

THE INFLUENCE OF ENVIRONMENTAL FACTORS ON THE OPERATIONS OF UBA KENYA BANK LTD IN KENYA

BY

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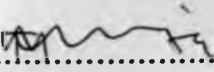


**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION, UNIVERSITY OF NAIROBI SCHOOL OF
BUSINESS.**

OCTOBER 2012

DECLARATION

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

Signed.....

Date.....10/11/2012.....

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D61/62857/2010

This research project has been submitted for review with my approval as University Supervisor

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DEDICATION

I would like to dedicate this work to my family. Thank you for all your support.

ACKNOWLEDGMENTS

I would like to acknowledge and thank all those who made the successful completion of this project possible. A special mention goes to my supervisor, Dr. John Yabs for his constant and much needed advice.

ABSTRACT

Kenya is faced with a myriad of problems that it needs to address. These include unemployment and poverty, debt burden, foreign exchange deficits and balance of payment problems. Foreign direct investment (FDI) is often cited as a vehicle for development amongst the poorer nations of the world. The Government of Kenya has emphasized on improving the environment for doing business to facilitate private sector and investment activities. However, despite efforts made to improve the business environment, there are still issues that constrain the growth of investment and the country's competitiveness. Most of these issues touch on political, legal, economic, socio-cultural and technological aspects. The general objective of this study was to assess the influence of various environmental factors on the operations of UBA Kenya Bank Ltd in Kenya.

The study employed a case study as its research design. The primary data source was an interview guide. The respondents for purposes of this study were the corporate level management of UBA Kenya Bank Ltd. Data collected was analysed using content analysis as the study aims to collect data that is qualitative in nature.

On the legal factors, the study concludes it is a great constraint in doing business in Kenya, but in the new dispensation of the new constitution there is hope that taxes and tariffs, and trade laws will be implemented to enhance the business environment. The study concludes that economic factors such as infrastructure and high cost of capital remain serious external environmental challenges to businesses in Kenya. The study finally concludes that those socio-cultural factors which have an influential role on the operations of UBA Kenya were mainly, conflicts, corruption and the highly skewed income distribution. On political factors the study concludes that government direct or indirect intervention has an influence on businesses in an economy. The study identified level of government intervention in the economy and political stability as major factors influencing operations of UBA Kenya.

This research paper recommends for reconsideration of such environmental factors that impose unnecessary constraints on businesses in Kenya. The study further recommends that governments try to encourage investments through formulating and enacting the right policies for the business environment in their countries in order to reach high productivity levels that would guarantee improved living standards. The study further recommends that strategic positioning for UBA and other multinational organizations that have to deal with dynamic and uncertain environments.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

International business is a term used to collectively describe all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundary. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons (Daniels, Radebaugh & Sullivan, 2007). It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc. (Mohan 2009)

During the last few decades, companies have been confronted with an increasingly competitive business environment. Forces facilitating globalization, such as the liberalization of international trade, the international integration of production, research and marketing have led to the rise of multi-national corporations (MNCs). The emergence of major economic regions like the European Union, have also enabled companies to invest overseas in order to gain or maintain competitive advantage. The central issues for the decision to go global are concerned with minimizing risk. A company, when considering the environment that it will deal with when entering a new market, has to deal with certain variables. These concern, for example, the cultural barriers to investment, the ability to reach a competitive edge with new investments and the strategic use of new technologies and natural resources that international investment might bring. The international business environment thus

comprises the aggregate of all conditions, events and influences that surround and affect the business. These include economic, political, legal, financial, technological, socio-cultural, demographic and natural factors.

Economists have defined MNCs as any corporation which, "owns (in whole or in part), controls and manages income generating assets in more than one country," (Hood & Young, 1979). This definition distinguishes an enterprise that engages in direct investment, that is investment which gives the enterprise not only a financial stake in the foreign venture but also managerial control, from one that engages in portfolio investment, which gives the investing enterprise only a financial stake in the foreign venture without any managerial control. Thus the MNC is a firm that engages in direct investment outside its home country.

Unlike the domestic environment, the international environment is complex, variable and dynamic. No two countries are the same thus providing a myriad of challenges for international players like MNCs. But the international environment also provides numerous opportunities. Multinationals today play an increasingly critical role in the global and domestic environment with an increasing fraction of commerce within each country being conducted by corporations that are owned and controlled from outside its borders and that often conduct business in dozens of countries. These corporations have brought enormous benefits. Indeed, many of the benefits attributed to globalization, such as the closing of the knowledge gap between developing and developed countries-which is even more important than the gap in resources-is due in no small measure to multinational corporations ("MNCs"). More important than the capital that MNCs bring' are the transfer of technology, the training of human resources, and the access to international markets. Today, countries around the world compete to attract multinationals; they boast of having a business-friendly environment (Stopford, 1998).

1.1.1 MNCs and the International Environment

Prospects of a business depend not only on the resources but also on the environment. Hence, the environment plays a highly influential role in policy formulation and strategy formulation in as far as the operations of an organization are concerned. Every business enterprise consists of a set of internal factors and is confronted with a set of external factors. These factors become even more amplified when one considers the international nature of operations on the scale undertaken by MNCs. The internal factors are generally regarded as controllable, while the external factors are by and large beyond the control of the business entity. As environmental/external factors are beyond the control of a firm, its success depends to a large extent on the adaptability to the environment (i.e. its ability to design and adjust the internal controllable variables to take advantage of the opportunities and combat the threats in the environment). Thus the business environment comprises of both a micro and a macro environment. The same extends to the international business environment. The former consists of actors in the immediate environments that affect the performance of the firm, such as suppliers, competitors, marketing intermediaries, customers etc. The macro environment consists of larger societal forces that affect the actors in the company's micro environment, such as economic, legal, political, technological, political and cultural forces.

