.S. Raymond Vernon's product life cycle theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle. Foreign direct investment (FDI) is critical to a multinational firm's global strategy.

Various researches have examined Multinational firms' entry mode decisions (Kogut, 1983; Chang, 1995), their interactions with other multinationals (Henisz and Delios, 2001; Chang and Park, 2005; Miller and Eden, 2006), and their ability to cope with the socioeconomic environments of the host countries they enter (Rosenzweig and Singh, 1991; Ghoshal and Westney, 1993; Kostova and Zaheer, 1999). However, little attention has been paid to local firms, which compete with multinationals in local markets (Meyer, 2004). Economists have long considered how local firms can benefit from foreign entrants' technology spillovers and improve their own technological efficiency (Caves, 1974; Blomstrom,1986; Hejazi and Safarian, 1999; Sinai and Meyer; 2004).

The economists have neglected host countries' competitive environments, especially those in emerging and developing economies, as passive recipients of technology spillovers. One possible reason may be attributable to one of FDI theory's underlying assumptions, namely that foreign entrants' advantage over local firms is sufficiently large to compensate for their liability of foreignness and to limit competition from local firms (Hymer, 1960; Caves, 1971). However, this may no longer be valid, as some local firms in developing countries are successfully challenging foreign entrants (Dawar and Frost, 1999; Zeng and Williamson, 2003).

The literature on FDI spillovers to local firms, has generally neglected the possibility of such competition. In order to overcome this shortcoming, it is necessary to adopt a theoretical framework that explains competition among firms and draw insights from the literature on competitor analysis and competitive dynamics. Specifically, Chen (1996) proposes two factors, market commonality and resource similarity as antecedents of interfirm rivalry. It can also be extended to the study of competition among various groups of firms so that we can account for both the positive and negative effects.

2.4 International Competition

Competition is the battle between businesses to win consumer acceptance and loyalty. In today's competitive business world, it is important for businesses to be aware of their competitors actions and to find a way to compete by matching or improving on the competitors' product or service. Global competition has made gaining consumer acceptance an even tougher challenge for most businesses. Companies must provide consumers with the best quality products at the lowest cost while still making a profit if they are to be successful competitors in the long run.

Competition can generally be classified into perfect competition, monopolistic competition, oligopoly and monopoly. Perfect competition exists when a large number of sellers produce products or services that seem to be identical. Monopolistic competition exists when a large number of sellers produce a product or service that is perceived by consumers as being different from that of a competitor but is actually quite similar. This perception of difference is the result of product differentiation, which is the key to success in a monopolistic industry. An oligopoly exists when there are few sellers in a certain industry. A monopoly exists when a single seller controls the supply of a good or service and prevents other businesses from entering the field.

Competition has been one of the central themes of many fields. Originally, competitive analysis was conducted at the industry level, with insights drawn from industrial organization economics (Bain, 1956; Porter, 1980). Rivalry inside an industry was recognized as a key component of the five forces that determine firm performance (Porter, 1980). Quickly, however, strategy researchers started looking for more precise ways to identify competitors at a sub industry level, namely the strategic group. This approach views firms within a strategic group as a focal company's most direct competitors (McGee and Thomas, 1986; Barney and Hoskisson, 1990).

As the strategy field became increasingly interested in firm specific factors that contribute to competitive advantage, there arose a need to analyze individual competitors of a focal company, and to predict the rivalry and interaction between a pair of competitors. Chen (1996) integrates the related literatures in competitor analysis and interfirm rivalry (Chen and MacMillan, 1992; Ferrier, 2001) to derive a framework for this purpose. He synthesizes the market focused perspective (Porter, 1980; Gimeno and Woo, 1994) and the resource based view (Barney, 1986; Conner,1994) to propose that two constructs, market commonality and resource similarity, are antecedents of interfirm rivalry.

These constructs influence the drivers of competitive behavior, awareness, motivation, and capability, which in turn influence the likelihood of competitive attack and response between two rivals (Chen, 1996; Yu and Cannella, 2007; Chen, Su, and Tsai, 2007). More specifically, greater market commonality and increased resource similarity will normally lead to mutual forbearance, but provoke retaliation once an attack has been launched.Market commonality refers to the extent of market overlap among competitors, and the concept of market is broad enough to encompass geographic market, market segment, and brand; resource similarity indicates the extent to which competitors possess comparable types and levels of strategic endowments (Chen, 1996). Companies targeting the same, single geographic market have chosen the same niche based on location (Porter,1980, 1998). Baum and Mezias (1992) demonstrated that similar organizations located in the same region competed more intensely and reduced each other's chance of survival. On the other hand, companies that have similar 'sticky' and immobile resources may be constrained to develop similar capabilities and take similar strategic positions (Collis, 1991; Teece, Pisano, and Shuen, 1997), thus becoming direct competitors.

