

**Role Of Competition In Determining Choice Of Strategic  
Response Of Multinational Corporations In Kenya**

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## DECLARATION

This thesis is my original work and has not been presented for a degree in any other University.

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## **DEDICATION**

I dedicate this work to my wife Monicah and my children Pamela Gacheri and Lewis Nthigah; you are a great source of inspiration.

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## LIST OF ABBREVIATIONS/ACRONYMS

<b>AEC</b>	African Economic Community
<b>BPO</b>	Business Process Outsourcing
<b>BRICS</b>	Brazil, Russia, India, China and South Africa
<b>CAGR</b>	Compounded Annual Growth Rate
<b>CEO</b>	Chief Executive Officer
<b>COMMESA</b>	Common Market for Eastern and Southern Africa
<b>DRC</b>	Democratic Republic of Congo
<b>EABL</b>	East African Breweries Limited
<b>EAC</b>	East African Community
<b>ECOWAS</b>	Economic Community for West African States
<b>EPD</b>	Entrepreneurship and Procurement Department
<b>EU</b>	European Union
<b>EXP</b>	Exponential
<b>GDP</b>	Gross Domestic Product
<b>GOK</b>	Government of Kenya
<b>IAR</b>	Instructional Assessment Resources
<b>ICT</b>	Information Communication Technology
<b>KAM</b>	Kenya Association Manufacturers
<b>KSh</b>	Kenya Shillings
<b>Log</b>	Logarithm
<b>Logit</b>	Logistic
<b>MNC</b>	Multinational Corporation
<b>MNE</b>	Multinational Enterprises
<b>NGO</b>	Non Governmental Organization
<b>OECD</b>	Organisation for Economic Co-Operation and Development
<b>OR</b>	Odds Ratio
<b>PWC</b>	Price Waterhouse Coopers
<b>SAB</b>	South Africa Breweries
<b>SACCO</b>	Savings and Credit Cooperative
<b>SHRM</b>	Strategic Human Resource Management

<b>SPSS</b>	Statistical Package for Social Scientist
<b>UK</b>	United Kingdom
<b>USA</b>	United States of America
<b>WB</b>	World Bank

## DEFINITION OF TERMS

- Avoidance:** Is an adaptive coping mechanism characterized by the effort to avoid dealing with a stressor (Kantor, 2010). Avoidance strategy is therefore eliminating or reducing opportunities for error through planning and prevention.
- Competition:** The rivalry that exists between firms for selling their products of a particular category to the same segment of customers (Yabs, 2007). It is the rivalry between individuals and firms to gain greater advantage or superiority over each other (Harrison, 2003).
- Cost Leadership:** It is a generic strategy that offers products or services with acceptable quality and features to a broad set of customers at a low price (Anderson, 2004).
- Deterrence** This is the prevention of adversary aggression or coercion threatening vital interest or survival of an organization. Strategic deterrence convinces adversaries not to take grievous courses of action by means of decisive influence over their decision making (DOD, 2004).
- Differentiation:** It is a firm's ability to create a good that is difficult to replicate, thereby fulfilling niche needs (Boundless, 2015).
- Globalization:** Is the tendency towards an international integration of goods, technology, information, labour and capital or the process of making this integration happen (Ball, 2008).

**Internationalization:** Is any business activity that is organized and carried out across national borders by a business firm in pursuit of its stated aims and objectives (Boschman, 2006).

**Marketing:** Marketing is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others (Kotler and Armstrong, 2008). It is a total system of business activities designed to plan, price, promote and distribute want-satisfying products to target markets to achieve organizational objectives.

**Multinational Corporation:** It is a company with operations in more than one nation (Schienstock 1992). It is a business concern with operations in more than one country (Wilburn, 2011).

**Relocation:** The movement of a business or community from one region or location to another (World Bank, 2010).

**Strategic Response:** Is the action that an organization takes to align itself with the environment (Mukiri, 2012).

**Strategy:** Is a declaration of intent and it is the planning aspect of management which defines the direction in which the organization is going in order to achieve its objectives (Armstrong, 2006).

## **ABSTRACT**

The purpose of this study was to find out the role of competition in determining choice of strategic response of Multinational Corporations (MNC) in Kenya. In its effort to attain a middle income economy status by year 2030, Kenya aims at attracting large MNCs through Business Process Outsourcing (BPO) and at enhancing Foreign Direct Investment (FDI) in the manufacturing sector. However, these initiatives face a major challenge because MNCs operating in Kenya faces fierce competition that forces them to employ different response strategies. In the last 10 years, Kenya has witnessed have market exits, relocation to other countries, franchise sell out, cutting on operations and differentiation strategies by MNCs and there lacks adequate literature and researched models to explain this situation, which this study aims at providing. The study focused on industry competition which had competition intensity, firm's product quality, firm's product cost and firm's marketing experience as independent variables that influences choice of strategic response of MNCs, which could be one or a combination of strategies that include cost leadership, relocation, product differentiation, market differentiation, avoidance and deterrence strategies. This study was based on industry competitive forces theory, strategic choice model and generic competitive strategies model which outlines how competition influences choice of organizational strategies. The research design for the study was descriptive survey that combined both qualitative and quantitative research designs, techniques and measures. The choice of this design was in order to have a mix that triangulates the empirical, constructs and reality research approaches. The study used a multi-stage sampling technique, the first stage being stratified sampling. At this stage, the target population was stratified into three strata of those MNCs that are in manufacturing, those that are in service and those that are engaged in both. The second stage was simple random sampling that chose the respondents in each stratum. The study covered a sample size of 165 Multinational Corporations drawn from a target of 213 such enterprises in Kenya. The key informants of the study were senior managers consisting of Chief executive officers and the heads of departments from each of the 165 MNCs. The study used four basic methods of

collecting data which included a questionnaire, an interview guide, review of secondary data and review of computer-based data from MNCs and other sources. In order to measure reliability of data collection instruments, the study used Cronbach's alpha. Data was analyzed using descriptive statistics, Spearman's coefficient correlation and binary logistic regression. The results indicated that the four variables that were used to measure competition (the independent variable) were statistically significant. This informed the rejection of the five null hypotheses that were developed for this study and retaining the decision that competition has significant influence on choice of strategic response of MNCs in Kenya. The study concluded that industry competition is quite intense in Kenyan market and plays a pivotal role in determining the choice organizational strategy. The cost leadership, product differentiation and market differentiation strategies are preferred responses to competition pressure with a significant number of MNCs employing relocation and deterrent strategies. It was recommended that MNCs in Kenya and other prospective ones should understand the competitive nature of the markets in host countries so that they can employ competitive strategies that would enhance their performance.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of The Study**

This section considers the meaning and need for the study. The chapter is organized into six sub- sections namely, background to the study, statement of the problem, objectives of the study and research questions. Consideration is also given to the justification of the study and the scope of the study.

The world economy in the 21<sup>st</sup> century is characterized by interconnected processes of globalization and internationalization of businesses that are operated by Multinational Corporations (Boschman, 2006). Because of operating in foreign markets, Multinational Corporations (MNCs) are faced by fierce market competition forces in the host countries (Ekaterina, 2008). Chief Executive Officers (CEOs) and top management teams of large corporations, particularly in North America, Europe, and Japan, acknowledge that globalization is the most critical challenge they face today and that it has become tougher to identify internationalization strategies and to choose which countries to do business with (Tarun et al, 2005). Due to this, many multinational corporations are struggling to develop successful strategies in emerging markets.

Harry and Sunita (2015) contends that the need for developing competitive strategies among the MNCs is due to the fact that over the past decade and a half, the average growth rate of GDP in real terms for emerging markets has been twice that of the advanced countries, and this secular trend shows no sign of abating and that the CEOs MNCs from European Union (EU), United States of America (U.S.A) and the Brazil, Russia, India, China and South Africa (BRICS) seem to realize this fundamental shift is underway.

Due to the fierce competition and the changing business priorities for the MNCs in Kenya, one needs to look at who has closed shop or has been forced to cut down operations to realize the magnitude of the problem (Okoth, 2010). He argues that well established and dominant multinational companies in Kenya are suddenly finding themselves sailing in turbulent waters which has led to an enormous exit from Kenyan market by leading MNCs in the recent past including Reckitt Benckiser, Colgate Palmolive, Johnson & Johnson, Agip, Unilever, Procter & Gamble, and ExxonMobil. According to Owuor (2011), some of the MNCs have chosen a relocation strategy from the Kenyan market in recent years due to poor utility infrastructures which makes their products less competitive and reduces their profit margins. Firms in the host country compete with the foreign firms on the basis of either low-cost or product quality or both (Bernard & Koerte, 2007). The exit of Colgate-Palmolive from Kenya for example was a strategic response which led to the MNC restructuring itself from a manufacturer to a distributing agency (Okoth 2010). The competition that faces MNCs and how they strategically respond to it forms the background of this study.

Because competition is the rivalry that exists between firms for selling their products of a particular category to the same segment of customers according to Yabs (2007), companies can gain competitive advantage in three ways. Hellriegel et al, (2005) puts these ways as first, product customization which can be achieved if a company has flexible manufacturing techniques. The second way is through economies of scale that enables the firm to lower the production cost. Lastly, through alliance strategies, where a firm utilizes market linkages with suppliers, distributors and other firms in the industry for its competitive advantage, which is an enhanced marketing experience.

In order to remain competitive according to Owuor (2011), most of the multinational companies operating in Kenya have stepped up expansion plans. The expansion strategies have been due to firm's competitive ability and also due to

other factors like Kenya's attractiveness following the promulgation of a new constitution in August 2010, and establishment of East Africa community common market which embrace borderless trade. British American Tobacco, Nestle Kenya, Weetabix East Africa Limited, Bata Shoe Company and Cadbury East Africa are amongst the MNCs that have announced multi-billion shilling expansion plans in the race to tap new demand in Kenya and the emerging Eastern Africa region.

In their study on competition facing MNCs, Bernard and Koerte (2007) found that competition presents itself in four main aspects, which are competition intensity in the industry, firm's product quality, the firm's product cost and the firm's marketing experience. These aspects of competition are derived from the Porter's forces of industry competition model (Wheelen and Hunger, 2005) and the David Garvin's product quality theory (Juran, 1988).

According to Ross and Perry (1999), there are different views for describing the four aspects of a firm's competitiveness. First is competition intensity which is explained by increased number of firms or similar product offering in a given industry, which according to Porter (1985) leads to product differentiation to enhance a firm's competitive position. Where competition intensity is high, a firm can identify a unique product dimension that is valued by its customers and position itself to meet those needs using its internal strengths. A competitive product is the one that satisfies individual consumer needs and preferences (Crosby, 1986), this way, competition intensity is an important aspect of competition. The second aspect of competition is aspect of firm's competitiveness is the product quality, which is measured by the degree of conformance to predetermined specifications and standards. Any absence of specified attributes of a product or deviations from these standards can lead to its inability to compete effectively in the industry (Crosby 1979).

A third aspect of competition is a firm's product cost. Garvin and March, (1986) describes a products competitiveness in terms of costs and price. They say that a competitive product is one that provides performance at acceptable price or provides conformance at acceptable cost. The firm's marketing experience is the fourth aspect of a firm's competitiveness. The competitiveness of a product or service is a simple unanalyzable property that people learn to recognize only through experience. This view according to Calfa (2010) means that customers' prior exposure to a given product and the firm's prior exposure to the market makes a firm more competitive. The four aspects of competition affect the performance of MNCs and highly determine the strategic response that MNCs adopt in order to remain competitive and profitable in foreign markets.

According to Cui et al, (2005), a firm is a proactive participant in the environment and is capable of adapting its strategy to be responsive to its business environment. In view of this, literature has shown that there are six strategic responses that an organization can adopt in reaction to the competition. Multinational Corporations respond in one or in a combination of strategies which include cost leadership, relocation, product differentiation, market differentiation, avoidance and deterrent strategies (Boschman, 2006). These strategic response choices were derived from Strategic Choice model by Kochan Thomas (Kochan, 1984) and Porter's generic competitive strategies (Porter, 1980).

Multinational corporations react to competition so as to fit in the business environment by using their resources to choose the most competitive strategy (Wilburn, 2011). Nestle Kenya for example, is set to boost its Nairobi factory's production capacity eightfold over the next five years at Ksh. 2.4 billion (Owuor, 2011). He argues that this is meant to expand the volume and range of their products and boost sales in Kenya and regional countries such as Tanzania, Uganda, and the Democratic Republic of Congo that are served from Nairobi. This

is a deterrent strategy which scares away possible entry of new products into the market.

The employment of relocation strategy was exhibited in the banking sector in 1990s. With high interest rates accruing from government securities in this period, coupled with the banks' strategy of making quick money with minimal risk, Barclays Bank of Kenya and Standard Chartered Bank, which were fast emerging as the main players in the market, shut down their branches in the rural areas, shaved off staff and changed focus in pursuit of the high-yielding corporate clients. These MNCs also moved their funds to Treasury Bills and Bonds, thereby effectively shifting their focus from their core business of lending money to customers. This move, according to Kumba and Okoth (2012) created room for cooperative societies, Savings and Credit Cooperatives (SACCO) and Building Societies to tap this low-end market. This marked the turning point of banking sector in Kenya, with formidable players like Equity Bank emerging and posing high competition for banking products and services. As a result of increased competition between banks, customers are now being offered zero- balance accounts even by the Multinational banks which had initially ran away from them.

In their study, Ogutu and Samuel (2011) argued that MNCs are faced with increased competition and that the entry of new products in Kenyan market necessitates the design of competitive strategies to guarantee performance. These scholars state that MNCs plays a major role in international trade and that they are key players in the global economy through their activities in Third World Countries, Kenya being one of them. It is this importance and the need for a more focused research on MNC's strategies to counter competition that has brought the need of this study.

## **1.2 Problem Statement**

Despite great emphasis laid on research work in the field of industry competition, there is inadequate literature on the specific role of competition in determining strategic response of MNCs in developing countries according to Bernard and Koerte (2007) and Wilburn, (2011). Kenya is a developing country and is working towards attaining a middle income economy status by the year 2030 through attracting Foreign Direct Investment (FDI) in manufacturing sector and by attracting large Multinational corporations in its Business Process Outsourcing (BPO) initiative (GOK, 2007). However, realization of the gains envisioned from these initiatives faces a major challenge because in the last ten years, MNCs operating in Kenya have faced fierce competition making them employ different response strategies some of which could hurt the intended outcome (Okoth, 2010).

The choice by Kenya to achieve the objectives of the economic pillar through attraction of MNCs is consistent with the important role played by FDI in Kenyan economy. Mwaniki (2013) contends Kenya is ranked high in terms of attracting FDI, with Compounded Annual Growth Rate (CAGR) of 43.1% in the period 2007 to 2012. This ranking is third in Sub-Saharan Africa, following the CAGR for Ghana (50.8%) and that of Democratic Republic of Congo (DRC) of 47.6%. Because MNCs are important players in enhancing the growth of FDI in a country, World Bank (WB) (2013) has reported that the FDI net inflows in Kenya as percentage of Gross Domestic Product (GDP) has been declining in the last five years and was at 0.64% in 2012, way below the level of 2.68% in 2007. The findings of this study will explain the strategies that MNCs can employ to remain more competitive and by extension expand the FDI net inflows that will contribute immensely towards realization of the economic pillar of vision 2030.

According to Cui et al (2005), organizations are proactive participants in their environment and as such, Owuor (2011) contends MNCs operating in Kenya have employed coping strategies ranging from exiting the market, restructuring of

operations, relocating from some market segments, selling out franchise, buy out arrangements and multibillion expansion programmes. In the last ten years alone, five MNCs have responded by exiting the Kenyan market citing it as least competitive investment destinations worldwide; three MNCs have sold off their franchise or flagship products citing economies of scale and efficiency reasons; two MNCs have relocated from low-end market to target large corporate clientele while ten MNCs have embarked in expansion strategies to differentiate their products and market (Owour, 2011) and Okoth, 2010). There is need to understand the role of competition leading to these mixed strategic responses in order for a country to attract FDI and MNCs as important vehicles that will enhance realization of development goals, hence the need for this study (GOK, 2007; Bernard and Koerte 2007).