Economic factors relate to all the factors that contribute to a country's attractiveness for foreign businesses. It comprises the nature of the economic system and institutions of a particular country or region. It also takes into account the nature of human and natural resources within the target market. A firm will function very differently in a libertarian environment than within a highly statist one where the activities and functions of local economic elites are also very important. Some of the main issues taken into consideration by MNCs with regard to their operations in this respect include interest rates, taxation changes, economic growth, inflation and exchange rates (Daniels, Radebaugh & Sullivan, 2007).

Political factors refer to government policy such as the degree of intervention in the economy. It also deals with the nature of systems and institutions. Many variables to consider here are the stability of the political system, the existence of local or international conflict, the role of state enterprises and the nature of the bureaucracy, what goods and services a government wants to provide, the extent to which firms are subsidized, the government priorities in terms of business support etc. Political decisions can impact on many vital areas for MNCs such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system. There have been political interferences with the affairs of multinational corporations especially host governments which demand certain conditions that should be met with the Multinational Corporations. In developed countries, these limitations tend to cluster mostly on industries that are of impact to the economy such as telecommunication equipment industry. Most modern governments have given priority to the goals of public policy of economic efficiency, growth and betterment of living standards. In analyzing the political influence, one must examine the types of interventions from governments. Host governments have in many instances restricted the freedom of a multinational corporation in deploying resources and limitations to strategic freedom. Governments have moved towards regulating the entire industrial sector (Geppert, 2003).

With regard to the legal factors, every country in the world follows its own system of law. A foreign company operating in that particular country has to abide with its system of law for as long as it is operating in that country. The existence of bureaucratic systems and cultures is central in making the decision to invest globally. The legal and regulatory frameworks have primarily affected multinationals in the form of sensitive issues as product choice, level of employment, use of technology and national trade balance (Phil and Anthony, 1998). The nature of corruption, local values and assumptions that are built into national ideologies are

major variables in this field. Of great concern is the extent to which there is a culture of law or a culture of personal patronage, where negotiations are done on a personal rather than a legal basis. Some of the different categories of laws that influence the operations of MNCs include consumer laws which are designed to protect customers against unfair practices such as misleading descriptions of products, competition laws aimed at protecting small firms against bullying by larger firms and ensuring customers are not exploited by firms with monopoly power, environmental laws aimed at safeguarding the environment, employment laws which cover areas such as redundancy, dismissal, working hours and minimum wages and are aimed at protecting employees against the abuse of power by managers, and health and safety legislations aimed at ensuring the workplace is as safe as is reasonably practical. They cover issues such as training, reporting accidents and the appropriate provision of safety equipment.

Socio-cultural factors refer to the way of life and societal values of a people. Sociological factors such as costs structure, customs and conventions, cultural heritage, view toward wealth and income and scientific methods, respect for seniority, mobility of labour etc, have far-reaching impact on MNCs. The persistence of socio-cultural value differences is particularly relevant for large multinational companies that are exposed to multiple national cultures in their daily operations. This suggests that managing across borders introduces substantial complexity because it forces multinationals to tailor their practices and approaches to each and every cultural context in which they operate (Daniels, Radebaugh & Sullivan, 2007). Socio-cultural factors are thus of critical importance to MNCs in understanding and appreciating the cultural nuances in different countries, which in turn have a great influence on their operations. An MNC would offer different products in Muslim countries as opposed to other more liberal countries.

Technological factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. The business in a country is greatly influenced by the technological development as these can determine barriers to entry, minimum efficient production levels and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation. Technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets (Joshi, 2009).

1.1.2 MNCs and the Business Environment in Kenya

An enabling business environment improves investment climate and competitiveness of a country thereby enhancing economic performance for eventual poverty reduction. Kenya is sub-Saharan Africa's fifth largest economy (GDP of USD 33.62 billion in 2012), after South Africa, Nigeria, Angola, and Sudan. Its economy is principally agriculture based (30% of GDP) with tea, coffee and horticulture providing the principal export commodities. Tourism is a major foreign exchange earner. Nairobi is the third largest center in the world for the UN and is also home to numerous other international organizations, non-governmental organizations, press agencies and diplomatic missions who use Nairobi as their African or regional base. With relative political stability, a multi-party parliamentary democracy (since 1991), a well-educated citizenry (population 41 million) and a sound legal system, Kenya has the potential to be the power-house of development for East Africa. The current surge in tourism, infrastructure development (notably roads and telecommunications), regional economic integration, demand for products through the reconstruction of Southern Sudan, and improved prospects for agriculture suggest, among other factors, that economic growth should strengthen in the short to medium term. However, a highly partisan political climate and an endemic malaise of corruption within most aspects of public services continue to hamper Kenya's development. Kenya is also member of The Common Market for East and

Central African States (COMESA) and of the East African Community (EAC) (with Uganda and Tanzania). Both entities seek to establish a common market for trade and economic activity, free movement of goods and labour with common external tariffs. Other international memberships include the UN, the African Union and the British Commonwealth. (Kaplan & Stratton, 2012)

According to a World Bank report titled 'Doing Business in Kenya,' (2012), the country was ranked 109 out of 183 on an ease of doing business index from a global comparative perspective, well behind countries like Rwanda and South Africa. Kenya's legal and regulatory environment was identified as one of the major factors impeding foreign direct investment. For example, the report noted that Kenya restricts foreign ownership in more sectors than most other economies. Foreign capital participation in telecommunications is limited to 70%. The report however notes that Kenya is indeed reforming but at a slow rate thus losing valuable opportunities to regional and global competitors. Kenya thus needs to expedite its progress and benchmark itself against its competitors if it to attain Vision 2030. MNCs can play a critical role in attaining these goals.