While this scaling up makes it difficult to observe details of interfirm rivalry and interactions, it increases the model's predictability in a way. Chen's (1996) framework contains a mutual forbearance hypothesis and an escalating retaliation hypothesis: a pair of direct competitors might refrain from acting against each other, and will likely retaliate when acted upon. The prospect that an attack would almost certainly invite retaliation from direct competitors perhaps suggests that mutual forbearance is more likely to be observed in a duopoly or an oligopoly situation.

When there are large groups of firms in an industry, however, it is much more likely that some firms will initiate an attack in order to achieve first mover advantage (Lieberman and Montgomery, 1988) with the hope that their competitors will not respond to this (Chen and MacMillan, 1992). Furthermore, some firms might act first to gain such first mover advantage because they think their competitors might eventually initiate attacks. Thus, with large groups of firms, initial attacks would be more frequent and more certain. Once an attack has been launched, firms in the same market and with similar resource types will react, consistent with Chen's (1996) prediction of escalating retaliation resulting to intense industry rivalry.

2.5 Competition between Multinational firms and Local firms

Increasing intensity of competition in global markets constitutes yet another challenge facing companies at all stages of involvement in international markets. Apart from facing competition from well established multinationals and from domestic firms entrenched in their respective product or service markets, firms face growing competition from firms in newly industrializing countries as well as emerging global networks. Local companies in emerging country markets seek to compete against multinational companies by developing business models that exploit shortcomings in local distribution networks or infrastructure, utilizing understanding of local customer needs and preferences to create customized products or services, taking advantage of low cost labor and other competitively important qualities of the local workforce

Firms in the same region typically share a common geographic market. They are also subject to the same set of sub national institutional environments, which constrain their choices and force them to develop similar market strategies (DiMaggio and Powell, 1983; Oliver, 1991). Thus, firms may have more market commonality with firms in the same regional market than they do with those situated in different regions. A regional market can be based on physical access (Baum and Mezias, 1992); on unique sociocultural characteristics or on administrative divisions. When a multinational firm enters an overseas market, it must choose a specific location for its foreign subsidiary. Traditionally, researchers have examined the location strategies of multinational firms as a function of ownership and location advantages (Dunning, 1981; Buckley and Ghauri, 2004),and have not paid much attention to the market competition factors in the host country.

Recently, however, researchers have started to consider the challenges that local firms exert on foreign entrants in regional markets. Miller and Eden (2006), for instance, found that U.S. subsidiaries of foreign commercial banks had a higher exit rate in regions with higher local density. A domestic incumbent is likely to see the entry of foreign firms as a serious threat, especially when it is locally bound (Dawar and Frost, 1999). Multinational firms typically enjoy technological superiority and strong brand loyalty. They are highly visible, and can secure preferential treatment from local governments due to their strong bargaining power (Moran, 1985; Kim, 1988).

Multinationals entry into a host market will often bring shock and disequilibrium to a local industry, heightening the awareness of local firms (Chen, 1996), and the entrants will be seen as aggressive intruders. Under such circumstances, forbearance is unlikely, and attacks and counterattacks will be frequent, causing industry rivalry to intensify. The resultant competitive tension (Chen *et al.*,2007) can be particularly salient in emerging markets, which often comprise many regional markets that have significantly different income levels and customer demands. National markets typically have not been established for most industries in such countries, and in the absence of national economic drivers, such as a national distribution system, most of the domestic firms compete regionally (Prahalad and Lieberthal, 1998; Peng, Tan, and Tong, 2004).

In analyzing how local companies in emerging markets can compete with multinational 'giants,' Dawar and Frost (1999) notes that it is important to consider the type of strategic assets each has accumulated: those that are transferable abroad versus those that are customized to a specific home market. Relative to local competitors, multinational firms possess proprietary assets, often in the form of advanced technologies, brand names, and managerial know how that they can transfer to their foreign subsidiaries (Buckley and Casson, 1976; Dunning, 1988; Hitt *et al.*, 2000) as well as abundant capital. In contrast, domestic incumbents typically enjoy locally embedded advantages such as marketing and distribution channels, access to information, and network connections (Beamish, 1988; Lu and Xu, 2006). Some multinational firms have acquired host country specific assets because they are culturally and ethnically proximate to a host country, have prior operational experience, or have internalized certain local knowledge through their joint venture partners (Makino and Delios, 1996; Luo, 1997).

Conversely, some local firms have developed transferable assets by restructuring, innovating, and internationalizing, and they employ these assets to compete with foreign entrants (Dawar and Frost, 1999; Zeng and Williamson, 2003). On the other hand, more localized foreign firms that have acquired country specific assets will compete more directly with local firms, and threaten the latter's survival prompting local firms to retaliate.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Chapter three covers the research methodology including, research design, population of the study, data collection as well as data analysis.