The research which has been carried out in Kenya has focused on competitive strategies of MNCs (Ogotu and Samuel, 2012). The influence of competition on the choice of strategic response is therefore the least investigated subject among MNCs in Kenya, hence a problem for continued research (Bernard and Koerte 2007). A key question thus arose; what is the role of competition in determining strategic response of MNCs in Kenya? This question constituted the problem of this study. So, the purpose of this study was to provide an answer to the research problem by finding out the role of competition in determining strategic response of MNCs in order to reach both sustainable and profitable levels (Waeyenberg, 2006). This was the information that this study sort to provide, in line with a research gap that was identified by Bernard and Koerte (2007).

### **1.3 Objectives of The Study**

#### **1.3.1 General Objective**

The general objective of this study was to investigate the role of competition in determining choice of strategic response of Multinational corporations in Kenya.

### **1.3.2 Specific Objectives**

1. To determine the role of competition intensity in determining choice of strategic response of MNCs in Kenya.
2. To establish the role of firm's product quality in determining choice of strategic response of MNCs in Kenya.
3. To determine the role of firm's product cost in determining choice of strategic response of MNCs in Kenya.
4. To establish the role of firm's marketing experience in determining choice of strategic response of MNCs in Kenya.

### **1.4 Research Questions**

1. What is the role of competition intensity in determining choice of strategic response of MNCs in Kenya?
2. Does the firm's product quality have any role in determining choice of strategic response of MNCs in Kenya?
3. What role does firm's product cost have in determining choice of strategic response of MNCs in Kenya?
4. What is the role of firm's marketing experience in determining choice of strategic response of MNCs in Kenya?

### **1.5 Hypothesis**

- H<sub>01</sub>: Competition intensity in an industry has no significant influence on determining choice of strategic response of MNCs in Kenya.
- H<sub>02</sub>: Firm's product quality has no significant influence on determining choice of strategic response of MNCs in Kenya.
- H<sub>03</sub>: Firm's product cost has no significant effect on determining choice of strategic response of MNCs in Kenya.
- H<sub>04</sub>: Firm's Marketing experience has no significant influence on determining choice of strategic response of MNCs in Kenya.

## **1.6 Significance of The Study**

This study came at a very timely moment when Kenya is at an advanced stage of implementing its vision 2030 (GOK, 2007). Economic pillar is the vision's first pillar and through its Business process outsourcing (BPO) strategy, the government aims at attracting least ten large multinational companies to invest in Kenya. The findings of this study will be of great importance to a host of consumers of the information. The results are of significance to the following groups.

### **a. To the organizations venturing into foreign markets**

This study developed an insight on both the intensity of competition as well as the characteristics of the competitors themselves by way of studying how the MNCs respond to various levels of competition. A lot of studies have been carried out on low cost related competitions in developing countries (Bernard and Koerte, 2007) but there has not been an in-depth look at how firms faced with competition could respond in order to enhance their performance. This research is significant to the organizations that aspire to venture into foreign markets. They need to learn the various response strategies they can employ when they are faced with intense pressure of competition. The study was quite timely and relevant to the current trend of globalization. It is very useful to the already global and multinational companies by enabling them to either adapt or standardize their products in foreign markets.

### **b. To the government**

The findings of this study are significant to the governments whose markets are targeted by MNCs. They need to know how to provide a conducive environment and attract foreign investors in order to grow their economies through job creation and exchange of technologies. They also need to know how to protect their local corporations from unfair competition, especially from low quality products.

### **c. To the Market and Trade blocs**

The study findings are also of benefit the current concept of economic blocs in developing countries. Kenya has interest in some economic blocs such as East Africa Community (EAC), Economic Community for West African States ECOWAS and Common Market for Eastern and Southern Africa COMESA which could use this study to understand how best to strategize for enhancement of their competitive advantage and advance regional economic integration towards attaining the African Economic Community (AEC) (Solomon, 2010).

### **d. For model development and further research**

The challenges for MNCs have increased especially with the growth of intense competition, the globalization of economies and the ever changing environment conditions in which they operate. Nevertheless, the importance of these MNCs to Kenya's economy is enormous, but there lacked a study on this area of strategic response to competition that could provide a theoretically grounded model, which this study has provided. This study aimed at making empirical contribution and an understanding on how MNCs respond to competition in the Kenyan market. The study has served as a basis for model development, model testing and further study, especially on firm's strategies and competition (Ogutu and Samuel, 2011).

## **1.7 Scope of the Study**

**Geographical Scope:** The study was limited to the strategic responses employed by multinational corporations that have operations including sales and marketing activities in Kenya. This enabled the study to have an insight on both the operational, sales and marketing strategies and provided a desirable degree of homogeneity among the respondents, according to Waiganjo (2013). According to Ogutu and Samuel (2011), there are 213 such companies in Kenya. This study explicitly focused on how MNCs respond to the competition pressure to enhance competitiveness and performance. This focus was a conscious decision adopted by this study.

**Statistical Scope:** In order to achieve the objectives set out in the study, answer the research questions and test the hypotheses, the study limited itself to 1-level analysis (Aderson et al, 2007). The hypotheses was tested using Binary logistic regression, Spearman's coefficient alpha correlation (Gathenya, 2012) and the F test was carried out based on the statistical significance of Wald statistic as an indicator of goodness of fit of the full models.

### **1.8 Limitations of the Study**

In conducting data collection, this study relied on self-reported information from the respondents without any formal mechanism to verify the accuracy of the information, however, according to Bamberger and Meshoulam (2000), this method of information gathering is also reliable. Self-reported measure, contends Powel (1993) and Dess and Robinson (1984) constitute an acceptable substitute and reliable means by which information can be sort.

Another limitation to this study is that the researcher used cross-sectional survey design and the findings of the study indicate that there is a significant interaction between competition and strategic response. However, Wright et al (2001) contends that a research of this nature should have also conducted a longitudinal study, without which the possibility of a MNC choosing a strategic response due to causal ambiguity cannot be ruled out. This notwithstanding, the causality relationship between competition and strategic response that is argued in this study should be more accepted based on the numerous empirical studies that have arrived at similar findings with this study (Mokaya et al, 2012; Amoako-Gyampah and Acquah, 2007; Bernard and Koerte, 2007 & Gibcus and Kemp, 2003). This study has found consistent results with other studies that competition positively influences the choice of strategic response.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter is organized into sub-sections that include theoretical/model frameworks, review of the existing literature, empirical studies, critique, research gaps and summary. The theoretical review, also referred to as conceptual framework explores the theoretical background of this research in terms of previous work done by other researchers and models developed. This section has also reviewed empirical literature which has led to the development of the hypothesized variables which are captured in a conceptual framework. The conceptual framework has clearly demonstrated the independent variables that inform on adoption of the dependent variables. The methodologies used by various researchers have been reviewed and critiqued for the purposes of this study. A summary of the reviewed literature has been done and research gaps identified.

#### **2.2 Theoretical / Model Frameworks**

##### **2.2.1 Theoretical Frameworks**

The present day businesses are operating in interconnected processes that include globalization, internationalization and transnationalization (Ball, 2008 and Boschman, 2006). These processes cause fundamental changes in competitive strategies of economies and companies and according to (Ekaterina, 2008), fierce competition and constantly changing conditions force companies to use different instruments of strategic planning to achieve long-term advantages. Due to these developments, some organizations develop their business in foreign countries, particularly in developing countries for varied reasons, thereby becoming internationalized. The process of internationalization of firms has been enhanced by globalization (Ball, 2008). Globalization of the world's economy is a consequence of the recent developments throughout the world, including the

economic deregulation, privatization and trade liberalization across borders (Boschman, 2006).

**a). The Internalization Theory Of The Multinational Enterprise**

The Internalization theory of the Multinational Enterprise (MNE) was developed by Peter Buckley and Mark Casson in 1976 (Buckley and Casson, 2009). This theory states that there was a simultaneous occurrence of five elements that led to the rapid growth of internationalization of businesses in the world after the Second World War. The five elements included the rise in demand for technology intensive products; efficiency and scale economy gains in knowledge production; problems associated with organizing external markets for this new knowledge; reductions in international communication costs and increasing scope for tax reduction through transfer pricing (Rugman and Verbeke, 2003). According to Buckley and Casson (1976), internalization of a business occurs only to the point where the benefits equal the costs and that there are four sets of parameters relevant to the internalization decision. These decisions include first, industry-specific factors that are related to the nature of the product and the structure of the external market; secondly, region-specific factors that are related to number of firms in the market and trading blocs restrictions; thirdly, nation-specific factors that including government policies and lastly, firm-specific factors, with a focus on the ability of the management to organize an internal market (Rugman and Verbeke, 2003).

This theory represents a landmark study on the economic analysis of the MNE and it provides a rigorous explanation of the existence and functioning of Multinational Corporations (MNCs) in a global market (Rugman, 1980). One significant feature of global market is the increase in outsourcing by multinational corporations and according to Schienstock (1992), MNCs have less dependence on a national market and can adopt practices which minimize the effect of national policies they move outside the reach of any political system of their home countries. These

operations outside the company's home country may be linked to the parent by merger, operated as subsidiaries, or have considerable autonomy.

According to Bernard and Koerte (2007), prior to the 1970s, most foreign production by multinationals was intended for host-country markets. In the 1970s, new financial incentives led MNCs to begin outsourcing the production of goods for North American, European, and Japanese markets to manufacturing facilities in developing countries. In the 1980s, the availability of international financing allowed entrepreneurs to set up production facilities in developing economies, in order to meet the growing demand by MNCs for offshore production. During the 1980s and 1990s, and into the 2000s, there was a remarkable increase in foreign direct investment on the part of MNCs leading to over 40,000 multinational corporations that currently operate in the global economy, in addition to approximately 250,000 overseas affiliates running cross-continental businesses (Wilburn, 2011) and some 213 MNCs have operations in Kenya (KAM, 2011 and Oloko & Ogutu, 2012).

#### **b). The Porter's Industry Competitive Forces**

The forces of industry competition were developed by Michael Porter (Wheelen and Hunger, 2005). Competition has been defined by Yabs (2007) as the rivalry that exists between firms for selling their products of a particular category to the same segment of customers. It is the rivalry between individuals and firms to gain greater advantage or superiority over each other (Harrison, 2003). A corporation is most concerned with the intensity of competition within its industry which is determined by the five industry competitive forces and according to Wheelen and Hunger (2005) they include threat of new entrants, threat of substitute products or services, bargaining power of buyers, bargaining power of suppliers and rivalry among existing firms.

New entrants are newcomers to an existing industry and they typically bring new capacity, a desire to gain market share and substantial resources hence causing

threat to established corporations. The existing MNCs in the Kenyan market can minimize the threat of new entrants by adopting strategies that mount barriers to entry that include economies of scale, high investment requirements, customer switching costs and well managed industry distribution channels.

Substitute products are those products that appear to be different but can satisfy the same need as another product. According to Porter (1980), Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge. In the Kenyan context, industry players can minimize the threat of substitute goods by employing strategies such as customer loyalty schemes, least cost leadership and high costs of switching to substitutes (Porter, 2004).

Buyers are the people or organizations who create demand in an industry. The bargaining power of buyers affect the industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other. The industry players in Kenya can minimize the effect of powerful buyers through product and market differentiation, managing both backward and forward integration into the industry (Boschman, 2006).

Suppliers are the businesses or people that supply materials and other products into the industry. Suppliers can affect the industry through their ability to raise prices or reduce the quality of purchased goods and services. In order to minimize the threat of powerful suppliers, Multinational corporations in Kenya could employ product differentiation, competitive resource sourcing and forward integration into the industry.

Rivalry among the existing firms is described as the amount of direct competition in an industry. Cui et al, (2005) contends that in most industries corporations are mutually dependent and a competitive move by one firm can be expected to have a noticeable effect on its competitors, causing retaliation or counter efforts. Existing

firms employs various strategies to minimize internal rivalry including product differentiation, high customer switching cost, operating at full capacity, attainment of market leader position and focusing on milking the profits in a mature industry.

### **c). Product Quality Theory**

Product quality theory was developed by David Garvin of Harvard Business School in 1983 and argues that if quality is to be managed, it must first be understood (Garvin, 1988). This theory is important for this study because product quality is a key basis for firms' competition in an industry (Bernard and Koerte, 2007). The theory explains the five approaches of defining product quality and also details the eight dimensions of quality. The first approach defines product quality as a simple unanalyzable property that people learn to recognize only through experience (Calfa, 2010). This means that for a firm to gain a competitive position in an industry, it should expose its products to the consumers and also get a feedback on their experience with the product. Marketing experience as an aspect of competition is concerned with prior exposure of the firm and its product into the industry.

The second approach is user-based and defines product quality as fitness for use (Ross and Perry, 1999). According to this approach, different customers will view quality in different ways because they have different wants or needs and those goods that best satisfy their preferences have the highest quality for them (Juran, 1988). The third approach is manufacturing-based which defines product quality as conformance to product requirements. In this case, a manufacturer should prevent product defects by doing things right first time. By doing so, production cost is reduced and quality is improved (Crosby, 1986). The fourth approach is value-based view which defines product quality in terms of costs and prices. According to March (1986), a quality product is one that provides performance at an acceptable price or provides conformance at an acceptable cost. This approach is becoming the most prevalent because cost aspect of a product is important in

enhancing its competitiveness in the market and firms with cost efficiency strategies have an upper hand over their competitors (London and Hart, 2004).

The fifth approach is Product-based and defines product quality as a precise and measurable variable found in the components and attributes of a product (Crosby, 1979). According to this view, quality reflects the presence or absence of such measurable and desired product attributes which Garvin (1986) referred to as the eight dimensions of quality. The first dimension according to Chris (2008) is product performance which refers to a product's primary operating characteristics. The other dimension is the features of a product, which are additional characteristics that enhance the appeal of the product or service to the user. Reliability dimension is the likelihood that a product will not fail within a specific time period (Garvin, 1987). Product conformance is a dimension which explains the precision with which the product or service meets the specified standards. According to (Crosby, 1976), product durability is another dimension which measures the length of a product's life. Another dimension is that of product serviceability which explains the speed with which the product can be put into service when it breaks down. Aesthetics dimension is subjective and indicates the kind of response a user has to a product. It represents the individual's personal preference. Lastly, is perceived quality dimension which is the quality attributed to a good or service based on indirect measures (Ross, 2009 and Calfa, 2010).

### **2.2.2 Models of Strategic Responses**

When faced with competition, MNCs employ various strategic responses in order to enhance their business objectives Waeyenberg (2006). Strategic responses are ways by which organizations react to an external pressure, like in this case, competition. It affects the formulation, implementation and evaluation of the organization's plans in order to attain stated objectives. In view of this, London and Hart (2004) argues that multinationals need to develop three main capabilities for worldwide success which include global efficiency, local responsiveness, and

worldwide learning. There is need for multinationals to find a way to combine the need for global efficiency with the need to be locally responsive.

The strategies adopted by multinationals according to Dumitrescu and Scalera (2012) are extremely complex, diversified and continually changing. Coca-Cola for example has chosen to create a global homogenous product with an globally unique identity while McDonald's introduced extra menus and extended its chain of deliveries over different locations, inside Wall-Mart. On its part, Fiat Group chose reorganization followed by a sequence of strategic alliances similar to Japanese multinational Sony and Procter & Gamble that formed several strategic alliances with smaller firms having complementary competences and thus penetrating new markets.