1.1.3 UBA Kenya Bank Ltd

United Bank For Africa (UBA) Kenya Bank Ltd was formed in November 2008 as a wholly owned subsidiary of UBA plc, one of the leading financial institutions in Africa offering universal banking services to more than 7 million customers across 750 branches in 13 African countries. UBA plc has operations in Nigeria, Ghana, Uganda, Cameroon, Cote d'Ivoire, Liberia, Sierra Leone, Senegal, Burkina Faso, Chad, Benin and Tanzania. The bank also has a presence in New York, London and Paris and accumulative assets in excess of 19 billion dollars. UBA Kenya Bank was licensed by the Central Bank of Kenya and started its operations in October 2009 upon being gazetted by the government in a supplementary

edition of the Kenya Gazette. UBA Kenya Bank Ltd offers comprehensive financial services to the Kenyan market and seeks to make positive contributions to the country's economy. The company, as part of its core strategic objective, endeavours to develop a global African bank, which is a bank owned by Africans for Africa. UBA's expansion into Kenya is therefore in line with this strategic aim of supporting African businesses wherever they are found. UBA Kenya currently has a presence in three key East African countries namely Kenya, Uganda and Tanzania thus making it strategically positioned as an ideal partner for regional businesses in East Africa.

1.2 Research Problem

Kenya is faced with a myriad of problems that it needs to address. These include unemployment and poverty, debt burden, foreign exchange deficits and balance of payment problems. Foreign direct investment (FDI) is often cited as a vehicle for development amongst the poorer nations of the world. Private sector investment creates inflows in capital and technology to the most neglected and impoverished areas. These in turn provide jobs, upgrade infrastructure, and spark all-round economic growth. The private sector can even provide services, like health care and education, which most developing countries are unable to provide.

In many countries MNCs have contributed greatly to resolving some of these problems by creating massive employment, wealth and foreign exchange earning opportunities. In fact, as previously noted, an increasing fraction of commerce within each country is conducted by corporations that are owned and controlled from outside its borders and that often conduct business in dozens of countries. These corporations have brought enormous benefits. Indeed, many of the benefits attributed to globalization, such as the closing of the knowledge gap between developing and developed countries-which is even more important than the gap in

resources-is due in no small measure to multinational corporations ("MNCs"). More important than the capital that MNCs bring are the transfer of technology, the training of human resources, and the access to international markets. Today, countries around the world compete to attract multinationals; they boast of having a business-friendly environment. (stiglitz 2007).

An enabling environment for business comprises locational specific factors that shape the opportunities and incentives for local and foreign firms to invest, innovate, create jobs and expand. At the country level, these factors include policy, regulatory and legal frameworks that attract investment, while specific area factors may include the state of infrastructure, security and the existence of backward and forward linkages. All these play a key role in shaping the business environment as they impact on costs, risks, profitability and incentives to multinational firms. The various commercial players in Kenya have consistently raised issues with the state of infrastructure, high taxation policies, insecurity, cost of capital, governance, delays in implementation of policy reforms, political wrangles as some of the factors that constrain the enabling environment for business and investment growth (KIPPRA Policy Brief No 11/2009). In a World Bank Report titled Investing Across Borders; Indicators of Foreign Direct Investment Regulation in 87 Economies (2010), Kenya is listed as having restrictive and prohibitive laws that inhibit foreign direct investment in the country leading to massive layoffs and unemployment in the country as MNCs scale down their operations and eventually leave. This is a serious problem that must be addressed with the urgency it deserves if Kenya is to become an industrialized nation by 2030. Both developed and developing nations need MNCs in their countries because of the enormous benefits that accrue to the host nation as a result of their being there; and Kenya is no exception.

There is an abundance of literature on the role and impact of MNCs in host nations, but literature addressing the influence and effects of the environmental factors on MNCs in host nations is conspicuously thin, particularly with regard to the Kenyan situation. However, several studies have at least partially addressed the issue. The World Bank Studies 'Doing Business in Kenya,' (2012), and 'Investing Across Borders; Indicators of Foreign Direct Investment Regulation in 87 Economies' (2010) provide valuable insights into Kenya's business environment with regard to foreign direct investment. This paper will seek to answer the question; what is the influence of environmental factors on the operations of UBA Kenya Bank Ltd in Kenya?

1.3 Research Objectives

The objective of this study was to assess the influence of various environmental factors on the operations of UBA Kenya Bank Ltd in Kenya.

1.4 Value of the Study

This study will provide valuable insights to the government and policy makers on the need for an enabling business environment for attracting and retaining MNCs thus allowing Kenya to reap the full benefits that this form of FDI brings with it. It also provided guidelines to other developing countries in developing business-friendly policies for MNCs.

This study also proved useful to MNCs operating in Kenya by shedding light on the influence of various environmental factors on their operations thus enabling them to adapt and also be able to contribute positively towards this discussion.