3.2 Research Design

This study was carried out using a descriptive cross sectional survey design as well as co relational research. It was a cross sectional survey because data was gathered from the midsized level local firms in the various sectors of the Kenyan economy. The survey was conducted to investigate the major effects of the Multinational Chinese firms in competition with the local firms in Kenya as well as the tactics they are employing to remain competitive.

It was also a co relational research because it was concerned with assessing the relationship among the competitive strategies used by the Multinational Chinese firms and the effect they have on competition with the Local firms and how firms respond to the same.

3.3 Population of the Study

The study targeted midsized local firms and Multinational Chinese firms in Kenya. For the study, the top 100 midsized Local firms in Kenya and 60 Multinational Chinese firms in Kenya were considered. A sample of 25 local mid sized firms and 15 Multinational Chinese firms was studied.

3.4 Data Collection

Data for the study was generated through the primary and secondary sources. Primary data was collected using questionnaires distributed amongst the representative sample of the whole population focusing on the effect of the Multinational Chinese firms in competition with the local firms.

Secondary data was obtained from the previous studies done on the effect of Multinational Chinese firms in Competition with Local Kenyan firms in Kenya and publications from various organizations and institutions that have interest on how Chinese presence in Kenya is affecting competition with the local firms.

The respondents were middle level employees from the Multinational Chinese firms as well as the local firms doing business in Kenya who have a clear understanding of the competition among firms in Kenya and what their companies are doing to fend off competition from the rival firms while still remaining competitive.

3.5 Data Analysis

The filled questionnaires were checked for completeness and then coded and the data analyzed. Considering the qualitative nature of the data collected through questionnaires, descriptive statistics was used. Frequency tables were used to summarize responses for further analysis and facilitate comparison. This offered a systematic and qualitative description of the objective of the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study. The study was aimed at determining the effect of Multinational Chinese firms in competition with local Firms in Kenya which have been investing heavily in the various sectors. The results of the data collected are presented in frequency table formats.

The study targeted a sample of 15 Multinational Chinese firms and 25 Local Kenyan firms doing business in Kenya. However, data from 13 Multinational Chinese firms and 22 Local Kenyan firms was obtained. Of the forty respondents targeted, thirty five responded. This translates to a response rate of 87.5% which is above the 70% threshold. The first section presents the company's background information which includes, the period the firm has been doing business , the sector in which the firm is in and whether their business activities are local or multinational.

4.2 Demographic Characteristics

Demographic characteristics are facts about the makeup of a given population. The Local Firms and the Multinational Chinese Firms respondents were asked to give some demographic information about their firms. The responses received are displayed in the Table 4.1 below in terms of frequency and the percentage;

Table 4.1 Demographic Characteristics

Local Firms

Characteristic	Frequency	Percentage
Sector of the firm		
Drinks & Beverages	2	9.1
Service Industry	8	36.4
IT	2	9.1
Manufacturing	6	27.2
Pharmaceutical	2	9.1
Property management & Construction	2	9.1
Nature of business		
Local	13	59.1
Multinational	9	40.9
Number of years in business		
5-10 years	6	27.3
11-20 years	8	36.4
21-50 years	5	22.7
More than 50 years	3	13.6

Multinational Chinese Firms

Characteristic	Frequency	Percentage
Sector of the firm		
Service Industry	2	15.4
IT	3	23.1
Manufacturing	1	7.7
Electronic	1	7.7
Property management & Construction	6	46.1
Nature of business		
Multinational	13	100
Number of years in business		
5-10 years	4	30.8
11-20 years	4	30.8
21-50 years	1	7.7
More than 50 years	3	23.1

Source: Author

From the results in Table 4.1 above, 36.36% of the local firms reported that they are in the service sector whereas 27.28% reported to be operating in the manufacturing sector. Other firms reported to be operating in other sectors which include drinks & beverages(2%), information technology(2%), pharmaceutical(2%), and property management & construction(2%). Out of the 22 firms which responded, 59.10% reported that their business activities are locally based whereas the remaining 40.9% reported to have their business activities in other countries in east Africa. In addition,27.3% of the local firms reported to have been in operation for 5-10 years,36.4% for 11-20 years,22.7% for 21-50 years and 13.6% for more than 50 years.

From the results in Table 4.2 above,46.1% of the Chinese multinational firms reported that they are in the Property management & Construction sector,23.10% reported to be in the Information Technology sector and 15.40% reported to be in the service industry.. Other firms reported to be operating in other sectors which include manufacturing(7.7%) and electronic sector(7.7%). All of the 13 firms which responded reported to have their business activities across territorial borders i.e. multinational. 30.8% of the 13 responses received reported to have been in operation for 5-10 years,30.8% for 11-20 years,7.7% for 21-50 years and 23.1% for more than 50 years. Only 7.7% of the firms interviewed reported to have been in operation for less than 5 years.

4.3 Competition

This section looks at the level of awareness of competitors in the various sectors, whether local or Chinese multinational firms. In addition, the nature of threats posed by competitors were identified and for those firms which did not feel threatened by competitors, they were asked to give reasons. The researcher asked the respondents some questions which were related to their awareness of their competitors and the nature of the threats posed by the competitors in their sector.