According to Boschman (2006), companies need to employ different and appropriate strategic responses to competition pressure. Harry and Sunita (2015) argues that in order to maneuver successfully through new market trends and competition from BRICS countries, MNCs from EU and USA must develop and implement creative growth strategies, and develop new and innovative forms of partnership, financing arrangements and product development. Some of the strategic responses they employ include business to business partnerships, embracing transparency and business ethics, bringing local talent into the business, pursuing alternative sources of financing, partnering with the local government and moving in new growth markets early.

Multinational corporations face a variety of questions regarding the appropriate business strategies to use in the different countries in which they compete. They also face difficulties in determining the right strategic approach across different competing factors posed by the foreign market (Blomstrom, 2002). Building on Porter's typology of 1980 and 1985 of cost leadership, differentiation, and niche strategy a total of six strategies are developed as potential responses by MNC to host country competition (Boschman, 2006). The first set of three response choices

are referred to as organizational strategies and include Cost leadership, Product differentiation and Marketing differentiation. The second set of the other three response choices are referred to as environmental strategies and include Relocation, Avoidance and Deterrence. These six strategic response choices are employed by MNCs when faced by product competition.

Strategic management as a separate discipline of business management has developed over the years due to three main forces which according to Harrison (2003) are intense competition, globalization and information technology. These forces have prompted businesses to reorganize their ways of operations in order to exploit the opportunities in the business environments while coping with the threats that come with these forces (Yabs, 2007). In finding out how do MNCs make decisions about the strategic choices, Drahoukoupil (2014) argues that there are five broad approaches can be distinguished and include the resource-based view of the firm which explains how the MNC resources can lead to competitive advantage. This is followed by the transaction costs perspective which justifies why firms exist across borders. There is also the institutionalism approach which explains how the environments within which an MNC operates shape its strategy and structure. There is also the actor-centred approach, which is concerned with how power relations within MNCs are constituted by a variety of actors mobilizing different resources in the organization and beyond. Finally, the network perspective which sets out to understand condition configurations of the firms, their strategies that are involved in their governance and how, in turn, these configurations structure outcomes within firms. Strategic management models have been developed and businesses use them in different business environments in order to foster competitive advantages (McNamara, 2006) as reviewed in this section.

#### **a). Dynamic Fit Model**

The dynamic fit model stems from the early works on contingency theory by Burns and Stalker in 1961, Woodward in 1965, Lawrence and Lorsch in 1967

(Nissen, 2009). According to Nissen and Leweling (2008), fit is defined as a match between the organizational structure and contingency factors that have positive effect on performance. Bernard and Koerte (2007) argues that the overall theoretical framework builds upon the concept of dynamic fit which is a model where market environment and strategy interact in a dynamic co-alignment process and results to performance implications by MNCs.

Even though this study will not explicitly consider performance implications by MNCs, it implicitly assumes that MNCs adjust their strategy in response to host country competition in order to maximize subsequent economic performance. This was the model that was used by Boschman (2006) where the business environment influences the strategic response of a MNC. In his study he argues that the factors in the environment are competition indicators, which are competition intensity, product quality, product cost and marketing experience.

In his study on concepts of dynamic fit in contingency theory, Klaas (2004) stated that organizations are like living organisms and that the principal goal of human organizations is survival and growth termed as viability. He said that viability is important to the organizations as open systems which completely depend on environmental resources to sustain themselves. Because the resources are scarce, competition exists.

#### **b). Porter's Generic Competitive Strategies**

Porter (1980) argues that a firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. A firm positions itself by leveraging its strengths which ultimately fall into cost advantage and differentiation. The fundamental basis of a firm's average profitability in the long run is sustainable competitive advantage. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry which include cost leadership, differentiation, and focus.

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. Some of the ways that firms acquire cost advantages are by improving process efficiencies, gaining unique access to a large source of lower cost materials, making optimal outsourcing and vertical integration decisions, or avoiding some costs altogether. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors.

A low cost producer must find and exploit all sources of cost advantage. According to Porter (2004), if a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average. Firms that succeed in cost leadership often have several internal strengths that include; first, access to the capital required to make a significant investment in production assets to present a barrier to entry that many firms may not overcome. Secondly, the firm has skill in designing products for efficient manufacturing. Thirdly, the organization has high level of expertise in manufacturing process engineering and lastly, it has efficient distribution channels. This study will explore the choice of cost leadership strategy by MNCs through the testing of the cost efficiency strategic response (Bernard and Koerte, 2007).

In a differentiation strategy, Porter (1985) argues that a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. Firms that succeed in a differentiation strategy have various internal strengths that include; first, access to leading scientific research; secondly, highly skilled and creative product development team; thirdly, strong sales team with the ability to

successfully communicate the perceived strengths of the product and lastly, corporate reputation for quality and innovation. In this study, differentiation strategy, according to Cohen and Mazzeo (2004) will be depicted in both product and market differentiation.

The focus strategy rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others (Porter, 2004). The premise is that the needs of the group or group of segments can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. The focus strategy has two variants. The first variant is the cost focus, where a firm seeks a cost advantage in its target segment. The second one is the differentiation focus where a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. In this study, the Porter's focus strategy can be chosen as a response by MNCs in the area of differentiation, avoidance and deterrent strategies (Blomstrom and Kokko (1998).

### **c). Resource Based Model**

The resource based model started as a resource based view of strategy through the works of Edith Penrose in 1959 and other research work followed after that on this subject (Peteraf, 1993). According to Fahy and Smithee (1999), the resource based model deals with competitive environment facing an organization. The development of the hypotheses for the interaction between competition in the host country and strategic response choice by MNCs, refers to the predictions made by both resource-based and strategic choice theories. According to the resource-based theory, the competitive advantage of a firm draws on its internal resources and competences (Wilburn, 2011). In this paradigm, Wilburn continues to say that a company can be considered as a bundle of resources that makes it unique if the resources are valuable, rare, hard to imitate, and difficult to substitute.

A valuable resource enables the firm to employ a value creating strategy while a rare and in-imitable resource is one that is controlled by only one firm and is a source of competitive advantage (Conner, 1991 & Barney, 1986). The resource of a firm should also be non-substitutable otherwise if competitors are able to counter the firm's value creating strategy with substitute, prices will be driven down according to Dierickx and Cool (1989). These resources are the ones that give such a company ability to choose the appropriate strategy. The resources of the MNCs in this study would be the human resource, money, machines, information and materials.

#### **d). Strategic Choice Model**

This study focuses on the strategic choice theory of management with an emphasis on strategic response that a MNC can adopt when faced by product competition in Kenya. The strategic choice model was advanced by Kochan Thomas and his colleagues in 1980s (Kochan, 2008). Porter (1996) views strategy as the creation of a fit between external characteristics and the internal conditions of an organization to solve a strategic problem. According to Armstrong (2006) strategy is a declaration of intent and it is the planning aspect of management which defines the direction in which the organization is going in order to achieve its objectives.

The strategic choice model, which is the basis for this study, suggests two distinct categories of strategic action available to a firm. First category of strategic action is that of organizational strategies, which refer to situations where companies seek to actively fit their strategies to the existing environment. The environment is perceived as being given, and in case of this study, it is competition pressure, while the strategy can be adapted. The second category of strategic action is that of environmental strategies that aim at manipulating the environment in such a way that fit between strategy and the environment is established (Wilburn, 2011). For the strategic choice model, it is argued that the firm is a proactive participant in the environment and is capable of adapting its strategy to be responsive to its

environment (Cui et al, 2005). Specifically, strategic choice refers to the process of selecting an option for implementation in which the option is a range of strategy decisions and is inclusive of capability development.

In this context, MNCs operating in an environment characterized by competition, the strategic choice theory contends that such companies can either remain in their given environment pursuing a dedicated strategy best suited in response. In relation to this study, this choice will be cost leadership, product differentiation, and market differentiation strategic choices. Alternatively, such a company can decide to change the environment in which it is operating by moving into product and market segments with little competition, in this study this will be relocation and avoidance strategic choices. The firm can also change the environment by erecting entry barriers to thwart entry by competing companies or their products into their market segments or industry, in this study this will be deterrent strategic choice.

### **2.3 Conceptual Framework**

The Porter's forces of industry competition theory (Porter, 1980) and product quality theory by David Garvin (Garvin, 1988) are close this study. The models that are close to the study include strategic choice model of Kochan Thomas (Kochan et al, 1984) and Michael Porter's generic competitive strategies model (Porter, 1980). These two theories and the two models have been used in arriving at the conceptual framework. According to Crosby (1976) and Bernard and Koerte (2007), the four aspects of competition include competition intensity in the industry; firm's product quality; firm's product cost and firm's marketing experience which were selected through the literature review as the independent variables (Boschman, 2006).

Strategic choice model has two distinct categories of strategic actions available to a firm. This study aims at finding out how competition determines the choice of

strategic response by MNCs. Strategic choice model contends that a firm can choose a strategic response to competition pressure which was selected through the literature as the dependent variable (Wilburn, 2011). First category of strategic action that Multinational corporations can use to respond to competition pressure is organizational strategies which include cost leadership, product differentiation and market differentiation (Porter, 1985 & Porter, 2004). The second category is that of environmental strategies, which help a MNC to manipulate the market environment in its favour and include relocation, avoidance and deterrent strategies (Bernard and Koerte, 2007).

Considering that a firm is a proactive participant in the environment and it is capable of responding to competition pressure (Cui et al, 2005), a conceptual framework showing how competition influences the choice of strategic response of MNCs was developed in figure 2.1. This conceptual framework was used to look at the independent variable, which is competition and dependent variable, which is strategic response.



their investment objectives. In an a given industry, competition among firms is expressed along four areas that include competition intensity, product quality, product cost and marketing experience (Cui et al, 2005 and Waeyenberg 2006).

**a). Competition Intensity In Industry**

Competition intensity refers to the degree to which a firm faces rivalry within its industry as determined by Michael Porter's industry competitive forces (Wheelen and Hunger, 2005). The level of competition intensity is related to the activities of competing firms such as price and promotion competition (Cui et al, 2005). They further argue that with the accelerated technology development and globalization of markets, intensive competition and the dynamic nature of markets become key characteristics of market competition. As such, MNC face the challenge of competing with numerous local competitors and quickly reacting to dynamic changes in the local market through various strategic responses. Competition intensity is also characteristic when many similar products are chasing customers in the same market segment.

We conceptualize that the intensity of competition in Kenyan market is described by five factors as outlined by Waeyenberg (2006). First, it is described by the number of competitors offering similar products in the same market. Such competitors could be both local and foreign firms. Second, whether the competitors offering products in the same market act very aggressively on the market in terms of prompt deliveries, aggressive marketing activities. Third, whether competition with companies offering products in specific industry is very strong in terms of market share under their control. Fourth, whether competitors offering products in that market often try to take away our customers through such means like customer loyalty schemes and great offers. And lastly, whether it would be easy for MNC's customers to find a substitute product or an alternative supplier offering products in the host country, which could indicate the closeness of the competing products.

### **b). Firm's Product Quality**

According to Matsa (2009), a firm's product competitiveness is the shopping experience it provides its customers, which describes the factor of product's quality in relation to others. According to Crosby (1976), there are eight dimensions that describe the product's competitiveness in terms of quality and include product's performance, reliability, conformance, durability, serviceability, aesthetics and perceived quality. Once availed to the market place, a product would compete on one or a combination of these dimensions and differentiate itself from other products, according to Garvin (1987).

We conceptualize that the products of different firms in a given industry compete through several quality consideration. First, whether products offered in the market have consistently high quality, which could assure sales consistency and whether the products of competing firms have an acceptable standard of quality, as qualified by standard control agencies. It is also described by whether products of the competitors last a long time, which would mean that the market is locked out of MNC products for a long period. The products' performance in a consistent and reliable manner is also very important because it would mean that the customers have no reason to shift to MNC's products. The last consideration is whether the products from the host country are of higher quality than the average of competing products, which would mean that MNCs have to work very hard to win customers (Boschman, 2006).

### **c). Firm's Product Cost**

Industry competition along product Cost is described by the competition between firms in the same market which takes place on both price and non-price dimensions (Cohen and Mazzeo, 2004). According to these scholars, firms with market power could reduce their product quality in order to save costs and maximize their profits. Garvin (1987) describes product competitiveness in terms of costs and prices and indicates that a competitive product is the one that has acceptable costs and price (Ross and Perry, 1999). The firms that are able to save

on production costs avails to the market products that already have cost advantage to outcompete their rivals (Crosby, 1986).

We conceptualize that firms' competitiveness using product cost is described by several factors. First, whether the products sold in the market enjoy significant cost advantages in manufacturing compared to MNC products, which would mean that the local firms retained bigger profit margins. Secondly, bigger profit margins could give any firm advantage in terms of sales and promotion budget and customer offer skims (Blomstrom and Kokko, 2004). Thirdly, the product cost advantage is explained by whether the products from host country can be sold at lower costs on the national market than MNC products, which would give them a definite price advantage. Fourthly, the firm's ability to utilize economies of scale could result to reduced production cost and make its products available at very competitive prices. Fifthly, whether the firm sources for its requirements from a single large supplier and lastly, whether the organization sells its finished goods to a single large consumer (Porter, 1980).

#### **d). Firm's Marketing Experience**

A firm can have its products outcompete those of its rivals if it has a vast marketing experience. A firm's competitiveness is enhanced by prior market knowledge that includes information about customers, competitors, suppliers and distributors (Cui et al, 2005). The marketing experience is also determined by firm's internal knowledge, such as Information communication and technology (ICT) and specialized skills of operation which is a strategically important resource for a firm, and it serves as a basic source of competitive advantage. An earlier exposure to these external and internal aspects of the market is critical in enhancing a firm's competitiveness.

We conceptualize that marketing experience creates a competitive edge for firms in the host country and is described in several ways, according to Bernard and Koerte (2007). First, whether the firms offer a great variety of products, which

would give customers a wide range of products choice under one roof. Secondly, whether industry players serve a great range of wholesale and retail markets with their products. If this be so, then their market coverage is enormous and customers would prefer them due to shopping convenience. Thirdly, whether the firms serve a great diversity of customers, which would mean that they are satisfying a large scope of customer segments. Finally, whether the competing firms in the industry employ ICT to enhance the efficiency and effectiveness of their operations.

#### **2.4.2 Strategic Response of Multinational Corporations**

When a MNC is faced by competition, it can choose and employ one or a combination of six strategic responses in order to remain competitive and achieve its performance goals (Bernard and Koerte, 2007). These strategic responses are cost leadership, relocation, product differentiation, market differentiation, deterrent and avoidance strategies. Each strategic response is described by various indicators that the MNC engages in.

##### **a). Cost Leadership Strategy**

The underlying rationale of a cost leadership strategy is to outperform competitors in the same market segment by lowering prices. This strategy is only possible if the costs are kept as low as possible. Going by the resource-based theory, the host country is favoured by cheap labour and locally available raw materials. The MNCs are also favoured by the advanced technology and capital intensive operations (Bernard and Koerte, 2007). This strategy is indicated by various undertakings that MNCs engage in to respond to competition in their respective industries.

The first indicator of cost efficiency strategy by MNCs is maximization of plant capacity utilization, which helps in the reduction on cost of unutilized capacity. Secondly, optimization of operating efficiency to ensure high production rate. Thirdly, efficiency in procurement of materials and components to save both on time and cost. Fourthly, emphasis on modern plant and equipment to save on

breakdown time, repairs and ensure high production rate. And finally, reduction of production costs through efficient labour utilization and inventory management (Porter, 1985).

#### **b). Relocation Strategy**

Relocation strategy is a choice that takes on a special role when the threat comes from the local companies themselves. The firms that could easily relocate from Kenya to other markets or from one industry to another are those that are very sensitive to labour and inputs costs and to the flooding of the market with cheap competition. Such MNCs do not gain a significant cost advantage due to their operations in Kenya and could be, their sister subsidiaries in other countries generate more profit than the Kenyan operations.