The study hopefully proved seminal to academicians undertaking research on various aspects of the international business environment of multinational corporations and FDI in general. Finally, this study was also of use to UBA Kenya Bank Ltd as it provided a deeper understanding of Kenya's business environment thus enabling optimal adaptation and also

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Multinationals today play an increasingly critical role in the global and domestic economy. An increasing fraction of commerce within each country is conducted by corporations that are owned and controlled from outside its borders and that often conduct business in dozens of countries. In fact many of the benefits attributed to globalization, such as the closing of the knowledge gap between developing and developed countries, which is even more important than the gap in resources, is due in no small measure to multinational corporations ("MNCs"). More important than the capital that MNCs bring' are the transfer of technology, the training of human resources, and the access to international markets. Today, countries around the world compete to attract multinationals; they boast of having a business-friendly environment. Furthermore, foreign capital has poured into developing countries, increasing six fold between 1990 and 1997, before it slowed (and reversed) as a result of the East Asian and global financial crisis.

2.2 MNCs and the International Environment

A Multinational Corporation is an enterprise that delivers services or production in more than one country (Alan & Alain, 2008). There are two models of Multinational Corporations. The first model of a multinational corporation is the one with an established headquarter that is based in one nation while some other facilities are based in locations in other countries. This type of a model allows the company to take advantage of benefits of incorporating in a given locality while at the same time they are able to produce goods and services in areas where the cost of production is lower. The second model of a multinational corporation is a case

whereby there is a parent company in one nation and subsidiaries in other countries around the world. With this model all the functions of the parent are based in the country of origin the subsidiaries more or less function independently (Spero & Hart, 1997).

The international environment comprises the aggregate of all conditions, events and influences that surround and affect the business entity. These include economic, political, legal, technological, socio-cultural, and natural factors. Unlike the domestic environment, the international environment is complex, variable and dynamic as no two countries are the same.

Hence, since environmental/external factors are beyond the control of a firm, its success depends to a large extent on the adaptability to the environment i.e. its ability to design and adjust the internal controllable variables to take advantage of the opportunities and combat the threats in the environment (Keith, 2010).

Economic factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. Economic change can have a major impact on a firm's behavior, especially on the international stage due to the high risk premia. For example higher interest rates may deter investment because it costs more to borrow, a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency, inflation may provoke higher wage demands from employees and raise costs, higher national income growth may boost demand for a firm's products etc. (Daniels, Radebaugh & Sullivan, 2007).

Political factors have to do with how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may

also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation. The political environment of a country is influenced by the political organisations such as philosophy of political parties, ideology of government or party in power, nature and extent of bureaucracy influence of primary groups etc. political stability in the country, foreign policy, Defence and military policy, image of the country and its leaders in and outside the country. The political environment of the country influences the MNCs to a great extent. There have been political interferences with the affairs of multinational corporations especially host governments which demand certain conditions that should be met with the Multinational Corporations. In developed countries, these limitations tend to cluster mostly on industries that are of impact to the economy such as telecommunication equipment industry. Most modern governments have given priority to the goals of public policy of economic efficiency, growth and betterment of living standards. In analyzing the political influence, one must examine the types of interventions from governments e.g. host governments have in many instances restricted the freedom of a multinational corporation in deploying resources and limitations to strategic freedom. Governments have moved towards regulating the entire industrial sector (Geppert, 2003). However, due to interests from developing countries on MNC's, the latter have gained indirect power influence, upon policies that states may adopt-they have both economic powers and political influence. Multinational Corporations operations are likely to affect political, social environmental and economic factors that diminish the risk of an outbreak of armed conflicts. Multinational corporations have a number of means in which they can influence corporate decisions e.g. through lobbying (Emmot, 1993).

The legal environment is also of great influence to operations of MNCs. Mayer and Jebe (2007) note that multinational corporations (MNCs) face legal issues raised by “home country” laws, “host country” laws, regional regulations or directives, bilateral and multilateral treaties, and international standards and certifications. Ethical issues become entwined in various legal options, and local customs and norms add another layer of complexity to the question of how to act both legally and ethically in an unfamiliar environment. The legal and regulatory frameworks have primarily affected multinationals in the form of sensitive issues as product choice, level of employment, use of technology and national trade balance (Phil and Anthony, 1998). No matter how small a state is, it does not impair its ability to control a Multinational Corporation and lay down the conditions under which a multinational corporation may establish subsidiaries within its borders to restrict and regulate their operations when they are established or to nationalize them. The states still maintain their ability to have direct control and influence over their internal and political affairs (Grigsby, 2011). The nature of corruption, local values and assumptions that are built into national ideologies are major variables in this field. Of great concern also is the extent to which there is a culture of law or a culture of personal patronage, where negotiations are done on a personal rather than a legal basis.

Socio-cultural structure comprises the basic values of a people and transcends the institutions of a country. Issues such as the relation between the individual and the collective, religion, family life and even time concepts and gender roles are all significant in terms of dealing with a new population. Being sensitive to these might be the difference between success and failure (Brown & Gutterman, 2010). It is noteworthy that national cultural differences have remained fairly stable over time. While at the surface level there may be some convergence in cultural habits, artifacts and symbols, for example as witnessed by the spread of American consumer culture across the globe, at a deeper level cultural differences persist. For example,

data from the World Value Survey, a study of 65 countries reflecting 75% of the world's population, showed a remarkable resilience of distinctive cultural values even after taking into account the far-reaching cultural changes caused by modernization and economic development (Ronald & Baker, 2000).

Technological factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. The business in a country is greatly influenced by the technological development as these can determine barriers to entry, minimum efficient production levels and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation. Technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets (Joshi, 2009).