The responses received are displayed in the Table below:

Table 4.2 Awareness of Competitors and Threats

Local Firms

Characteristics	Frequency	Percentage
Awareness of Competitors		
Yes	19	86.36
No	2	9.09
No. of Competitors		
1-5	5	22.7
5-10	4	18.2
10-30	3	13.6
More than 30	8	36.4
Not aware	2	9.1
Threatened by competitors		
Yes	11	50.0
No	10	45.5
Threat Nature		
Popularity	1	4.5

Multinational Chinese Firms

Characteristics	Frequency	Percent
Awareness of Competitors		
Yes	13	100.0
No	0	0
No. of Competitors		
1-5	3	23.1
5-10	5	38.5
10-30	2	15.4
More than 30	3	23.1
Threatened by competitors		
Yes	6	46.2
No	7	53.8
Threat Nature		
Popularity	1	7.7

Lower prices	4	18.2
Large customer base	1	4.5
Stiff Competition	4	18.2
Not aware	12	54.5

Lower prices	1	7.7
Large customer base	1	7.7
Stiff Competition	3	23.3
Not aware	7	53.8

Source: Author

The results from Table 4.2 show that, most of the local firms are aware of the competitors in their sector at 86.36% whereas 13.64% claimed not to be aware of the competitors in their sector. The local firms respondents identified most of their competitors as being more than 30 at 36.40%,followed by1-5 competitors at 22.7%,5-10 competitors at 18.2% and 10-30 competitors at 13.6%. In addition,50% of the local firms reported of being threatened by competitors in their sector whereas 45.5% reported that they do not feel threatened.

The main reasons they gave for this included the fact that they are well established in their sector, they are coming up with innovative products to keep growing, they offer quality products to their customers who keep coming back and the fact that some of them felt that they are not that many in their sector and hence competition is still minimal. The major nature of threats as reported by the local firms respondents is stiff competition and lower prices both at 18.2% each. Popularity of competitors and large customer base stood at 4.5% as reported by the local firms respondents. However,54.5% of the local firms respondents reported as not being aware of the nature of threat posed by competitors in their sector thus not aware of their strengths and weakness of which they can use to their benefit.

All of the Chinese Multinational firms reported that they were well aware of the competitors in their sector. They reported that the highest number of competitors in their sector lie between 5-10 at 38.5%,1-5 at 23.1%,more than 30 at 23.1% and 10-30 at 15.4%. About 46.2% of the Multinational Chinese firms reported that they feel threatened by the competitors in their sector whereas 53.8% reported that they did not feel threatened by competitors in their sector. The main reason they gave for this was the fact that they are well established in their sector and they offer quality products to their customers who keep coming back. The major nature of threat as reported by the Chinese multinational firms respondents is the stiff competition, popularity of their competitors, large customer base of loyal customers and lower prices reported.

4.4 Effect by Competitors

This section looks at the effect of competition to a company's marketing strategies, pricing of its products, quality of its products and advertising frequency to fend off competition. This is as reported by the Local firms and Multinational Chinese firms interviewed in this study. The firms were also asked to report on whether they are aware of the competitive tactics used by their competitors or not then list them down and identify the extent to which some of these tactics affect their firms. In addition, they were asked to rate the quality and pricing of their competitors products as perceived by them as well as compared to their products. This was based on their comparison of their products quality and pricing with those of the competitors as well as on the various comments received from their customers.

The responses received are displayed in the Table below:

Table 4.3 Effect by Competitors and Response

Local Firms

Characteristics	Frequency	Percentage
Effect on marketing		
Yes	16	72.7
No	6	27.3
Advertising to fend off Competition		
Never	2	9.1
Rarely	8	36.4
Often	8	36.4
Always	4	18.2
Effect Products pricing/Quality		
Yes	15	68.2
No	7	31.8
Awareness of competitors tactics		
Yes	18	81.8
No	4	18.2

Multinational Chinese Firms

Characteristics	Frequency	Percentage
Effect on marketing		
Yes	9	69.2
No	4	30.8
Advertising to fend off Competition		
Never	0	0
Rarely	5	38.4
Often	4	30.8
Always	4	30.8
Effect Products pricing/Quality		
Yes	7	53.8
No	6	46.2
Awareness of competitors tactics		
Yes	12	92.3
No	1	7.7

Response to competition			**Response to competition**		
Advertisement	3	13.6	Advertisement	2	15.4
Price reduction	11	50.0	Price reduction	4	30.8
Improve products quality	8	36.4	Improve products quality	7	53.8
Competitors Product Quality			**Competitors Products Quality**		
High	0	0	High	2	15.4
Good	11	50.0	Good	7	53.8
Average	9	40.9	Average	4	30.8
Poor	2	9.1	Poor	0	0
Competitors products Pricing			**Competitors products Pricing**		
Expensive	3	13.6	Expensive	5	38.5
Average	14	63.6	Average	6	46.1
Affordable	4	18.2	Affordable	2	15.4
Cheap	1	4.5	Cheap	0	0