According to Bernard and Koerte (2007), relocation strategy is described by five indicators which are first, whether MNC procures a large share of components and finished products from host country companies. Secondly, whether MNCs produces components and finished products in the host country. Thirdly, whether the share of value created in host country for MNC finished product is very high. Fourthly, whether the MNC can gain a significant cost advantage due to its activities in the host country. And finally, whether MNC can gain a great competitive advantage due to its activities in host country. If the answer to these statements is positive, then relocating to the host country would be the best strategic response for the MNC while the need to withdraw from given industry to another is minimal.

#### **c). Product differentiation Strategy**

Product differentiation strategy strives to create unique products that are not easily matched by other competitors and thereby alleviate competition pressure. According to Porter (1980), the differentiating organization will incur additional costs in creating their competitive advantage. Companies in advanced countries

can develop resources and competences that are difficult for their host country rivals to imitate (Blomstron and Kokko, 1998).

Product differentiation strategy is indicated by creativity and innovation which enables the MNC to come up with new and different ways of presenting its products to the market. It is also through product customization to meet specific need of the host country or a given customer segment. MNCs also differentiate their products through rapid product development and adjustment in terms of quality, packaging or development of a totally new product (Blomstron and Kokko, 1998). Also, rapid product introduction into the host country market exhibits speed of meeting the market needs and quick responsiveness to the customer needs. Product differentiation also involves support and after sales service and finally, the speed of delivering products to the customer.

#### **d). Market Differentiation Strategy**

Market differentiation strategy, according to Cohen and Mazzeo (2004) is based on the marketing knowledge. It is an intangible asset of a firm and is not as easily imitated as physical products. This strategy has considerable attraction when a firm can lower costs significantly by limiting its customer base to a well-defined buyer segment (Porter, 1985).

This strategic response is adopted by MNCs that exhibit indicators that include building strong brand identification in the targeted market, spending heavily on advertising to ensure market protection and when MNC is making an intensive marketing effort through promotions and market offers. Also, when MNC is developing and deploying innovative marketing techniques like personal selling, media campaigns and road shows. When MNC is developing and maintaining exclusive distribution channels through distributor appointment and contracts and entering into agreements with supermarkets and wholesalers. Finally, it is adopted when MNC is controlling the distribution channels by drawing distribution territories for appointed distributors.

#### **e). Avoidance Strategy**

Avoidance strategy can be employed by the MNC by changing products or industry. A MNC can adjust their product lines in response to competition. Sometimes they remove products from the market, thereby pruning their product lines. There are three indicators that show whether the MNC chose the avoidance strategy (Bernard and Koerte, 2007). Firstly, whether the MNC's products that faced significant competition from similar products were replaced by products that face lower levels of competition. Secondly, whether the MNC's products that faced significant competition from competitor products were replaced by products that require a higher skill intensity. Whether the MNC's products that faced significant competition from other products were replaced by products that require a higher capital intensity. And lastly, whether the firm avoids venturing into market and product segments that are crowded with other players. The avoidance strategy enables the MNC to abandon the crowded- highly competitive product niche and target a market segment that is both capital and skill intensive.

#### **f). Deterrence Strategy**

According to Bernard and Koerte (2007), deterrence strategy is used by the MNC to prevent host country competitors from entering its market segment or industry. To do this, MNCs use several approaches that include first, by creating excess capacity which would ensure excess release of their products in the market. Secondly, by using aggressive low-price policy because of their economies of scale and low production costs. Thirdly, by offering prices at or below competitive price levels which could make it very difficult for the host country firms to compete. And lastly, by calling for national regulation and protectionism through lobbying for foreign investment incentives and duty free operations (Blomstrom, 2002).

### **2.5 Empirical Review**

Gibcus and Kemp (2003) conducted a study on strategy and small firm performance and found that there is a positive and significant path coefficient of

0.72 and 0.73 between marketing new products in an industry, and firm's differentiation strategy and positive and significant path coefficient of 0.73 between research and development of new products for the market and the organizations strategy. The two were significant ( $p = 0.001$ ) at  $\alpha = 0.01$ . In this study, it was also found that the organization's product cost affects the selection of cost leadership strategy in that there was a positive path coefficient of 0.78, 0.79 and 0.57 between cost leadership strategy of the firm and reduction of overall product costs, reducing manufacturing cost and development of new product manufacturing process respectively, all significant ( $p = 0.001$ ) at  $\alpha = 0.01$ . This supported the hypothesis of their study that the organizational strategy of a firm is positively associated with the development and introduction of new products in an industry, which leads to intensified competition in the industry. They concluded that an organization's product and market differentiation strategies are influenced by competition aspects that include competition intensity, marketing experience and product cost of industry players.

In their research on the strategies adopted by multinational corporations to cope with Competition in Kenya, Ogutu and Samuel (2011) found out that the most popular strategies used by MNCs to cope with competition include better quality, excellent customer service, innovation and differentiation, with mean scores of 4.48, 4.48, 4.43 and 4.29 respectively. They concluded that strategies that MNCs adopt in Kenya are influenced by level of ownership which stood at 61% of MNCs being foreign owned and 39% being both locally and foreign owned. Other strategies that MNCs adopt include diversification, cost cutting measures, strategic alliances, joint venture, mergers, acquisitions and lower prices to cope with competitive challenges.

A research study by Amoako-Gyampah and Acquah (2008) on manufacturing strategy, competitive strategy and firm performance found that there is a positive path coefficient of 0.403 which was significant ( $p = 0.001$ ) at  $\alpha = 0.01$  between product quality manufactured by an organization and its cost leadership

strategy. They also found out that there is a positive path coefficient of 0.449 which was significant ( $p = 0.001$ ) at  $\alpha = 0.01$  between product cost of an organization and its differentiation strategy. These researchers also found out that there is a positive path coefficient of 0.403 which was significant ( $p = 0.001$ ) at  $\alpha = 0.01$  between product cost of an organization and its cost leadership strategy and a positive path coefficient of 0.279 that was significant ( $p = 0.001$ ) at  $\alpha = 0.01$  between product cost of an organization and its differentiation strategy. This supported the study hypothesis that competitive strategy of a firm is positively associated with the product quality of an organization which made them arrive to a conclusion that that competition influenced organization's cost leadership and differentiation strategies.

The study conducted by Bernard and Koerte (2007) on 423 Multinational Corporations in USA and Germany shows that MNCs employ relocation, avoidance, and marketing differentiation strategies when faced by competition. They found that there is a significant correlation between competition and four out of six strategic responses. The study results showed that strategic responses of cost efficiency and relocation are each positively and significantly correlated with competition at the 5% and 10% levels respectively. The Marketing differentiation and avoidance strategic responses were negatively correlated and were significant at 5% level. However, product differentiation and deterrence strategic responses were uncorrelated with competition. They concluded that as competition increases, firms increasingly use relocation strategies but reduce their reliance on avoidance and market differentiation.

A study by Mokaya et al (2012) on Market positioning and organizational performance in the Airlines industry in Kenya reported a positive correlation coefficient of 0.574 between product perceived quality and pricing strategies significant at ( $p = 0.000$ ) at  $\alpha = 1005$ . These researchers also found that there is a negative correlation coefficient of -0.706 between cost of products and pricing strategies of an organization, but unlike this study, theirs indicated that the

correlation was significant ( $p = 0.000$ ) at  $\alpha = 0.05$ . In this study, these researchers arrived to a conclusion that a firm's competition influences choice of marketing strategy of an organization.

Ogutu and Nyatichi (2012) carried out a research on competitive strategies adopted by Multinational Banks in Kenya and their findings indicated clearly that for multinational banks to maintain their competitive edge in the market they have largely adopted broad differentiation strategy. The implication of the study was mainly on customer service differentiation. Customers' tastes and preferences tend to change all the time, especially if offered with better products. This therefore calls for the banks to setup research department in their organization which can help in understanding customers' needs better so that they maintain their customers. The study gives insight regarding the competitive strategies that give multinational banks a competitive edge in Kenya.

Kioko (2012) did a study on the analysis of competitive strategies effect on the market share of independent petroleum companies in Kenya. Results of the study indicated that different competitive strategies were used in different magnitudes by the independent petroleum companies. Low cost leadership and product differentiation were the least used competitive strategies. On the other hand, the use of market segmentation and convenience retailing strategies was very high. The study found a strong correlation of 0.7 between the competitive strategies employed by independent petroleum companies and market share. The study also found out that apart from market segmentation and convenience retailing, other strategies like overnight parking of public service vehicles, car washing, tyre sales and vehicle servicing are also mostly used by independent petroleum companies to increase their market share in Kenya.

## **2.6 Critique of Existing Literature Relevant to the Study**

In his study to show how multinationals strategically respond to the institutional pressure concerning human rights issues, Boschman (2006) used an exploratory

research method. It explored the relationship between the institutional pressure concerning human rights issues and the strategic responses of western multinational organizations. The design of his research was a literature review which meant that he used first data collected for another purpose and relied only on secondary data. Similar approach was used by London and Hart (2004) arguing that they studied a relatively new and unexplored nature of the phenomenon the launching of business ventures in low-income markets in developing countries. Their study adopted an exploratory research strategy, looking at qualitative research, rather than traditional quantitative empirical tools. A research work done by Contiu (2010) used a semi-structured interview and questionnaire-based survey where most of the questions included in the questionnaire were closed because it was found reluctant in expanding open questions and their coding was difficult. Questionnaires were administered for four months and responses were recorded by respondents. He used a disproportionate stratified random sampling.

A study by Gibcus and Kemp (2003) on strategy and small firm performance and that conducted by Amoako-Gyampah and Acquah (2008) on manufacturing strategy, competitive strategy and firm performance arrived at very similar findings. The findings of these studies indicated that there is a positive correlation between competition forces in an industry and the strategies employed by organizations. Their conclusions were similar, that choice of strategy by an organization is influenced by competition aspects including product cost, marketing experience and competition intensity. These studies however did not address the subject of competition among Multinational corporations in Kenya.

The study on effects of Strategic human resources practices on MNCs by Dimba and K'Obonyo (2009) targeted a population of foreign multinational manufacturing companies in Kenya who are members of Kenya Association of Manufacturers. In 2007, there were fifty such companies. Senior managers and functional managers from each organization were chosen for survey using the random sampling method to get the study sample.

Mokaya et al (2012) conducted a study on market positioning and organizational performance in the airlines industry in Kenya which arrived to similar findings with a study on competitive strategies adopted by Multinational Banks in Kenya by Ogutu and Nyatichi (2012). Mokaya et al (2012) found that the choice of market positioning strategies by an organization was influenced industry competition and the strategies determine the organizational performance. Their study mainly focused on airline industry and not on other sectors. On their part, Ogutu and Nyatichi (2012) found that the strategies adopted by multinational banks were influenced by competition forces in the industry. They however did not look at other sectors like manufacturing and service which this study aims at studying.

An empirical study by Bernard and Koerte (2007) on 423 Multinational Corporations in USA and Germany and that conducted by Ogutu and Samuel (2011) on the strategies adopted by multinational corporations to cope with Competition in Kenya majored mainly on the strategies that adopt to cope with industry competition and they did not specifically research on how competition influences choice of strategic response by an organization. Kioko (2012) did a study on the analysis of competitive strategies and their effect on the market share of independent petroleum companies in Kenya. These three studies arrived at similar findings that an organization employs cost leadership and differentiation strategies in order to attain a competitive position in its industry.

From the foregoing of the critique of researches above, this researcher will deviate from the exploratory research as used by Boschman (2006) and London and Hart (2004) described above. Instead, primary data will be collected from the MNCs understudy for the analysis of descriptive statistics as done by Contiu (2010) and Dimba and K'Obonyo (2009). This study will also analyze inferential statistics as done by Bernard and Koerte (2007) in their study. Instead of researching only on multinational banks, airlines industry or petroleum companies only as done by

Ogutu and Nyatichi (2012), Mokaya et al (2012) and Kioko (2012) respectively, this study will research on the Multinational corporations that operate in Kenya.

## **2.7 Research Gaps**

The literature reviewed on Multinational Corporations in Kenya and the existing body of knowledge is insufficient in explaining the role of competition in determining strategic response of MNCs in Kenya. A study was carried out by Ogutu and Samuel (2011) on strategies adopted by multinational corporations to cope with Competition in Kenya. On their part, Oloko and Ogutu (2012) did a study on MNCs in Kenya and looked at the influence of power distance on the relationship between employee empowerment and empowerment outcomes. Another study carried out by Boschman (2006) only addressed the issue of how MNCs strategically respond to human rights dilemmas while that by Bernard and Koerte (2007) looked at how MNCs strategically respond to Multiple Dimensions of low-cost country competition. The studies by Ogutu and Nyatichi (2012), Mokaya et al (2012) and Kioko (2012) focused on sectors of banking, airline and petroleum only. These researchers did not expressly address their studies on the influenced of competition on choice of strategic response among the MNCs in Kenya which is the research gap that this study aims at addressing.

According to Bernard (2007), market players in the advanced economies face unique challenges in responding to low-cost competitive pressure as standard strategies based on cost reduction are not typically viable. Theories in international management such as the international product life cycle or the technological gap theory suggest that competing with less developed countries is fundamentally different than competing with developed countries. Less developed countries lack access to and experience in the latest technologies but enjoy significant advantages in factor costs. In order to sustain competitive advantage, companies in advanced countries have to consider strategies that focus on technology and skill intensive products which are not easily imitated by low-cost country competitors rather than

price-based strategies. There is lack of similar literature on how competition influences strategic choice of an organization.

This study aimed at finding out the role of competition in determining strategic choice of MNCs in Kenya with an aim of fostering good performance. The intensity of competition, the levels of market experience, product quality levels, and cost effectiveness brought to the market by local firms in developing economies are the main factors that have been found to determine MNCs strategic planning (Bernard, 2007). London and Hart (2004) observed that host country competition poses a great concern to MNCs. The foreign investors must devise ways of reacting to such pressures in order to achieve their investment objectives. They observed that there are four competition factors that influence strategic response choices of MNCs. They include competition intensity in an industry, the levels of firm's market experience, competitors' product quality levels, and competitors' product cost.

From the reviewed literature, three research gaps were identified which included first, how competition influences the choice strategic response of multinational corporations in Kenya, which is the gap this study aimed to address. Secondly, there was a gap of finding out other factors that determine strategic response choice of MNCs in developing markets and lastly, there is a gap on establishing the strategic responses of MNCs to foreign market entry barriers in developing countries. If research work had to be done on these areas, they would provide literature on how best MNCs can cope with various angles of competition in Kenya and other markets.

## **2.8 Summary**

Although an increasing number of MNCs are exploring the economic opportunities in the developing markets, there is little in the way of theory or research in the area of international business that provides clear guidance on how to pursue these emerging markets. According to London and Hart (2004), it

seemed apparent that there was a serious gap in the existing literature when it comes to global capabilities and business strategies that can help the MNCs to respond to ever increasing host country competition. In his study, Waeyenberg (2006) stated that multinationals need to develop three main capabilities for worldwide success. These are global efficiency, local responsiveness, and worldwide learning. The multinationals do not always succeed in exploring these markets in a profitable manner. This is partly due to lack of proper competitive strategies. To reach high levels of sustainability and profitability, corporations need to adapt their business models, strategies and products accordingly.

A study carried out by Bernard and Koerte (2007) shows that the strategy literature on foreign competition rarely refers specifically to strategic responses to competition, but rather considers overall international competition that increases the competitive pressure on the home market and reduces market share and profitability. His research studied the strategic responses of MNCs to multiple dimensions of Low cost country competition without specifically looking at how competition determines the choice of strategic response. Boschman (2006) in his research explored the strategic responses of western MNCs operating in foreign non-western countries where they are confronted with institutional pressures concerning human right issues. He argues that MNCs that have established production facilities in foreign countries respond in different ways to the varied pressures on human rights issues in order to remain competitive and register good performance. His study however did not focus on how a MNC can respond to pressures from a foreign market entry point of view.