2.3 MNCs and the Business Environment in Kenya

An enabling environment for doing business improves the investment climate and competitiveness of a country, thereby enhancing economic performance for eventual poverty reduction. In this regard, the Government of Kenya has emphasized on improving the environment for doing business to facilitate private sector and investment activities to achieve the targets set for economic growth of about 7%. However, despite efforts made to improve the business environment, there are still issues that constrain the growth of investment and the country's competitiveness. Most of these issues touch on political, legal, economic, socio-cultural and technological aspects.

Political factors have been a major hindrance to foreign investments in Kenya. Top on this list is the issue of insecurity which remains a major concern to the business community. The crime and insecurity image of Kenya among the international investment community is poor. About 40% of foreign direct investments are deterred by insecurity. Crime management is

rated as poor and is ranked as the second most common complaint among firms, which lose between 4-10% of annual sale revenue in terms of property loss and damage. Corruption is rated as a severe obstacle by as high as three out of every four firms in Kenya. Estimates also show that the country loses between 0.5 and 1.5 percent of GDP each year due to the malfunctioning of the commercial dispute resolution system. The infrastructural deficiencies have also presented major hurdles to investment opportunities in the country. Administrative barriers also limit competitiveness. Not only do they make entry and exit into the market difficult, they also create uncertainties with the procedures and enforcement of contracts. It is however worth noting that improvements have been made with regard to all these challenges albeit at a slow pace and a lot still remains to be done in this respect. (KIPPRA Policy Brief, 2009)

The legal environment poses a major challenge to the operations of MNCs in Kenya. According to a World Bank report titled 'Doing Business in Kenya,' (2012), the country was ranked 109 out of 183 on an ease of doing business index from a global comparative perspective, well behind countries like Rwanda and South Africa. Kenya's legal and regulatory environment was identified as one of the major factors impeding foreign direct investment. For example, the report noted that Kenya restricts foreign ownership in more sectors than most other economies. The report however notes that Kenya is indeed reforming but at a slow rate thus losing valuable opportunities to regional and global competitors. Another seminal World Bank report titled 'Investing Across Borders,' (2010), which covered 87 economies including Kenya also reported similar findings. The report revealed that most of the 87 economies measured by Investing Across Borders (IAB2010) have FDI-specific restrictions that hinder foreign investment. In addition, almost 90% of countries limit foreign companies' ability to participate in some sectors of their economies. While there are few restrictions on foreign ownership in the primary sectors and manufacturing, services such as

media, transportation, and electricity—have stricter limits on foreign participation. When it comes to international commercial arbitration, nearly 10% of IAB countries do not have special statutes for commercial arbitration. Adherence to, and implementation of international and regional conventions on arbitration, signal a government's commitment to the rule of law and its investment treaty obligations, which reassures investors. Overall, the study found that good regulations and efficient processes matter for FDI. Countries with poor regulations and inefficient processes for foreign companies receive less FDI and have smaller accumulated stocks of FDI. Based on IAB results, countries tend to attract more FDI if they allow foreign ownership of companies in a variety of sectors, make start-up, land acquisition, and commercial arbitration procedures efficient and transparent, and have strong laws protecting investor interests. But this correlation does not imply existence or direction of a causal relationship. Many other variables—such as market size, political stability, infrastructure quality, or level of economic development—are likely to better explain the relationship.

Economic factors constraining the business environment in Kenya include the relatively high cost of doing business. The worsening terms of trade indicate that there are limits to the country's export market access, especially because of non-tariff barriers e.g poor average clearance time at the port of Mombasa, which can take months. The tax system is also perceived as prohibitive by investors. Research findings place the issue of tax as the third most constraining obstacle to doing business in Kenya after infrastructure and insecurity. Further, majority of the tax incentives are only enjoyed by the productive firms and only a few, if any, are enjoyed by the service firms. Other constrictive economic factors include high interest rate spreads that make the cost of capital high, and high cost of, and low productivity of labour. Wage of unskilled production workers, spot exchange rates, are higher in Kenya than all its neighbours and strategic competitors (KIPPRA Policy Brief, 2009).

Socio-cultural factors of interest to investors in Kenya include high poverty levels (over 50% according to the 2010 Human Development Report), low employment levels where the number of people employed in Kenya in the formal and informal sectors is only 7.8 million people (Economic Survey, 2010). These markers are important in gauging living standards and thus influence the type of products in the market. Other factors include safety and security, corruption (which is systemic in Kenya), religion, different gender roles and the general way of life.

With regard to technology, Kenya has made major strides in ICT with the coming into operation of two fibre-optic cables linking Kenya with the rest of the world in 2009. Mobile banking has reached the unbanked population and contributed significantly to reducing the costs of doing business. The success of mobile banking is illustrated by the exponential growth of mobile phone companies' money transfer services that had over 30 million customers in 2010. Many banks in Kenya have also linked customer account to mobile phone services thus enabling customers to do bank transactions through their mobile phones. Also, in 2009, Kenya launched the first ever automated bond-trading market in East and Central Africa. Automated trading on Government bonds started in November 2009. From all this, it is clear that Kenya is at the forefront of embracing technology as part and parcel of doing business environment (Kenya Economic Review, 2011).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research design, data collection and finally, the techniques of data analysis that were employed. The selected research design, data collection and data analysis techniques were informed by the qualitative nature of the study.

3.2 Research Design

The study employed a case study as its research design. Cooper and Schindler (2006) argue that a case study is a powerful research methodology that combines individual, and sometimes, group interviews with record analysis and observation. It is used to understand events and their ramifications and processes. Mugenda & Mugenda (1999) describe a case study as an in-depth investigation of an individual, group, institution or phenomenon.