Source: Author

The results from Table 4.3 show that 72.7% of the local firms feel that competitors in their sector do affect the marketing of their products since they have to lower their prices, market more aggressively in order to counter the competition while 27.3% reported that they have no effect since they already have good marketing strategies in place and the fact that they are not a threat to them as their products are very unique. A 36.4% of the local firms respondents reported that they rarely advertise to fend off competition whereas 36.4% reported to advertise often to fend off competition. Only 18.2% reported to advertise always to fend off competition whereas 9.1% reported to never advertise to fend off competition. Approximately 68.2% of the Local firms reported that competitors in their sector do have effect on the pricing/Quality of their products but 31.8% reported that the quality/price of their products is not affected at all by the presence of competitors in their sector.

Whereas 81.8% of the local firms reported to be aware of the competitive tactics used by their competitors,18.2% of them reported that they were not aware of the same. Some of the competitive tactics identified included offer of rewards, discounts, price reduction to customers by their competitors as well as aggressive advertising and quality improvement of their products. In response to competition,50% of the local firms reported to use price reduction,36.4% reported to improve on their products quality whereas 13.6% resulted to advertising with the main aim of protecting their market share as well as attracting new customers.

On the quality of their competitors products,50% viewed them to be of good quality,40.9% viewed them to be of average quality and 9.1% viewed them to be of poor quality. In addition,63.6% felt that the pricing of their competitors products was average,18.2% felt that it was affordable,13.6% felt that they were expensive and 4.5% felt that the competitors products were cheap. Responses received from the Multinational Chinese firms interviewed indicated that 69.2% felt that the marketing of their products was affected by their competitors as they have to result to price reduction and market more aggressively to counter competition whereas 30.8%

reported not to be affected at all since their products are unique and the fact that they are well established/known in the market. A 38.4% of the multinational Chinese firms respondents reported that they rarely advertise to fend off competition, 30.8% reported to advertise often to fend off competition and 30.8% reported to advertise always to fend off competition.

Approximately 53.8% of the Multinational Chinese firms reported that competitors in their sector do have effect on the pricing/Quality of their products but 46.2% reported that the quality/price of their products is not affected at all by the presence of competitors in their sector. However,92.3% of them reported to be very much aware of the competitive tactics used by their competitors with only 7.7% of them reporting not to be aware of the same. They identified innovativeness, price reduction, effectiveness, reliability, aggressive marketing and good quality products/services as some of the competitive tactics used by the competitors in their sectors.

While responding to competition, 30.8% of the local firms reported to use price reduction,53.8% reported to improve on their products quality whereas 15.4% resulted to advertising with the main aim of retaining their market share as well as attracting new customers. On the rating of the quality of their competitors products quality, 53.8% viewed them to be of good quality,30.8% viewed them to be of average quality and 15.4% viewed them to be of high quality. In addition,46.1% felt that the pricing of their competitors products was average,15.4% felt that it was affordable and 38.5% felt that the competitors products were expensive.

4.5 Competitive Strategies

This section looks at the extent to which competitors strategies affect a firms business. This is as reported by the Local firms and Multinational Chinese firms interviewed. The firms were also asked to report on how they address the competitors strategies so as to remain competitive in the market. The responses received are displayed in the Table below:

Table 4.4 Effect of Competitors' Strategies

Local Firms

Competitive Strategy	Frequency	Percentage
Price		
Strongly	12	54.5
Slightly	8	36.4
Neutral	2	9.1
Quality		
Strongly	9	40.9
Slightly	6	27.3
Neutral	7	32.0
Innovativeness		
Strongly	6	27.3
Slightly	5	22.7
Neutral	11	50
Efficiency		
Strongly	4	18.2
Slightly	5	22.7
Neutral	13	59.1

Multinational Chinese Firms

Competitive Strategy	Frequency	Percentage
Price		
Strongly	7	53.8
Slightly	3	23.1
Neutral	3	23.1
Quality		
Strongly	7	53.8
Slightly	3	23.1
Neutral	3	23.1
Innovativeness		
Strongly	1	7.7
Slightly	7	53.8
Neutral	5	38.5
Efficiency		
Strongly	1	7.7
Slightly	3	23.1
Neutral	9	69.2

Source: Author

The results from table 4.4 show that 54.5% of the Local firms are affected strongly by the price strategy of the competitors,36.4% are affected slightly and 9.1% chose to remain neutral. In relation to the competitors quality strategy,40.9% of the local firms reported to be strongly affected by the strategy,27.3% slightly and 32% chose to remain neutral. Only 27.3% of the local firms reported to be strongly affected by the innovativeness strategy by competitors, 22.7% slightly while a whole 50% of the respondents chose to remain neutral. On the efficiency strategy,18.2% reported to be strongly affected,22.7% slightly while the majority 59.1% chose to remain neutral.