In his study, Blomstorm (2002), indicated that on the expectation that MNCs will raise employment, exports, or tax revenue, or that some of the knowledge brought by the foreign companies may spill over to the host country's private sector, governments have introduced various forms of investment incentives, to encourage foreign owned companies to invest in their jurisdiction. He acknowledged that in order to compete successfully in a foreign market a firm must possess some

ownership-specific assets in knowledge, technology, organization, managerial and marketing skills. His study on how the host country can encourage foreign firms to invest in it through investment incentives did not explore how such firms can use these strengths to strategically respond to competition pressures in host countries. Studies done by done by Ogutu and Nyatichi (2012), Mokaya et al (2012) and Kioko (2012) focused narrow sectors of economy, only looking at multinational banks, airlines industry or petroleum companies only as respectively, but this study will focus at broader economic sectors where MNCs operate. This summary led to establishment of research gaps that have been discussed above.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the method of the study. It describes the research design, population of the study, methods used in sampling and sample size. It details data collection procedure, research instrument used, piloting and logistical and ethical considerations. It also details the data analysis and the statistical measurement model.

#### **3.2 Research Design**

Research design, according to Waiganjo (2013) is a framework that guides the collection and analysis of the data. It is a detailed plan for how research study is conducted in order to investigate the research questions. This study employed a cross-sectional survey design. The choice of this design was because it typically involves conducting a survey of a sample of population elements at one point in time (Schmidt and Kohlmann, 2008)) which this study was interested in. According to (Hall, 2008), this design is also useful because it provides a quick snapshot of what is going on with the variables of interest for the research problem, and therefore it was used in defining, profiling, segmentation, estimating, predicting, and examining associative relationships. More so, a cross-sectional survey design was appropriate for this study because it generated a broad range of data that enabled the researcher to draw comparisons based on differences in demographics across the MNCs. To do this, the study combined both qualitative and quantitative research designed approaches (Mugenda and Mugenda, 2003). This is because the quantitative research is concerned with empirical study that involves measuring quantities of things and numerical quantities designed for statistical analysis. On the other hand, qualitative research involves assessing the quality of things and is concerned with the study of social and cultural phenomena. The combination of qualitative and quantitative techniques together with surveys

and interviews enabled the study to bring about validation of the variables and also enhanced understanding in the areas under study (Olsen, 2004).

The research approach for this study was deductive, is concerned with developing hypotheses based on existing theory, and then designing a research strategy to test the hypothesis (Wilson, 2010). In the study, four hypotheses were developed being derived from the propositions of the theory which were later tested for acceptance or rejection and conclusions deduced from premises or propositions (Babbie, 2010). This approach was chosen instead of induction approach because according to Gulati (2009), induction begins with general observations and seeks to find a pattern within them whereas the study aimed at reasoning from the particular proposition and then generalize.

This study stratified the targeted MNCs into three general types which were manufacturing organizations, service organizations and those that do both as was done by Ogutu and Samuel (2011). The descriptive design was also adopted because it was useful for fact finding concerning the current phenomenon and led to formulation of important principles, knowledge and solution to significant problems (Iravo, 2011).

### **3.3 Target Population**

Berg (2001) contends that target population is the larger group of items to which the research ultimately would like to generalize the result of the study. The target population was formed of all for profit foreign multinational companies in Kenya that operate in both manufacturing and service. Ogutu and Samuel (2011) contends that there are 213 such companies, and all were included in the study as target population. The study was conducted in Kenya and according to Dimba and K'Obonyo (2009), the majority of Multinational corporations are location in Nairobi, with some being in Mombasa, Kiambu and Kisumu. These towns are well served by infrastructure which helped the researcher to maximize on administration and management of the research and reduced the cost of research.

### **3.4 Sampling Frame**

A sampling frame is a list of all the items where a representative sample is drawn for the purpose of research and according to Serekan (2009), an optimum sample for a research should range between 10% - 30% of the study population. According to Iravo (2011), an optimum sample is the one that fulfills the requirements of efficiency, representativeness, reliability and flexibility. Mugenda and Mugenda (2003) and Alreck and Settle (2004) contend that at least 10% of accessible population is enough and at least 30 cases are required for statistical data analysis for social research. For this study, an optimum proportion of 64% was drawn from a target population of 213 Multinational corporations in order to satisfy the requirements of optimality and representativeness. The list of target population is detailed in appendix 4 (KAM, 2011).

For each MNC that was sampled, one senior manager was selected as key informant. A Key informant, according to Sauders and Lewis (2003) is a contact person who helps a field researcher to gain information about the research setting. For this study, key informants were either the firm's chief executive officer (CEO) or the heads of departments which include operations, sales and marketing, Finance and Human resource because these, according to Wheelen and Hunger (2005) are part of the team that is concerned with formulation and implementation of organizational strategy.

### **3.5 Sample and Sampling Technique**

Sampling is the selection of individual observations intended to yield some knowledge about a population of concern, especially for the purposes of statistical inference. The end product of sampling is a sample, which is defined as a subset of population elements. This study purposively targeted senior managers from each organization for survey who constituted the accessible population. From the accessible population, this study used the random sampling method to get the study sample, which ensures that each unit has an equal probability of being chosen and is least likely to result in bias (Orodho, 2005). This approach was used

in similar studies done by Benard and Koerte (2007), Dimba and K'Obonyo (2007), Ogotu and Samuel (2011) and Contiu (2010) and successfully enabled them to answer the research questions.

This study used stratified sampling technique where according to Kothari (2004), the study population was divided into manufacturing MNCs, service MNCs and manufacturing and service MNCs and each level was a stratum. Random sampling was used to select the desired number of respondents in each level on disproportionate basis as was done by Ogotu and Samuel (2011). The sampling technique used ensured that there was a sample size large enough to represent the target population. This study selected 64% percent of the population.

### 3.5.1 Sample size determination

In determining the sample size, this study adopted the formula and procedure for categorical data according to Cochran (1977) and Barlett et al (2001). The sample size for this study was calculated as per the following formula:

$$n_0 = \frac{Z^2 p(1-p)}{e^2}$$

Where:

$n_0$  = Required sample size

$Z$  = Confidence level at 95% (standard value of 1.96)

$p$  = Estimated adoption rate of a strategic response in MNCs at 50% (which is 0.5).

$e$  = Margin of error at 5% (standard value of 0.05).

Therefore, the sample size ( $n_0$ ) was worked out as follows;

$$n_0 = \frac{1.96^2 \times 0.5 \times (1-0.5)}{0.05^2} = 384.16 \approx 384$$

Considering that the sample size at a confidence level of 95% and a margin of error at 5% was larger than the target population, the adjustment was done to arrive at the adjusted sample ( $n$ ) using the following formula;

$$n = \frac{n_0 \times N}{n_0 + N}$$

Where,

$n$  = Adjusted sample

$n_0$  = Sample size

$N$  = Target population

Therefore,

$$n = \frac{384 \times 213}{384 + 213} = 137.00$$

The study targeted response from each of the Multinational Corporations that are sampled at random from the three main strata. Because this population size was large, 137 participants were representative as described in the sampling matrix 3.1.

**Table 3.1 Sampling Matrix**

<b>Strata</b>	<b>Total Population</b>	<b>Sample</b>	<b>Percentage</b>
Manufacturing MNCs	120	77	36
Service MNCs	56	36	17
Service and Manufacturing MNCs	38	24	12
<b>Total</b>	<b>213</b>	<b>137</b>	<b>64</b>

The rough estimate of the role of competition in determining the choice of strategic response by MNCs ranged between 45% and 55%. This range was worked as (50-5) and (50+5) percent respectively. This translates to range between (45% x 137 MNCs) and (55% x 137 MNCs). This ranged from 62 MNCs to 75 multinational corporations.

### **3.6 Data Collection Instruments**

According to Organization for Economic Co-Operation and Development (OECD) (2002), data collection instruments are methodologies used to identify information sources and collect information during an evaluation. This study used four instruments for data collection which included the questionnaire, interview guide, review of secondary data and review of computer-based data. A semi structured questionnaire was developed and used in this study which enabled the collection of a broad range of data in a written form to enhance accuracy and storage of data (Contiu, 2010). The questionnaire had three parts. Part I of the instrument identified the general information about the respondent and the organization. Part II of the instrument explored the aspects of competition in the MNC's industry while part III explored the various strategic responses chosen by the MNCs as was successfully used by Dimba and K'Obonyo (2007). The questionnaire is detailed in appendix 2. The second instrument that was used to collect data was a structured interview guide which helped in collecting personal in-depth information. The respondents gave their views and opinion concerning the subject of this study. A similar instrument was also used by Waiganjo (2013). The interview guide is detailed in appendix 3.

The third method used for data collection was the review of secondary data. Review of content for historical documents including speeches, commentaries, newspapers and interviews was done in order to explain certain phenomena and effects of political and economic environments on industry competition and strategies employed by MNCs. A similar tool was used by Gathenya, (2012). Computer-based data was also reviewed, particularly the one provided by KAM which helped stratifying the MNCs into the three strata of manufacturing, service and Manufacturing and service multinationals (KAM, 2011).

### **3.7 Pilot Test**

Purposive sampling was done for pre-testing the survey instruments in order to improve their validity and relevance to the objectives of the study (Iravo, 2011). A Pilot study that involved 17 Multinational corporations was carried out which was 10% of the 165 corporations that were studied. This was based on the model used by Barringer and Meshoulam (2000) and Mugenda and Mugenda (2003) who contends that 10% of the accessible population is generally recommended by social research for pilot testing. The MNCs for the pilot study were sampled using convenient sampling technique. Piloting enabled the researcher to determine the clarity of question items in the questionnaire. Questions that elicited ambiguous responses were adjusted accordingly. It therefore enabled the researcher to check the suitability of the instruments to collect required data.

From the feedback research instruments were scrutinized for errors and omissions, ambiguity, and relevance. The questions that were found not to be understood were redefined while the questionnaire content, structure and sequence were restructured to enhance the content validity. These improvements made the data collection instruments to be more theoretically meaningful according to Mugenda and Mugenda (2003) and Kothari (2004). Piloting also helped the researcher to gain basic administrative experience in conducting the research in preparation for the larger group survey. The data collected from piloting process was analyzed and the results formed part of the research work.

#### **3.7.1 Validity of Research Instruments**

Validity is about the accuracy of the data obtained in the study in representing the variables of the study (Saunders et al., 2003). Where the data collected from the study sample is a true reflection of the variables, then accurate and meaningful inferences on such data can be made. During the test piloting, the problem of respondents understanding questions about Kenyan firms and local firms was encountered. This problem was addressed by generalizing all the firms other than the responding organizations as competing firms, which made it easier for the

respondents to understand in the same way. The problem of inconsistency among the research assistants in observing and scoring characteristics under study was also encountered. This problem was addressed by standardizing the data collection procedure and taking the research assistants through a training session at the same time. All research assistants had a Masters degree qualification.

### **3.7.2 Reliability of Research Instruments**

According to Kothari (2004), reliability is the consistency of measurement. He contends that the more reliable a data collection instrument is, the more consistent the measure is. Reliability therefore is the measure of the degree to which research instruments gives consistent results in repeated trials and is usually influenced by a random error. Mugenda and Mugenda (2003) contends that a random error is the deviation from a true measurement because of the factors that have not been addressed effectively by a researcher. As the random error increases, the reliability of the research instrument decreases. In this study, the random error was minimized in order to increase reliability by targeting a large sample, adjusting the questions in the research instruments to be understood the same way by different respondents and administering the instrument twice to the same group of respondents as was done by Nteere (2013).

Gable and Wolf (1993) contends that scale reliability is the proportion of variance that is attributed to the true score of the latent construct and is usually measured by internal consistency reliability that indicates homogeneity of items comprising a measurement scale. The extent to which the items in a model are inter-correlated is given by internal consistency and where inter-item correlations are high, it means that such items have a strong relationship to the latent construct and therefore having a possibility of measuring the same thing.

Cronbach's coefficient alpha was used to assess the measurement scale in this study to check the internal consistency in response on likert scale and evaluate the reliability of the measurements. It ranges between 0 and 1 (Kipkebut, 2010) and

according to Cronbach (1951), an alpha level of 0.70 or above was acceptable. A Cronbach's coefficient alpha can be written as a function of number of test items and the average inter-correlation among the items (Gliem and Gliem, 2003). Cronbach alpha is a general form of the Kuder-Richardson (K-R)<sub>20</sub> formula which is as follows:

$$KR_{20} = \frac{(K)(S^2 - \sum s^2)}{(S^2)(K - 1)}$$

Where; KR<sub>20</sub> = Reliability coefficient of internal consistency

K = Number of items used to measure the concept

S<sup>2</sup> = Variance of all scores

s<sup>2</sup> = Variance of individual items.

The analysis of Cronbach's coefficient alpha for the independent variables is detailed in table 3.2 while that of the dependent variables is detailed in table 3.3.

#### **a). Testing Reliability for Independent Variables**

All the independent variables satisfied the reliability requirement for Cronbach's coefficient alpha. They had alpha levels of 0.758, 0.792, 0.764 and 0.838 for Competition Intensity in industry, Firm's product quality, Firm's product cost and Firm's marketing experience respectively. These were more than the minimum alpha acceptable level of 0.70. As such, the data could be analyzed.

**Table 3.2 Measurement of reliability for independent variables**

Measurement Scale	Number of Items	Cronbach's Alpha ( $\alpha$ )
Competition Intensity	6	0.758
Firm's Product Quality	4	0.792
Firm's Product Cost	6	0.764
Firm's Market Experience	6	0.838

**b. Testing Reliability for Independent Variables**

Cronbach's coefficient alpha for dependent variables were 0.752, 0.741, 0.834, 0.741, 0.954 and 0.792 for Cost leadership, relocation, product differentiation, market differentiation, avoidance and deterrent strategies respectively. These were more than the minimum alpha acceptable level of 0.70 thereby satisfying the reliability requirement for Cronbach's coefficient alpha. As such, the measurement of the role of competition in determining strategic response of multinational corporations was reliable and valid.

**Table 3.3 Measurement of reliability for dependent variables**

Measurement Scale	Number of Items	Cronbach's Alpha ( $\alpha$ )
Cost Leadership Strategy	5	0.752
Relocation Strategy	5	0.741
Product Differentiation Strategy	5	0.834
Market Differentiation Strategy	4	0.741
Avoidance Strategy	4	0.954
Deterrent Strategy	4	0.792

**3.8 Data Collection Procedure**

Data collection is the process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer stated research questions, test hypotheses, and evaluate outcomes (Sapsford and Jupp, 2006). For this study, a drop and pick later method was used in administering the

questionnaires which gave the respondents ample time to fill in the data. Also, self-administered method was used where the respondents created time to complete the questionnaires and give them back to the researcher, which enhanced the response rate as was used by Nteere (2013). The questionnaires required the respondents to indicate the strategic response they chose when faced with various competition factors that included competition intensity in the industry, competitors' product cost, competitors' product quality, and the firm's marketing experience. Primary data was also collected through conversation between the researcher and the respondents. Secondary data was obtained from companies' published records like magazines, annual reports and their websites. The questionnaires were distributed by researcher and research assistants to the respondents or mailed to them. The data was gathered in a written form. The data collected was cleaned, validated, edited and then coded (Ogutu and Samuel, 2011).

Upon getting the approval of the research proposal from the University, on appropriate dates, the researcher administered the questionnaires to the respondents upon agreeing with them. The questionnaires had an introductory note on the first page to let the respondents feel free to participate. Where appropriate, e-mail was used to send blank questionnaires to respondents and also to receive them back upon completion. All the questions that were not clear to the respondents were clarified. The researcher engaged the services of research assistants to do follow-ups on telephone and collection of questionnaires.