The case study approach was suitable and useful in this case as this is a qualitative study aimed at understanding the influence of environmental factors on an MNC operating in Kenya.

3.3 Data Collection

The primary data source was an interview guide. According Cooper and Schindler (2006), an interview guide is a list of topics to be discussed in an unstructured interview. Mugenda & Mugenda (1999) describe an interview guide as a set of questions that the interviewer asks when interviewing the respondents. The study also utilized secondary data sources in gathering data for analysis.

The respondents for purposes of this study were the corporate level management of UBA Kenya Bank Ltd. These include the chief executive officer, heads of sales and marketing, human resources, legal and finance.

3.4 Data Analysis and Presentation

Data collected was analysed using content analysis as the study aims to collect data that is qualitative in nature. Mugenda & Mugenda (1999) describes content analysis as the systematic qualitative description of the objects or materials of the study. In other words, content analysis involves the observation and detailed description of objects, items, or things that comprise the sample. The main purpose of content analysis is to study existing documents in order to determine factors that explain a specific phenomenon.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter provides an analysis of data collected from the field. The data was qualitative in nature thus content analysis was done. The results are for the influence of environmental factors on the operations of UBA Kenya. The appropriate explanations are given in prose.

4.2 The Influence of Environmental Factors on the Operations of UBA Kenya

The external environment of a business consists of a set of conditions and influences outside the business but which shape the life and continued existence of the business. These conditions and influences are outside the firm as a business unit, but they effect changes in the organization and the business entity cannot control them but only adjust to them. The elements of the external business environment constitute the external environmental factors.

4.2.1 Political Factors

These entail the extent and process of government direct or indirect intervention and the influence on businesses in an economy. Specifically, political factors include such areas as incentives, other encouragements and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

The study established that some political factors impact positively on UBA in Kenya, the factors that the respondents highlighted indicated include; level of government intervention in the economy, which arises when the government intervenes in the lending and deposit rates offered by Central bank to commercial banks to adhere to. Recently, through government intervention, the central bank reduced the lending rates in an attempt to ease up credit. Secondly, respondents indicated political stability impacts positively on UAB. When the country is politically stable, the economy tends to be at equilibrium thus many foreign investors invest their portfolios with the bank.

The study results indicated that international conflicts also lead to instability thus reduced or no investment can take place. When there is conflict in the country, the bank experiences low deposits since many customers fear the extent to which the conflict may affect them. The recent conflicts in Tana River and Mombasa have had adverse effects on the bank's performance since many investors feared the risk exposure. The study concurs with the findings of KIPPRA (2009) which indicated that political factors have been a major hindrance to foreign investments in Kenya. Top on this list is the issue of insecurity which remains a major concern to the business community. The crime and insecurity image of Kenya within the international investment community is poor.

The respondents recommended that the bank should put in place mechanisms to curb the effects of corruption and conflict to its operations. It should also ensure it works hand in hand with the government through the Central Bank to enable the bank operate efficiently and effectively. It is important to assess the strengths and weaknesses as well as opportunities and threats every year and especially during the election years in the country.

4.2.2 Legal Factors

Included in this component are discrimination laws, consumer laws, antitrust laws, employment laws and health and safety laws. These factors can affect how a company operates, its costs, and the demand for its products.

The study established that some legal factors impact positively on UBA in Kenya. The specific factors that the respondents indicated were; market entry laws which have opened up and invigorated the banking industry. Respondents however noted with concern that the government has failed to exercise strict control over the establishment and running of microfinance institutions which are flooding the market and affecting the Bank's deposits.

The study established that some legal factors impact negatively on UBA in Kenya. The factors that the respondents highlighted were; lack of adequate regulatory frameworks with regard to the banking industry to deal with fraud and money laundering thus exposing the bank to unmitigated risks. Such cases are rampant in Kenya with some banks incurring colossal losses.

Respondents also raised concerns with applicable trade laws- they indicated that these are sometimes politicized to suite competitor banks thus giving them an unfair competitive advantage. On taxes and tariffs, the respondents indicated that Kenya's tax rates are among the highest in Africa and this greatly affects foreign investments. When taxes and tariffs are low, businesses thrive leading to increased profitability. The study results concurs with World Bank (2012), which indicated that Kenya's legal and regulatory environment is one of the major factors impeding foreign direct investment.

Corruption is rated as a severe obstacle by as high as three out of every four firms in Kenya. The respondents recommended that stern measures be taken to reduce and prevent fraud in the industry and society at large.

4.2.3 Economic Factors

These include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impact on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore the extent to which a business grows and expands. Exchange rates affect the cost of exporting goods and the supply and price of imported goods in an economy.

The study established that some economic factors impact positively on UBA in Kenya. Factors that the respondents indicated were; reduction in interest rates which has a positive impact on economic growth as it eases up credit and encourages customers to borrow thus reducing the cost of doing business. Respondents indicated economic growth increases the bank's lending, significantly cutting default rates and increasing returns. The respondents further indicated the significance of exchange rates- a strong shilling encourages investments hence leading to an increase in foreign trading.