From the Multinational Chinese firms respondents,53.8% reported to be affected by the price strategy of the competitors,23.1% are affected slightly and 23.1% chose to remain neutral. In relation to the competitors quality strategy,53.8% of the Multinational Chinese firms reported to be strongly affected by the strategy,23.1% slightly and 23.1% chose to remain neutral. Only 7.7% of the Multinational Chinese firms reported to be strongly affected by the innovativeness strategy by competitors, 53.8% slightly while a 38.5% of the respondents chose to remain neutral.

On the efficiency strategy,7.7% of the Multinational Chinese firms reported to be strongly affected,23.1% slightly while the majority 69.2% chose to remain neutral. In order to remain competitive, both Local and Multinational Chinese firms reported to have adopted a number of measures which included, offering affordable products/services, improvement on product quality, innovativeness, aggressive advertising and differentiation of their products to make them unique and more attractive to the customers than their competitors.

4.6 Kenyan Market Environment

This section presents the respondents general views on how they view the competitive market environment in Kenya. The participants were required to rank the statements on how they thought each statement reflected the actual situation on the ground with respect to Competition. The responses received are tabled below;

Table 4.5 Kenyan Market Perception

Local Firms

Statement	Frequency	Percentage
Competition benefits everyone in the economy		
Strongly Agree	10	45.5
Agree	5	22.7
Neutral	2	9.1
Disagree	3	13.6
Strongly Disagree	2	9.1
There is a lot of Unfair competition in Kenya		
Strongly Agree	4	18.2
Agree	9	40.9

Multinational Chinese Firms

Statement	Frequency	Percentage
Competition benefits everyone in the economy		
Strongly Agree	5	38.5
Agree	3	23.1
Neutral	2	15.4
Disagree	2	15.4
Strongly Disagree	1	7.7
There is a lot of Unfair competition in Kenya		
Strongly Agree	2	15.4
Agree	3	23.1

Neutral	7	31.8
Disagree	2	9.1
Strongly Disagree	0	0
Foreign firms have better competitive Strategies than Local firms		
Strongly Agree	1	4.5
Agree	12	54.5
Neutral	1	4.5
Disagree	7	31.8
Strongly Disagree	1	4.5
Local firms have better competitive Strategies than Foreign firms		
Strongly Agree	2	9.1
Agree	5	22.7
Neutral	4	18.2
Disagree	11	50.0
Strongly Disagree	0	0

Neutral	3	23.1
Disagree	4	30.8
Strongly Disagree	1	7.7
Foreign firms have better competitive Strategies than Local firms		
Strongly Agree	2	15.4
Agree	1	7.7
Neutral	9	69.2
Disagree	1	7.7
Strongly Disagree	0	0
Local firms have better competitive Strategies than Foreign firms		
Strongly Agree	0	0
Agree	1	7.7
Neutral	10	76.9
Disagree	2	15.4
Strongly Disagree	0	0

Source: Author

The results of the study as shown on Table 4.5 indicated that 45.5% of the Local firms respondents interviewed strongly agreed with the statement that Competition benefits everyone in the economy, 22.7% agreed with the same statement,13.6% disagreed with the same statement, 9.1% strongly disagreed while 21.4% remained neutral. On whether there exists a lot of unfair competition in Kenya, 31.8% of the Local firms respondents interviewed opted to remain neutral, 40.9% agreed with the statement, 9.1% disagreed while and the rest, 18.2% strongly agreed with the statement.

Regardless of the fact that most of the respondents interviewed agreed that there exists a lot of unfair competition in Kenya, a significant number disagreed. Further, majority (54.5%) of the Local firms respondents interviewed agreed with the statement that Foreign firms have better competitive Strategies than Local firms,4.5% agreed with the same statement,31.8% disagreed,4.5% strongly disagreed while the remaining 4.5% chose to remain neutral. In addition, 9.1% of the respondents interviewed strongly agreed that with the statement that Local firms have better competitive Strategies than Foreign firms,22.7% agreed,50% disagreed with the same statement while 18.2% of the respondents interviewed chose to remain neutral.

Of the Multinational Chinese Companies interviewed, as shown on Table 4.5, 38.5% of the Local firms respondents interviewed strongly agreed with the statement that Competition benefits everyone in the economy, 23.1% agreed with the same statement,15.4% disagreed with the same statement, 7.7% strongly disagreed while 15.4% remained neutral. On whether there exists a lot of unfair competition in Kenya, 23.1% of the Multinational Chinese firms respondents interviewed opted to remain neutral, 23.1% agreed with the statement,30.8% disagreed,7.7% strongly disagreed while and the rest, 15.4% strongly agreed with the statement.