In order to enhance the accuracy of the data, the researcher employed the post-hoc data cleaning techniques for quantitative attributes. In this study, all the completed questionnaires were cross-checked at the time of collection to ensure that all the sections were filled by the respondent to avoid any missing data. At the data entry point, the data collection instrument was first of all coded in SPSS software to provide a template on which the data was entered. This, way, it was easy to detect any sections with the missing data and correct accordingly (Hellerstein, 2008). Missing data was also managed by coding the 141 questionnaires that were

returned which helped in ensuring that there was correct number of entries before that analysis. Table 4.5 shows that there were no missing cases after data entry.

The study operationalized both the independent and dependent variables. For independent variables, the responses were entered into SPSS and each of the four was treated as the measurement scale. The numbers of items were 6, 4, 6, and 6 for competition intensity in industry, firm's product quality, firm's product cost and firm's market experience respectively as indicated in table 3.2. The means of the number of items were computed and ranged between 1 and 5 making it a continuous data (Peng et al, 2002).

For the dependent variable, the measurement scale included cost leadership, relocation, product differentiation, market differentiation, avoidance and deterrent strategies with respective number of items as 5, 5, 5, 4, 4, and 4 as shown in table 3.3. In order to dichotomize the responses, two steps were undertaken. The first step involved the computation of the means of the number of items that ranged between 1 and 5. The second step involved converting the dependent variable into probability scores. The categorization of the means into two was done using 3 as the median such that values equal to or less than 3 were coded 0 for No and values equal or greater than 3 were coded 1 for Yes (Hosmer and Lemeshow, 2000).

### **3.9 Data Analysis And Presentation**

According to Sekaran (2003), data analysis is done with an aim of achieving three basic objectives. The first objective is for the researcher to get a feel of the data, which this study achieved by analyzing descriptive statistics including response rate, frequency distribution, mean and standard deviations. The second objective is testing the goodness of the data which was achieved in this study by analyzing Cronbach's coefficient alpha as detailed in tables 3.2 and 3.3. The third objective is to test the hypothesis developed for the study. This study achieved this objective

by carrying out appropriate statistical test, structural equation modeling, correlation analysis and binary logistic regression.

Descriptive statistics was used to analyze the data. These included percentages, frequency distribution tables, mean and standard deviation. Both quantitative and qualitative data were analyzed. Quantitative data is one that focuses on numbers and frequencies in a quantitative research, which is the systematic empirical investigation of social phenomena via statistical, mathematical or computational techniques. The objective of quantitative research is to develop and employ mathematical models, theories and/or hypotheses pertaining to phenomena. It is any data that is in numerical form such as statistics and percentages. Qualitative data on the other hand is one that is concerned with describing meaning and experiences. It looks for themes and describes the information in themes and patterns exclusive to that set of participants.

Data analysis was carried out by Statistical Package for Social Sciences (SPSS) version 20 and Microsoft Excel. The data was then analyzed to test for significance of relationships among variables of interest in the study and inferential analysis was carried out using Spearman's coefficient alpha correlation and Binary logistics regression. Regression model was fitted and hypothesis testing was done. The analysis of qualitative data was done by coding the key words and phrases that were isolated as recurring from the responses of the interview guide and field notes. Using Microsoft Excel their frequencies were analyzed and reported (Krishnawamy et al, 2006).The findings from data analysis were presented in tables, graphs and pie-charts.

### **3.9.1 Measurement of Variables**

Measurement of variables for this study was done based on the philosophy of logical positivism (Flynn, 2007). This philosophy contends that measurement of variables is not concerned with matters of fact but the choice between different frameworks. The research questions for this study were answered upon

establishment of the significance of the relationship between the dependent and independent variables.

Competition, which was the independent variable, was measured using a five-point Likert scale which ranged from Strongly agree (5 points), Agree (4 points), Not sure (3 points), Disagree (2 points) and Strongly disagree (1 point). In this study, competition was measured by the four aspects of industry competition which included competition intensity in the industry, firm's product quality, firm's product cost and firm's marketing experience. Competition intensity was measured by the number of industry players, presence of new entrants, aggressiveness of marketing, presence of substitute products and suppliers and market share. Firm's product quality was measured by perceived quality, conformance to acceptable standards, durability, consistency and reliability. Firm's product cost was measured by level of production cost, threat of powerful supplier, threat of powerful consumer, product offer prices and presence of operational efficiencies. Firm's marketing experience was measured by range of products and services offered, service to wholesale and retail markets, presence of exclusive distribution channel, introduction of new product, venturing into new markets and responding to customer needs.

Strategic response, which is the dependent variable, was measured using a similar five-point Likert scale and in this study, six strategies that a firm can adopt to counter competition were used to measure it. They include cost leadership, relocation, product differentiation, market differentiation, avoidance and deterrent strategies.

### **3.9.2 Statistical Measurement Models**

The analysis of quantitative data was done using a logistic regression model. For this research, a Binary Logistic Regression model was used because it is a two-level response and it indicated whether competition influenced a MNC to choose a given strategic response or not. On the basis of the variables stipulated in the

conceptual framework, the Binary Logistic Regression model was of the form given below.

$$\text{logit}(p) = \beta_0 + \beta_1 \text{ Competition Intensity in industry} + \beta_2 \text{ Firm's Product Quality} + \beta_3 \text{ Firm's Product Cost} + \beta_4 \text{ Firm's Market Experience} + \varepsilon \dots\dots (\text{Simons, 2007}).$$

Where:

$p$  = the probability of selecting a given strategic response.

$\beta_0, \beta_1, \beta_2, \beta_3$  and  $\beta_4$  = model parameters.

$\varepsilon$  = is the error term.

Logistic model is a type of regression analysis that is used for predicting the outcome of a categorical criterion variable based on one or more predictor variables. It measures the relationship between a categorical dependent variable and a continuous independent variable by converting the dependent variable to probability scores. A logistic function therefore is used to model the probabilities that describe the possible outcome of a single trial as a function of explanatory variables (Peng et al, 2002).

In the case of a binomial distribution, the mean is equal to the proportion of the target group, also referred to as a case and is denoted  $p$ . The mean of the reference group, also referred to as a noncase is equal to  $1-p$ . Logistic regression is also used to predict the odds of being a case based on the predictor variables. The odds are defined as the probability of a case divided by the probability of a noncase as shown below.

$$\text{Logit}(p) = \log\left(\frac{p}{1-p}\right) = \beta_0 + \beta_1 (\text{Competition Intensity in industry}) + \beta_2 (\text{Firm's Product Quality}) + \beta_3 (\text{Firm's Product Cost}) + \beta_4 (\text{Firm's Market experience}) + \varepsilon$$

Where:  $\beta_0$  = the intercept and it is usually a constant.

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  = the coefficients of the predictor variables and explain the direction and the magnitude of the influence in relation to the dependent variable.

$\varepsilon$  = the error term.

The sign associated with the coefficients, for example  $\beta_1$  tells whether the likelihood of selecting a given strategic response increases or decreases. A positive coefficient for example  $+\beta_1$  indicates that the likelihood of selecting a given response increases while a negative coefficient like  $-\beta_1$  would mean that the likelihood of choosing a given strategic response decreases.

The magnitude of the regression coefficient  $\beta_1$  is associated with the likelihood of a given strategic response happening due to the influence of the competition factor (Menard, 2002). Magnitude therefore explains which of the predictor variables is most significant based on the level of likelihood of a strategic response. The more the likelihood a predictor variable causes on strategic response, the more significant it is in the model.

The Odds ratio, denoted OR is the primary measure of effect size in logistic regression and is computed to compare the odds that membership in one group will lead to a case outcome with the odds that membership in some other group will lead to a case outcome. This ratio is the odds of being a case for one group divided by the odds of being a case for another group (Szumilas, 2010). An odds ratio of one (1) indicates that the odds of a case outcome are equally likely for both groups under comparison as show below;

$$\log \frac{0.5}{0.5} = \log 1 = 0$$

According to McHugh (2009), the odds ratio has a floor of zero but has no upper limit. Theoretically, the odds ratio can increase infinitely and the further the odds

deviate from one, the stronger the relationship. The information from the research indicated the percentages, frequencies and significance.

### **3.9.3 Test of Hypothesis**

This study had research questions around which hypothesis were developed. Each of the hypotheses was tested using binary logistic regression. Both the F-test and the t-test to test the hypothesis was based on the statistical significance level of  $p < 0.05$ . Any null hypothesis that had a p-value greater than 0.05 was accepted while any that had a p-value less than 0.05 was rejected.

### **3.9.4 Data presentation**

Following the data analysis, the findings were presented by use of tables, graphs, bar charts and pie charts. The study's information on descriptive statistics was presented through Percentages, Mean, Standard Deviation and Frequency distribution. The findings were displayed by use of tables, graphs, bar charts and pie charts. First data quality check was done at data collection and secondary check was done at data entry stage.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

This chapter focuses on presenting the findings and discussions of the study by detailing the general characteristics of the study sample, the descriptive study, the aggregates of the variables, the correlation analysis and the logistic regression of the dependent and independent variables. The chapter details the research findings and discussions on the strength of the model; test of hypothesis and the summary. The research findings are presented in the form of tables, charts and graphs.

#### **4.2 General Characteristics of Study Sample**

The purpose of this study was to establish the role of competition in determining the choice of strategic response by Multinational corporations. It was found necessary by the researcher to establish the general characteristics of the respondents under which the researcher would justifiably make inference from the responses.

##### **4.2.1 The Response Rate**

Response rate in survey research refers to the number of people who answered the survey divided by the number of people in the sample (IAR, 2011). This source argues that a questionnaire that is administered by face to face and through mailing that produces a response rate of 70% has done very good (IAR, 2011). This study satisfies this requirement because the study sample on which research was conducted was 165 which was drawn from the target population of 213 multinational corporations in Kenya. Out of this, 141 questionnaires were filled and returned, representing a response rate of 85.45% which is an adequate response rate for statistical reporting. This was made possible by the researcher employing a data collection method of self-administering the questionnaires to the respondents, reminding them through e-mails and doing follow up visits to remind

the respondents to complete the questionnaires. The researcher also engaged the services of two research assistants. The responding MNCs were entered into their respective strata as shown in table 4.1.

**Table 4.1 Respondents per strata**

<b>Strata</b>	<b>Frequency</b>	<b>Valid Percent</b>
Manufacturing MNCs	57	40.4
Service MNCs	53	37.6
Manufacturing and Service MNCs	31	22.0
<b>Total</b>	<b>141</b>	<b>100.0</b>

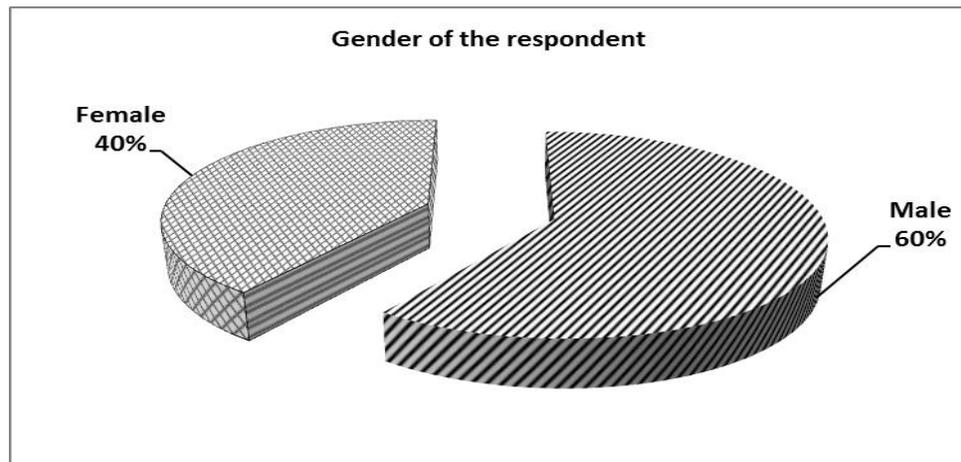
Table 4.1 indicates that 57 MNCs, representing (40.4%) responses were from firms which are in manufacturing, while 53 MNCs representing (37.6%) responses were from firms which were in service and 31 MNCs representing (22%) responses were from firms that were in both manufacturing and service. This means that the study covered the three categories of organizations which informed in detail how competition influences the strategic response choices of MNCs. Putting the study population into strata also aided in ensuring that the sample was representative of MNCs that are engaged in manufacturing, services and in both.

#### **4.2.2 Demographic information**

A range of senior managers were involved in the study. Strategic plans and decisions is a concern of senior managers in an organization and in this study they included the Chief Executive Officers (CEO), the functional and departmental heads including operations manager, Human resource managers, Finance managers, Sales and Marketing managers. The questionnaires were administered to one hundred and sixty five (165) MNCs out of which one hundred and forty one (141) were received. Their key respondents were required to give some personal and general information. From the questionnaires, information on the respondent's bio-data and qualification was determined.

#### **a).Gender of managers involved in the study**

The questionnaire required the respondents to indicate their gender as shown in figure 4.2. The results indicated that 60% of the respondents involved in the study were male while 40% were female.

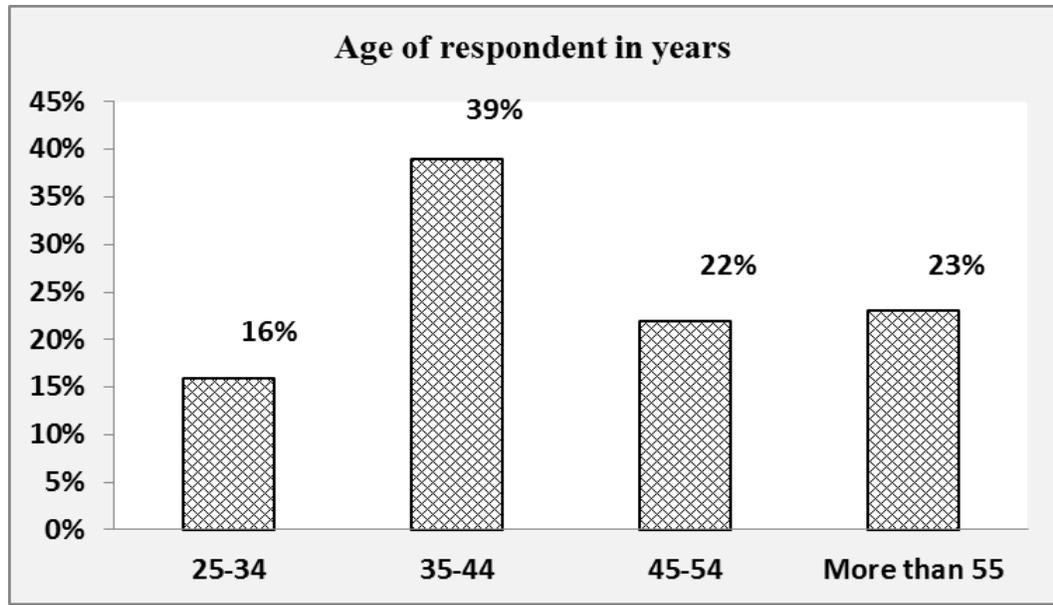


**Figure 4.1: Gender of respondents.**

This finding indicates that the study had a reasonable gender balance of the respondents, which implies that the data collected had a consideration of both genders. The study collected responses from both male and female managers of MNCs concerning their strategic response to competition, an aspect that enriched the findings of the study from both male and female managers' perspective.

#### **b). Age of respondents in years**

The Chief Executive Officers or senior managers of the multinational corporations that were studied fell on varied age brackets ranging from youthful managers, who according to GOK (2006) are individuals between 18 and 35 years. The youthful category of respondents constituted 16% while those aged between 36 to 55 years were 61% and those that were aged more than 55 years were 23% as shown in figure 4.2.