The study established that some economic factors impact negatively on UBA in Kenya. The factors the respondents indicated were; taxation, exchange rates, inflation and also increases in interest rates. The respondents indicated that they lead to increased cost of doing business thus discouraging borrowing. Inflation gives a sense of instability to the public hence leading to lower borrowing which in turn reduces the asset book which is the major income earner for the bank. The study results concurs with the findings of Radebaugh & Sullivan, (2007) who concluded that higher interest rates may deter investment because it costs more to borrow. A strong currency may make exporting more difficult because it may raise the price in terms of foreign currency. Inflation may provoke higher wage demands from employees and raise costs, although higher national income growth may boost demand for a firm's products. It is however worth noting that improvements have been made with regard to all these challenges albeit at a slow pace and a lot still remains to be done in this respect.

The respondents recommended that in the event there are economic changes the business entity should be able to adapt in order to ensure survival, and when the changes are positive the business should be able to identify and maximize opportunities.

4.2.4 Socio-Cultural Factors

These are the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety nets. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labour); government enhanced social insurance schemes may increase the demand for insurance services in a country. Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

Socio-cultural factors that impact positively on UBA Kenya were; religion- UBA has products tailored to suit some religious beliefs and this has enabled them to gain a competitive advantage. The development of Sharia law compliant products has given the bank a good competitive edge.

Low income was identified as another socio-cultural factor which has an influence on the operations of UBA Kenya. The highly skewed income distribution pattern in which over 50% of Kenyans live below the poverty line has had negative effects on the demand for UBA products. The study results showed similarity with the Human Development Report (2010) which indicated that countries which have a high population of low income earners attract significantly lower foreign investments than their counterparts.

Socio-cultural factors that had a negative impact on UBA Kenya were language- language barriers especially for the uneducated restricts many from accessing bank services. The study concurred with Daniels, Radebaugh & Sullivan, and (2007) who suggested that language is a

major barrier for multinational companies which must tailor their practices and approaches to each and every cultural context in which they operate. The respondents further indicated that persons with disability also have challenges. Another factor cited by respondents as playing an influential role in their operations is corruption. When the corruption rates are high, many investors prefer to divest their portfolio to other countries to avoid the risk exposed to them. Corruption leads to deprivation of resources in the society and nation at large. Conflicts also lead to instability thus reduced or no investment can take place.

The respondents recommended that the bank needs to understand and implement measures that will assist persons with disability access services with ease. E.g, have some colleagues trained on sign language and also use technology to enhance services for the blind and other disabled persons. The respondents further recommended training on socio-cultural related factors to ensure everybody embraces the changes brought about by such factors.

4.2.5 Technological Factors

This component of the external environment includes technological aspects such as research and development (R&D) activity, automation, technology incentives and the rate of technological change. These can determine barriers to entry, minimum efficient production levels and influence outsourcing decisions. Technological shifts can affect costs, quality, and stimulate further invention, innovation and competition. The study found that technological factors influence the competitive position of UBA. Maintaining awareness of new technologies decreases the probability of becoming obsolete and promotes innovation. Advancements in technology impact the transformation plan of UBA in many ways.

The study established that some technological factors impact positively on UBA in Kenya. Automation and technological changes lead to improved services to the customers. Use of the e-channels can and indeed has been used to reduce queues in banking halls and expedite service delivery. The study approves the findings of Joshi, (2009) who indicated that the

technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets. With regard to technology, Kenya has made major strides in ICT with the coming into operation of two fibre-optic cables linking Kenya with the rest of the world in 2009. Mobile banking has reached the unbanked population and contributed significantly to reducing the costs of doing business. Also, in 2009, Kenya launched the first ever automated bond-trading market in East and Central Africa. Automated trading on Government bonds started in November 2009. From all this, it is clear that Kenya is at the forefront of embracing technology as part and parcel of doing business environment (Kenya Economic Review, 2011).

The study established that some technological factors impact negatively on UBA in Kenya. The rate of technological change- due to dynamic technological changes, the organization must constantly be on its toes so as to ensure that they are on track and this may increase their cost of doing business. The bank needs to constantly invest to keep up with the technological changes. The study further established that automation leads to loss of the “human touch” in customer service

The respondents recommended that automation should be monitored to ensure that there is a level of human touch especially for complaints. The respondents further recommended more training on the human resources side to ensure little or no resistance to change which would affect business negatively.

4.2.6 Other Factors

The respondents identified strategic positioning as impacting positively on UBA. This ensures that the bank is well positioned in the market and that the customers are conversant with the products the bank is offering in the market. Respondents identified market instability

and competition as impacting negatively on UBA. Liberalization of the market may lead to compromised quality of services that is camouflaged as cheap to the sight of customers.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0: Introduction

This chapter discusses the findings gathered from the analysis of the data as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the interview guide. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and recommendations for action are also given.

5.1: Summary

This research paper has analyzed and appraised the external business environment, with specific reference to Kenya's business environment. The analysis has shown that external environmental factors exert influence on and shape the life, growth and development of the business. It has also shown that the external environment and its factors bear more relevance to business strategic management. Specifically, the analysis has shown that businesses have no direct control or influence over their external environment, unlike their internal environment. Therefore, strategic management skills and expertise are critical to an appropriate and rewarding analysis of the external business environment. This is especially so if a business must successfully explore opportunities provided by the environment to achieve its mission goal in the face of the threats inherent in the environment.

At present in Kenya, the government plays a more regulatory than activist role in the business environment in many sectors of the economy, without direct intervention or involvement in economic enterprises. Although, certain measures have been put in place at various levels to engender a conducive business environment for private sector participation, this paper notes

that certain external environmental factors such as multiple tax systems, policy summersaults, high cost of capital, high interest and inflation rates, volatile exchange rates, infrastructure decay, dismal power supply, etc., escalate the cost of doing business in Kenya and, thus, pose a serious threat to business entities and industries.