In general, regardless of the fact that according to most of the Multinational Chinese Firms respondents interviewed agreeing that there exists a lot of unfair competition in Kenya, there was a very significant number who disagreed with the same. Further, 7.7% of the Multinational Chinese firms respondents interviewed agreed with the statement that Foreign firms have better competitive Strategies than Local firms,15.4% strongly agreed with the same statement,7.7% disagreed while the remaining 69.2% chose to remain neutral. In addition, 7.7% of the respondents interviewed agreed that with the statement that Local firms have better competitive Strategies than Foreign firms, 15.4% disagreed with the same statement while 76.9% of the respondents interviewed chose to remain neutral.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to determine the effect of Multinational Chinese Firms in Competition with the Local Firms in Kenya.

5.2 Summary of the Findings

It was revealed that majority of the local firms included in the study carry out their business activities locally whereas for the Multinational Chinese firms in Kenya included in the study majority have their business activities multinationally. Further it was found that most of the local firms were in the service industry sector and the manufacturing sector. However, for the multinational Chinese firms in Kenya, most of them were in the Property management& construction sector and the information technology sector.

This study found that majority of both Local firms and Multinational Chinese firms in Kenya were very much aware of the competitors in their sector and most of them also knew the exact number of competitors in their sector. Moreover, the local firms had a much higher number of competitors in their sectors as compared to the Multinational Chinese firms in Kenya. In addition, majority of the local firms felt threatened by competitors in their sector as compared to

Multinational Chinese Firms in Kenya who felt less threatened by competitors. It was established that popularity, lower prices, large customer base and stiff competition were some of the nature of threats experienced by the local firms and Multinational Chinese firms in Kenya included in the study. Furthermore, for the majority of the Local firms and Multinational Chinese firms in Kenya, competitors in their sector do affect the marketing of their products.

The study revealed that most of Local firms and Multinational Chinese firms in Kenya rarely advertise to fend off competition in their sector but a substantial number of the firms do advertise often to fend off competition in their sector. In addition, for the majority of both Local firms and Multinational Chinese firms in Kenya, the pricing and quality of their products is affected by the competitors pricing and quality of their products. Moreover, the firms are much aware of the competitor tactics which include rewards to customers, price discounts, good quality products and aggressive marketing campaigns. Furthermore, the study showed that most of the firms respond to competition through price reduction of their products, aggressive marketing and improvement in quality of their products in order to retain their customers and attract new ones.

The study showed that most of the local and Multinational Chinese firms in Kenya rated the quality of competitors products as good whereas a majority of the firms rated the pricing of the competitors products as average. It was identified that the pricing and quality competitive strategies by competitors affects both the local firms and Multinational Chinese firms strongly. However, innovativeness strategy has less impact on the local firms but slightly affects the Multinational Chinese firms. Efficiency as a competitive strategy seems not to have a substantial effect on both the local firms and the Multinational Chinese firms in Kenya.

To remain competitive, the study revealed that firms included in the study have adopted a number of measures which include, product/service affordability, quality improvement, innovativeness, aggressive advertising and differentiation of their products to make them unique and more attractive to the customers than their competitors. The study showed that most of the Local Firms and Multinational Chinese firms perceive competition as beneficial to everyone in any economy even though majority of the firms feel that there is a lot unfair competition in Kenya. In addition, majority of the local firms see foreign firms as having better competitive strategies than Local firms whereas most of the Multinational Chinese firms neither agree nor disagree with the same.

5.3 Conclusion

This study concludes that the Local Kenya Firms are threatened by the Multinational Chinese firms in Kenya. This study further concludes that the presence of the Multinational Chinese firms has affected the marketing by the local firms as well as the pricing and quality of their products. The study also concludes that whereas most of the Local firms are well aware of the nature of threats posed by the Multinational Chinese firms, they have not yet taken the initiative to take advantage of their knowledge of the Kenyan market to create a competitive advantage for themselves. Rather, most of them have resulted to reactive approach to fend off competition which has resulted to unplanned for expenses resulting to loss of market share.

This study also concludes that the Local firms are well informed with regard to the Multinational Chinese firms product pricing and quality and the same affects them in one way or the other. However, the local firms seems to base their products pricing and quality on their competitors rather than on the customer's needs and the costs involved in the product development.

The study established that Local firms perceived the kenyan market to have a lot of unfair competition even though Multinational Chinese firms have better competitive strategies than them. Advertisement, price reduction and quality improvement were found to be some of the ways in which Local firms are responding to competition posed by Multinational Chinese firms in Kenya.

5.4 Recommendations

5.4.1 Recommendations with Policy Implications

The researcher recommends that Local firms should invest more in research and development in order to develop new products which are able to meet customers' needs as well as compete with products from the Chinese Multinational Firms. They should also come up with proactive competitive strategies and constantly keep themselves updated on what competitors in their sector are doing so that they are able to respond accordingly when threatened. This will ensure that they are able to chose which kind of threats to respond to and how to respond to be able to retain their customers and attract new ones.