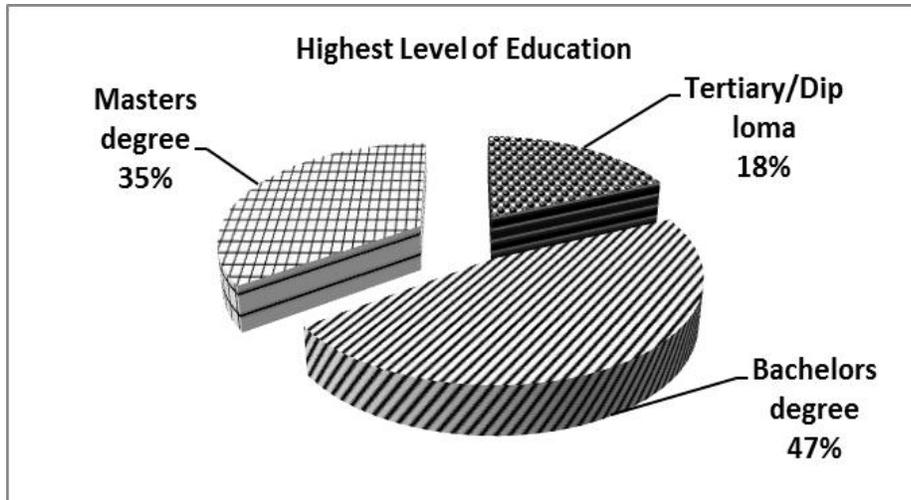


**Figure 4.2 Age of respondents in years**

This mix of the respondents indicated in figure 4.2 was important to the study because the findings of this study captured the views of managers with few years of experience in their industries together with those of managers with vast industry experience. This ensured that the findings were representative of the influence of competition on the choice of strategic responses by the new and old industry players.

**c). Highest level of respondent’s education**

The respondents were asked to indicate their highest level of education and their response was presented in a pie chart as shown in figure 4.3.

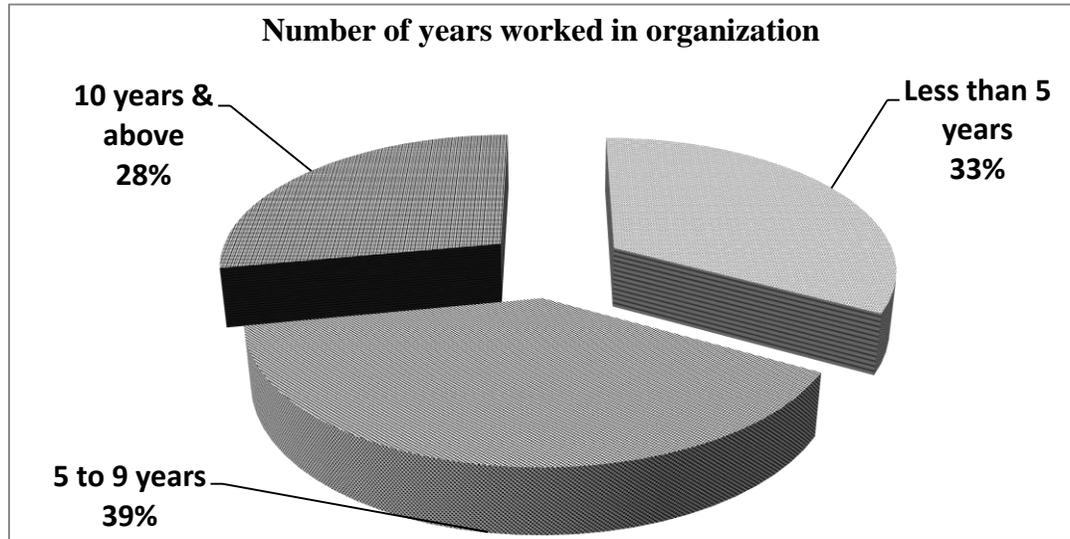


**Figure 4.3: Highest level of education**

The distribution of respondents showed in figure 4.3 indicates that 82% of managers had bachelors and masters degree shared at 47% and 35% respectively. 18% of managers had earned a tertiary/diploma qualification. No managers without post-secondary education qualification were involved in the study. This distribution indicates that the respondents involved in the study were highly qualified and therefore capable of giving relevant information regarding the role of competition in determining choice of strategic response by MNCs.

**d) Number of years respondent had worked in the organization**

A range of working experience in the respondent's current organization was involved in the study and the findings were as indicated in figure 4.4.



**Figure 4.4 Number of years respondent had worked in organization**

From the findings in figure 4.4, only 33% of the respondents worked in their organizations for less than 5 years, meaning that they were in their first strategic planning cycle of the organizations. The majority, 77% had worked in their organizations for 5 years and above, with 39% having worked for between 5 to 9 years and 28% having worked for 10 years and above. This indicates that the respondents were well versed with the strategic direction of their organizations because the majority of them were in their second cycle of 5 year strategic plans or more and can authoritatively comment on the choice of strategic response to competition.

#### **4.2.3 Organizational Information**

##### **a). Number of Years the Organizations Operated in Kenya**

This study was conducted among the organizations that have been in operation in the Kenyan market for varied period of time and the findings were detailed in figure 4.5.

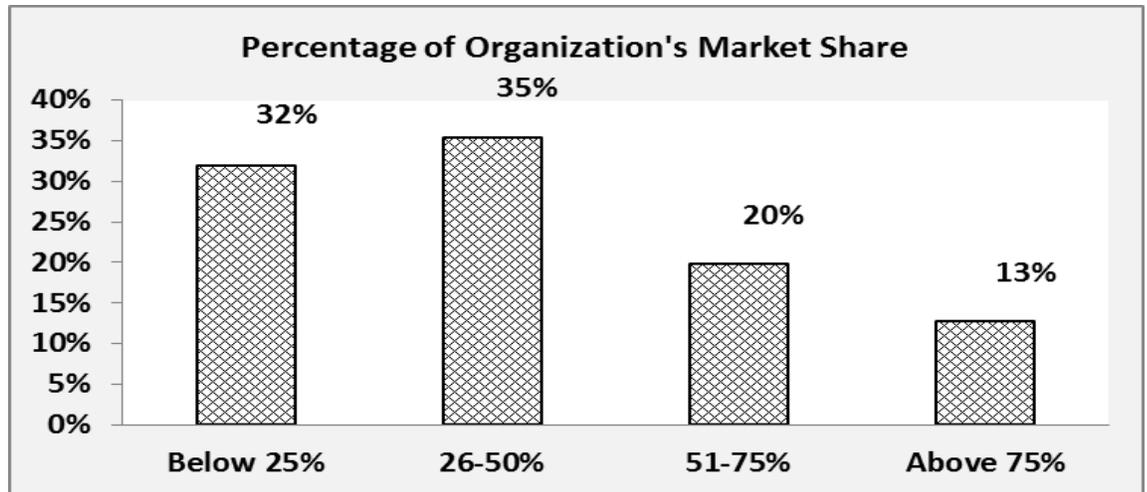


**Figure 4.5 Number of years the organization has operated in Kenya**

It was found that only 19% of the respondents have been in Kenya for between one to ten years, meaning that they are in their second five year cycle of their strategic plans. 81% of the respondents have been in Kenya for a period ranging from 11 to over 50 years which gives them an advantage to give information on how competition influences their choice of strategic response based on their medium term and long term strategies.

**b). Market Share Commanded by the Organization**

The researcher sought to find out the market share that the studied Multinational corporations command in Kenya and the results were as shown in figure 4.6.

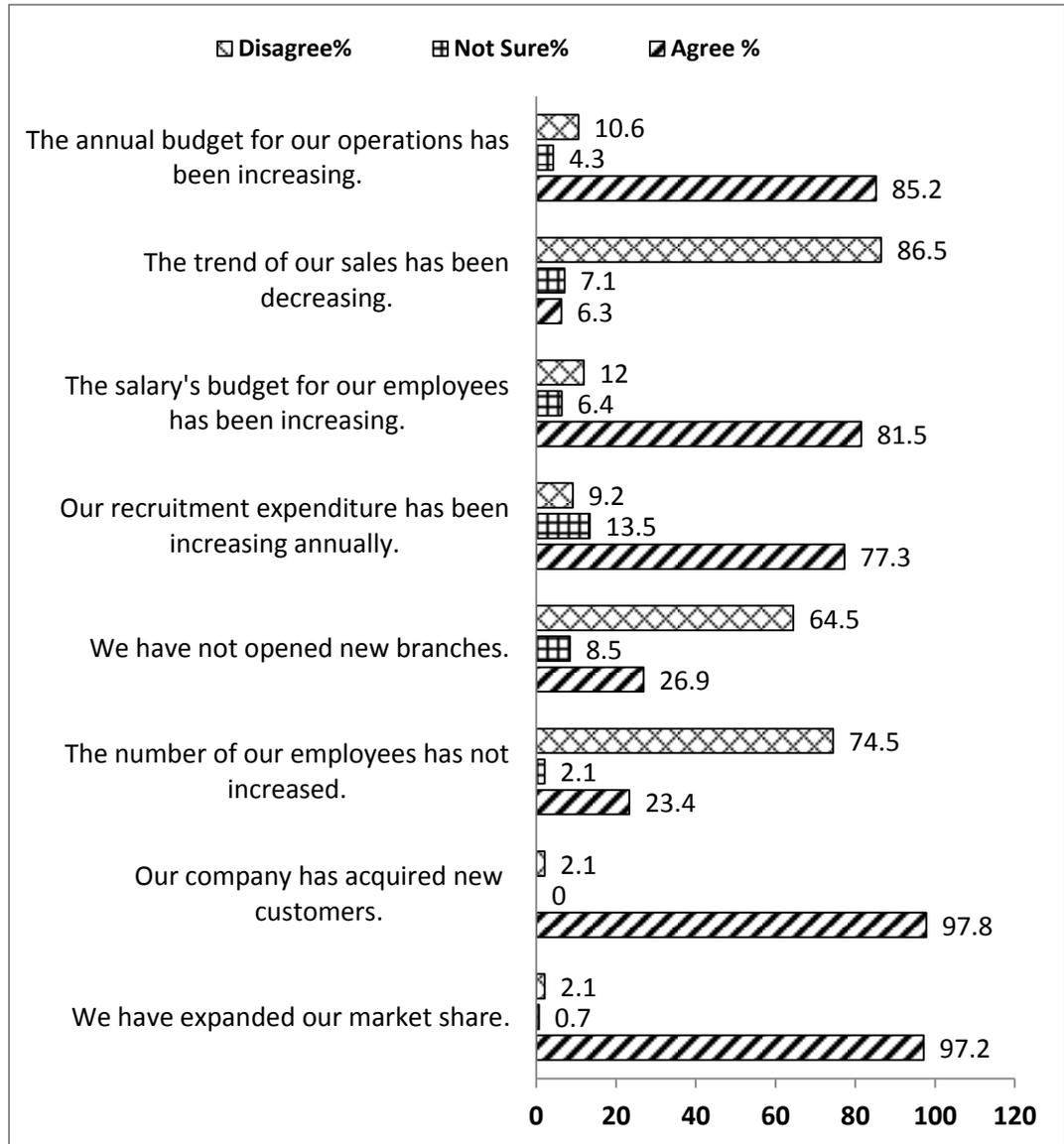


**Figure 4.6 Market share commanded by the Organization**

On the issue of the market share commanded by MNCs in Kenya, it was found that 32% of MNCs commanded market share below 25% while 35% of them commanded between 26-50%. Those that commanded between 51-75% and those that commanded above 75% at the levels were 20% and 13% respectively. This was important to find out so that this study could make available information on how competition influences choice of strategic response among both small and large organizations as shown by their respective market share.

### **c).MNC's Performance Last 5 Years**

This study sought to find out the performance of the Multinational corporations in Kenya in the last five years, which could give an indication on the effect of competition on them and whether the strategies they employ enhances their competitiveness. Figure 4.7 shows the findings.



**Figure 4.7 MNC’s Performance Last 5 Years**

As shown in figure 4.7, most of the respondents indicated that in the last five years, they have expanded their market share, they have acquired new customers and that they have experienced increased number of employees at 97.2%, 97.8% and 74.5% respectively. In the last five years, MNCs in this study have also opened new branches, and the trend of their sales has been on the increase, according to 64.5% and 86.5% of the respondents respectively. The researcher also sort to find out the trend of MNC’s recruitment expenditure, salary’s budget and

the operation's budget to which 77.3%, 81.5% and 85.2% of the respondents indicated that they have been increasing for the last five years respectively.

### **4.3 Descriptive Study**

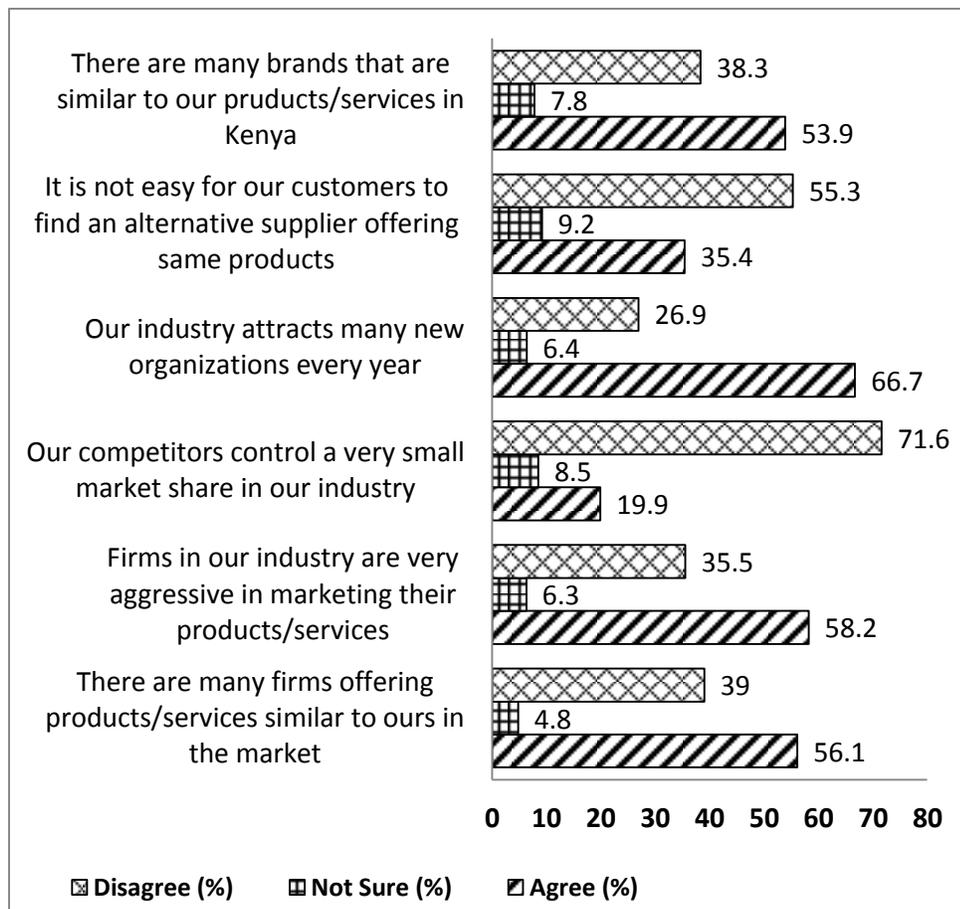
The researcher analyzed descriptive statistics for the observed variables in order to realize the purpose of this study, which was to establish the role of competition in determining the choice of strategic response by Multinational corporations. The observation was done on both independent variables which in this study are the aspects of industry competition and dependent variables which in this study is strategic response.

#### **4.3.1 Descriptive Analysis for Competition facing MNCs**

Competition within a given industry is an ever present thing and it informs the managers of the industry players on the strategies they can adopt in order to enhance their competitiveness and performance. Lack of information on the levels and patterns of industry competition can lead to making uninformed decisions. How the chief executive officers and managers of organizations understand the role of competition in determining the choice of strategic response largely depends on their understanding of the variables that explain industry competition. The research found it important to seek the opinion and views of the key respondents of the MNCs under study on the four independent variables that include; i) Competition intensity in their industry; ii) Firm's product quality; iii) Firm's product cost and iv) Firm's marketing experience. Their responses to the questions and statements that describe each of these variables inform the strategic response they choose to retain their competitive position in their industry.