5.2 Conclusions

On the legal factors, the study concludes that the legal and regulatory framework is a great constraint to doing business in Kenya. But with the new dispensation under the recently passed constitution, there is indeed hope that taxes, tariffs and trade laws will be implemented in a manner that enhances business environment. This will go a long way towards strengthening the external business environment in Kenya, reducing the threats posed, and increasing the opportunities provided, by legal factors to businesses.

The study concludes that economic factors such as infrastructure (power, roads, water, credit accessibility, etc) continue to pose serious external environmental challenges to businesses in Kenya. Other economic factors that influence the operations of UBA in Kenya emanate from the high cost of capital (i.e., high interest rate), exchange rate volatility, high rate of inflation, weak domestic currency, frequent policy summersault etc.

On political factors the study concludes that the government's direct or indirect intervention has an influence on the business environment in an economy. The study identified the level of government intervention in the economy and political stability as major factors influencing operations of UBA Kenya. In addition the study results indicated that international conflicts also lead to instability thus reduced or no investment can take place.

The study finally concludes that those socio-cultural factors which influence the operations of UBA Kenya were mainly, conflicts, corruption and the highly skewed income distribution pattern in which over 50% of Kenyans live below the poverty line and this has negative

effects on demand for UBA products. When corruption and conflict rates are high, many investors prefer to divest their portfolio to other countries in order to avoid the risk exposed to them.

5.3 Recommendations

Consequently, this research paper recommends the reconsideration of those environmental factors that impose unnecessary constraints on businesses in Kenya. Specifically, multiple tax systems should be jettisoned; exchange rate stability should be pursued; infrastructure should be strengthened.

The study further recommends that governments try to encourage investments through formulating and enacting progressive policies in the business environments of their home countries in order to meet high productivity levels that would guarantee improved living standards. It is the decisive characteristics of a nation that would allow its firms to create and sustain a competitive advantage on the external environment effects in a particular field.

The study further notes that UBA Kenya and other multinational organizations have to deal with dynamic and uncertain environments. As such, the study recommends that in order to be successful, organizations must be strategically aware. They must understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. Multinational organizations must be able to act quickly in response to opportunities and barriers. Every organization has to develop strategies that will enable it fit within the environment in which it operates. This is necessary because the external business environment is dynamic, multi-faceted and complex; as a result of which organizations have to plan how to respond to the challenges posed by it.

5.4 Suggestions for further Research

The study recommends that a similar study should be done with a different MNC mainly in the banking industry to verify this study's findings. The study further recommends that future researchers should explore each environment on its own so as to deeply assess their influence on the operations of businesses in Kenya.

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APPENDICES

Appendix I

Introduction Letter

To whom it may concern

Dear Sir/Madam,

RE: INTRODUCTION LETTER

Please afford me this opportunity to introduce myself. My name is Thomas Marwah and I am a student at the University of Nairobi currently pursuing Master of Business Administration degree. As part of the course's final requirement, I am obligated to carry out a research project work.

The topic of research is: *The Influence of Environmental Factors on the Operations of UBA Bank Kenya Ltd in Kenya*. The purpose of this study is to evaluate the influence of macro-environmental factors on the operations of multinational corporations (MNCs) like UBA Bank in Kenya. It is hoped that this study will provide valuable insights into environmental forces and their role in fostering an enabling environment for investment by multinational corporations as drivers of economic growth in Kenya.

In this pursuit, I kindly beg your indulgence in this matter by filling out the attached questionnaire. Also, feel free to suggest any information you may find relevant to this study but has been omitted.

All information collected is for academic purposes only and will be treated with utmost confidentiality.

Thank you and I look forward to hearing from you.

Yours Faithfully,

Thomas Mwita Marwah.



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DATE: 6th September 2012

TO WHOM IT MAY CONCERN

The bearer of this letter Thomas Mwita Marwah

Registration No DG1/62857/2010

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.



IMMACULATE OMANI
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

Appendix II

INTERVIEW GUIDE

The objective of this study is to assess the influence of environmental factors on the operations of UBA Bank Kenya Ltd in Kenya. The factors assessed are political, legal, economic, socio-cultural and technological factors.

Political Factors:

1. Which political factors impact positively on your organization in Kenya?
2. How?
3. Which political factors impact negatively on your organization in Kenya?
4. How?
5. What action would you recommend be taken?

Legal Factors:

6. Which laws and regulations impact positively on your organization in Kenya?
7. How?
8. Which laws and regulations impact negatively on your organization in Kenya?
9. How?
10. What action would you recommend be taken?

Economic Factors:

11. Which economic factors impact positively on your organization in Kenya?
12. How?
13. Which economic factors impact negatively your organization in Kenya?
14. How?
15. What action would you recommend be taken?

Socio-Cultural Factors:

- 16. Which socio-cultural factors impact positively on your organization in Kenya?
- 17. How?
- 18. Which socio-cultural factors impact negatively on your organization in Kenya?
- 19. How?
- 20. What action would you recommend be taken?

Technological Factors:

- 21. Which technological factors impact positively on your organization in Kenya?
- 22. How?
- 23. Which technological factors impact negatively on your organization in Kenya?
- 24. How?
- 25. What action would you recommend be taken?

Other Factors:

- 26. Are there any other factors that impact positively on your organization in Kenya?
- 27. How?
- 28. Are there any other factors that impact negatively on your organization in Kenya?
- 29. How?
- 30. What action would you recommend be taken?