Since the Local firms are well aware of some of some of the competitive tactics being used by competitors and especially the multinational Chinese Firms, they should strive to come up with their own tactics which are unique to the Kenyan market so that they may create a competitive edge for themselves. In relation to response to competition, this study recommends that local firms should segment their market depending on their needs then come up with more differentiated products to make themselves unique and more attractive to customers than the Competitors.

5.4.2 Recommendations for Further Research

The researcher recommends further research in the effect of the Multinational Chinese Firms in Kenya to the Kenyan Economy. This study focused on the effect of Multinational Chinese Firms in Competition with Local firms in Kenya and hence did not adequately reveal the effect the Multinational Chinese Firms in Kenya have on the Kenyan Economy. The researcher also recommends further research in the area of the relationship between the number of Multinational Chinese firms in the manufacturing sector in Kenya and Closure of Local manufacturers in Kenya.

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APPENDICES

Appendix 1: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

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

P.O. Box 30197
Nairobi, Kenya

DATE 20/07/2012

TO WHOM IT MAY CONCERN

The bearer of this letter ANN WAMBUI GICHUKI

Registration No. D61/63023/2010

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
20 JUL 2012
MBA OFFICE
P.O. Box 30197-00100, NAIROBI

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Appendix 2: Letter of Introduction

Ann Wambui Gichuki

P.O Box 44434 - 00100

Nairobi, Kenya

Date: 25th July 2012

Dear Sir / Madam,

RE: REQUEST FOR RESEARCH DATA

I am a continuing student in the Master of Business Administration (MBA) degree program at the University of Nairobi specializing in International Business. In partial fulfillment of the requirements of this course, I am conducting a study on the effect of multinational Chinese firms in competition with local firms in Kenya.

Your firm has been selected to form part of this study. I therefore kindly request for your assistance to enable me to collect data in your organization by completing the attached questionnaire to the best of your knowledge.

The information required is solely for academic purposes and will be treated with strict confidentiality. A copy of the findings of this study will be made available to you upon your request.

Thank you for your co-operation.

Ann Gichuki	**Dr. John Yabs**
D61/63023/2010	**Lecturer**

Appendix 3: Research Questionnaire

1. Name of the Firm ....

2. Designation of the respondent ....

3. In which sector is your firm?...

4. Are your business activities;

   ☐ Local ☐ Multinational

5. Are you aware of any competitors in your sector? Yes ☐ No ☐

   If Yes,approximately how many?..

6. Number of Years your firm has been in business (tick where appropriate)

   ☐<5 Years ☐ 5-10 Years ☐ 11-20 Years☐ 21-50 Years ☐ >50Years

7. Do you feel threatened by the rival firms in your sector? Yes ☐ No ☐

   If yes how?

   ....

   ....

   If not why?

   ....

8. Does the presence of the rival firms affect the way you market your products?

   ☐ Yes ☐ No

   Please give reason for your answer...

   ....

   ....

9. How often do you advertise your products to fend off competition?

☐ Never ☐ Rarely ☐ Quite often ☐ Always

10. Does the presence of rival firms affect the pricing/quality of your products?

☐ Yes ☐ No

11. Is the effect on the pricing/quality of your products positive or negative?

....

12. Are you aware of the kind of competitive tactics rival firms in your sector are using?

Yes ☐ No ☐

Please name some...

....

....

13. In which ways do you respond to competition posed by rival firms in your sector?

....

....

14. How can you rate the quality of the rival firms products?

☐ Very good ☐ Good ☐ Average ☐ Poor

15. How can you rate the pricing of the rival firms products?

☐ Very expensive ☐ Expensive ☐ Average ☐ Affordable ☐ Cheap

16. In your own opinion, is the Kenyan market a level playing field for both foreign and local firms doing business in Kenya?

☐ No ☐ Not sure ☐ Yes

17. To what extent do the following competitive strategies by rival firms affect your firm?

Competitive Strategies	Strongly	Slightly	Neutral
Price			
Quality			
Innovativeness			
Efficiency			

18. How do you address them in order to remain competitive in the market.

....

....

....

19. To what extent do you agree with the following statements?

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Competition benefits everyone in an economy					

Firms are not affected by other firms competitive strategies					
There exists a lot of unfair competition in Kenya					
Foreign firms have better competitive strategies than local firms					
Local firms have better competitive strategies than foreign firms.					

20. Any other comments?

....

....

THANK YOU FOR YOUR PARTICIPATION

14	Pelican signs ltd
15	Kevian Kenya ltd
16	Viva product line ltd
17	Market power international ltd
18	Alpine coolers ltd
19	Panesar's Kenya ltd
20	Virgin tours ltd
21	Tiger brands Kenya ltd
22	Premier industries ltd
23	Chuma fabricators limited
24	Parapet limited
25	Rongai workshop & transport limited

Source: East Africa Top 100 mid-sized companies Survey