**a).Variable One: Competition Intensity in Industry**

The managers of the Multinational Corporations being studied were presented with statements concerning competition intensity in their respective industries to which they expressed their level of agreement or disagreement with. The respondents expressed their views on three forces of industry competition that included the i) internal rivalry among the industry players, exhibited by the presence of many organizations in the industry and the level of aggressiveness in marketing their products; ii). Threat of new entrants into the industry and iii) Threat of substitute products as exhibited by the presence of similar brands and the ease at which consumers can find alternative suppliers of their requirements (Porter, 1980). Competition intensity was also measured by the market share of the industry players. The findings are presented in figure 4.8.



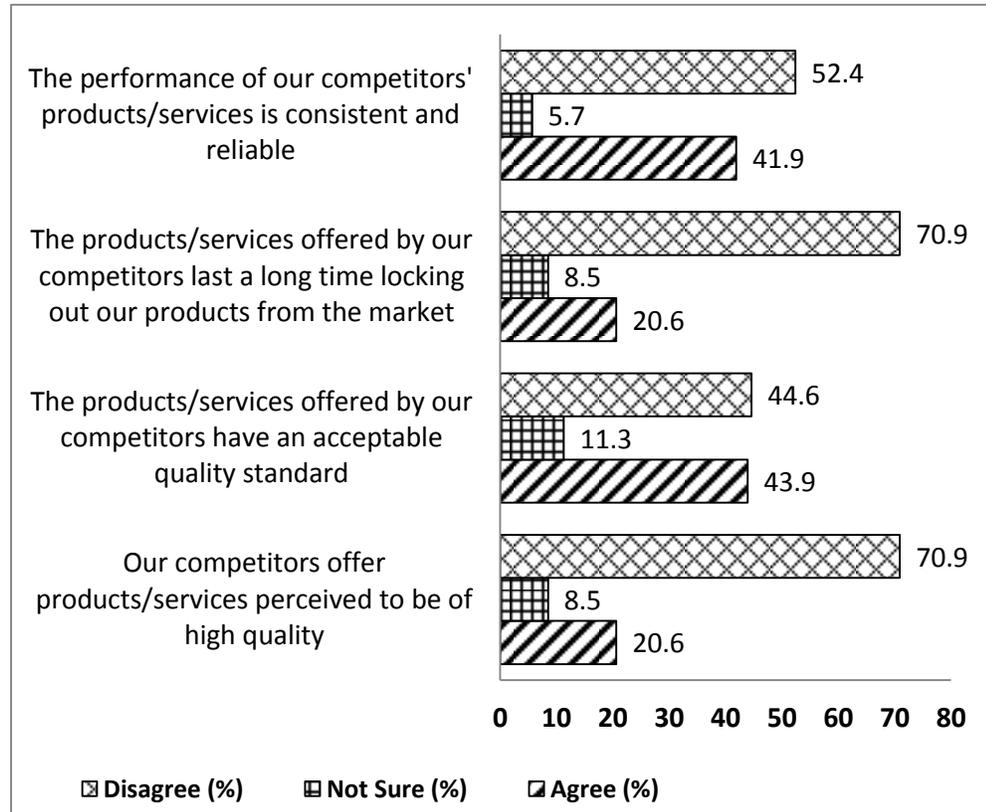
**Figure 4.8 Competition intensity in industry in percentage**

It was found that internal rivalry among the industry players is very intense, with 56.1% of the respondents indicating that there are many firms offering similar products and services in their markets; 58.2% of the respondents indicated that the industry players are very aggressive in marketing their products and services and that their competitors control a large market share according to 71.6% of the respondent who disagreed that they control small market share.

The threat of new entrants into their industry is high according to 66.7% of the respondent saying that their industry attracts many new firms every year. The threat of substitute products is experienced by the Multinational corporations in Kenya with 55.3% and 53.9% of the respondents indicating that there are firms that offer similar products and services in their industry and that it is very easy for consumers to find alternative suppliers of their requirements respectively.

#### **b). Variable two: Firm's Product Quality**

Individual consumers have different wants and needs, the products and services that best satisfy customers' preferences are viewed to have highest quality (Calfa, 2010). Quality of a product or services has also been defined as fitness for use (Ross, 2009) and that is why this study sort the opinions and views of the respondents on whether their firms faced competition based on quality of products and services. The respondents gave their views on aspects of quality of product and services including i) Quality consistency and reliability; ii) Durability of the product; iii) Conformance to the quality standards as qualified by government agency in charge and iv) Perceived quality by the consumers. The findings are detailed in figure 4.9.

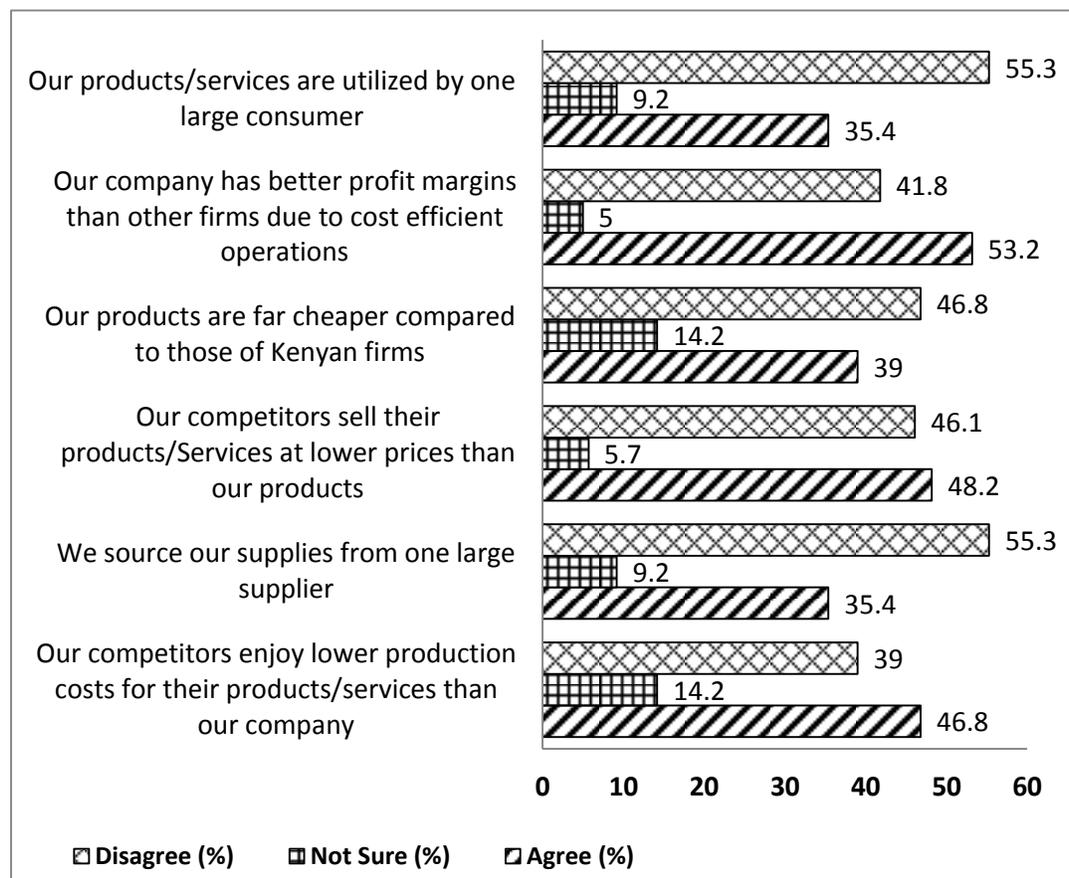


**Figure 4.9 Firm's product quality in percentage**

Most of the respondents were of the view that their products and services competed pretty well within their industries. 70.9% of the respondents disagreed that their competitors offers products and services that customers perceived to be of good quality than theirs. The same number of the respondents (70.9%) said that their competitor's products and services did not last long in the market to an extent of blocking their products from the market. 52.4% of the respondents disagreed that the products and services of other industry players had consistent and reliable quality compared to them.

**c). Variable three: Firm's Product Cost**

An organization can use least cost leadership strategy to establish its competitive position in an industry (Porter, 1980). To achieve this, such a firm will need to be a low cost producer through some ways like improving process efficiencies, gaining unique access to cheap materials, utilization of economies of scale and employing appropriate technology. This study sort to find the level of industry competition based on product price offers, which is a consequence of least cost leadership strategy.



**Figure 4.10 Firm's product cost in percentage**

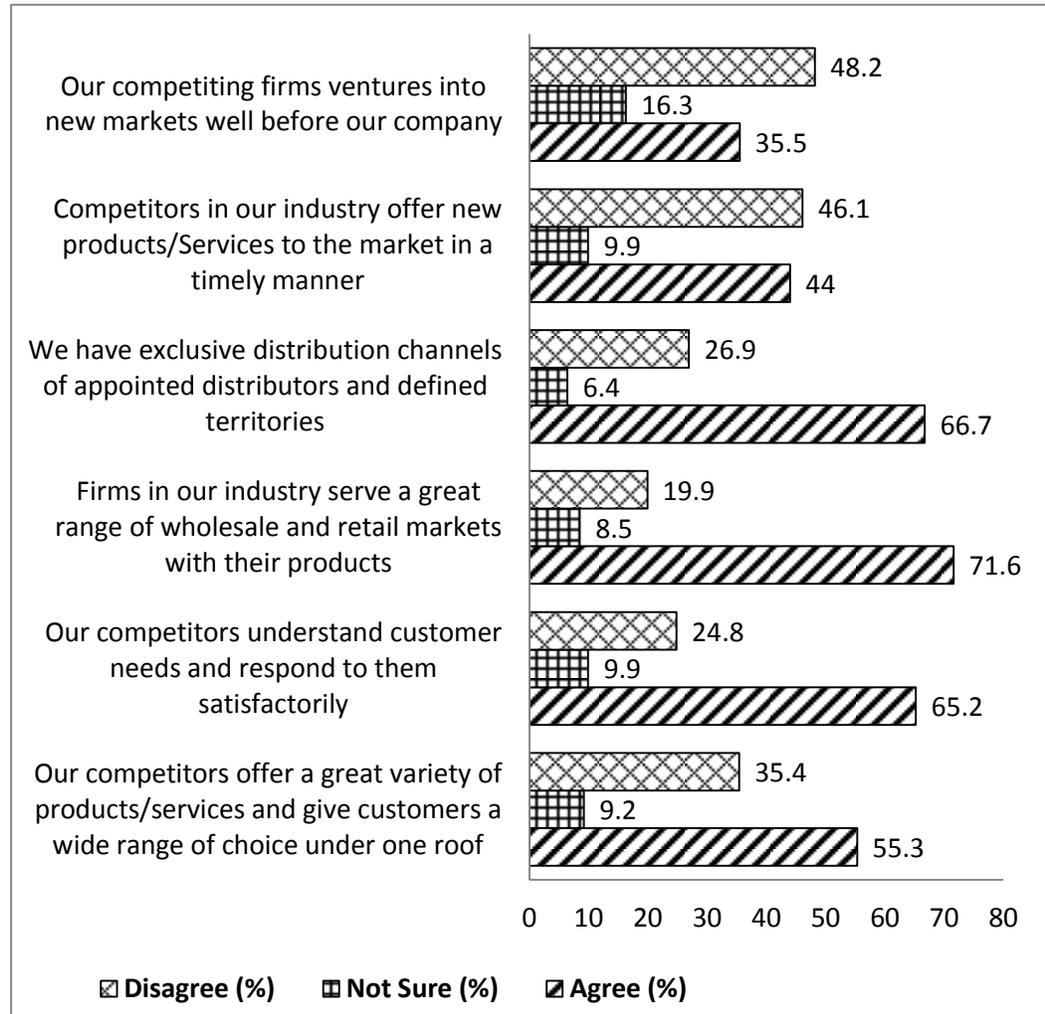
As presented in figure 4.10, the respondents indicated their views on; i) Whether they face threat of a powerful consumer who can have a great influence on their product offer prices; ii) Whether they face threat of a powerful supplier who can greatly influence their production cost; iii) Presence of cost efficient operations;

iv) Offer prices for products and services and v) The level of firm's profit margins. Figure 4.10 has the findings in detail. It was found that the studied MNCs did not face the threat of a powerful consumer or that of a powerful supplier according to 55.3% of the respondents. The competitors of the firms studied do offer their products and services to the customers at cheaper prices than them according to 48.2% of the respondents. This could be because they enjoy lower production cost than the MNCs studied as indicated by 46.8% of them. That notwithstanding, 53.2% of the respondents contended that they have higher profit margins than their competitors due to their cost efficient operations.

**d). Variable four: Firm's Marketing experience**

A firm's prior exposure into a given market enhances their competitiveness in terms of understanding and responding to customer expectations and customizing the products and services to meet customer needs. Cui et al (2005) contends that the competitiveness of an organization is to a greater extent influenced by its marketing experience which is gained from prior exposure to that market. The researcher found it necessary to enquire of the respondents' view on their understanding of markets and customers which is exhibited by their response through market and products expansion and management of customer diversity.

The managers responded to marketing experience issues that included; i) Market expansion through venturing into new markets; ii) Product expansion through introduction of new products and services; iii) Putting in place efficient distribution channels; iv) Understanding of customer diversity through responding to their needs and targeting wholesale and retail segments; and v) Addressing customer's convenience by offering varied products and services under one roof. The details of the findings were summarized in figure 4.11.



**Figure 4.11 Firm's Market experience in percentage**

The competition within the industries in which MNCs operated is heightened due to the fact that the industry players have vast marketing experience considering that only 81% of the MNCs studied had been doing business in Kenya for 10 years and above as indicated in figure 4.5. This study found out that 55.3% of the respondents indicated that their competitors offer a great variety of products and services to give the customers wide range of choice under one roof. 65.2% of the competing firms understand their customer needs and respond to them satisfactorily while 71.6% of them agreed that firms in their industry served great

range of wholesale and retail markets. 66.7% of the respondents indicated that they have developed exclusive distribution channels, complete with appointed distributors and defined territories. Most of the respondents indicated that they beat their competitors when it came to introducing new products and venturing into the new markets, according to 46.1% and 48.2% of them respectively.

#### **4.3.2 Aggregate of the Independent Variables**

The four aspects of competition were considered as factors constituting the independent variable for this study. They included competition intensity in the industry, firm's product quality, firm's product cost and firm's marketing experience whose mean of the ranked responses and standard deviation are detailed in table 4.2. Competition intensity had a mean of 3.21 and a standard deviation of 0.81 which indicates that majority of the respondents agreed that this aspect of competition in deed influenced the choice of strategic response among MNCs in Kenya. In regard to Firm's product cost, the majority of the managers that were respondents indicated that they agreed that this aspect had influence on the choice of strategic response in a MNC with a mean of 3.13 and standard deviation of 0.69. Firm's marketing experience had a mean of 3.25 and a standard deviation of 0.89 indicating that the respondents agreed that it is a factor that influenced the choice of strategy by MNCs in Kenya. However, firm's product quality had a mean of 2.60 and a standard deviation of 0.98 indicating that the respondents disagreed that it is an influencing factor.

**Table 4.2 Summary of means and standard deviation of aspects of competition**

<b>Descriptive Statistics</b>					
	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Competition Intensity	141	1.17	4.83	3.21	0.81
Firm's Product Quality	141	1.00	5.00	2.60	0.98
Firm's Product Cost	141	1.33	4.67	3.13	0.69
Firm's Marketing Experience	141	1.00	5.00	3.25	0.89
Valid N (list wise)	141				

The aspects of competition were ranked on a scale:

1-1.9 Strongly Disagree; 2.0-2.9 Disagree; 3 Not Sure; 3.1- 4.0 Agree; 4.1- 5 Strongly Agree.

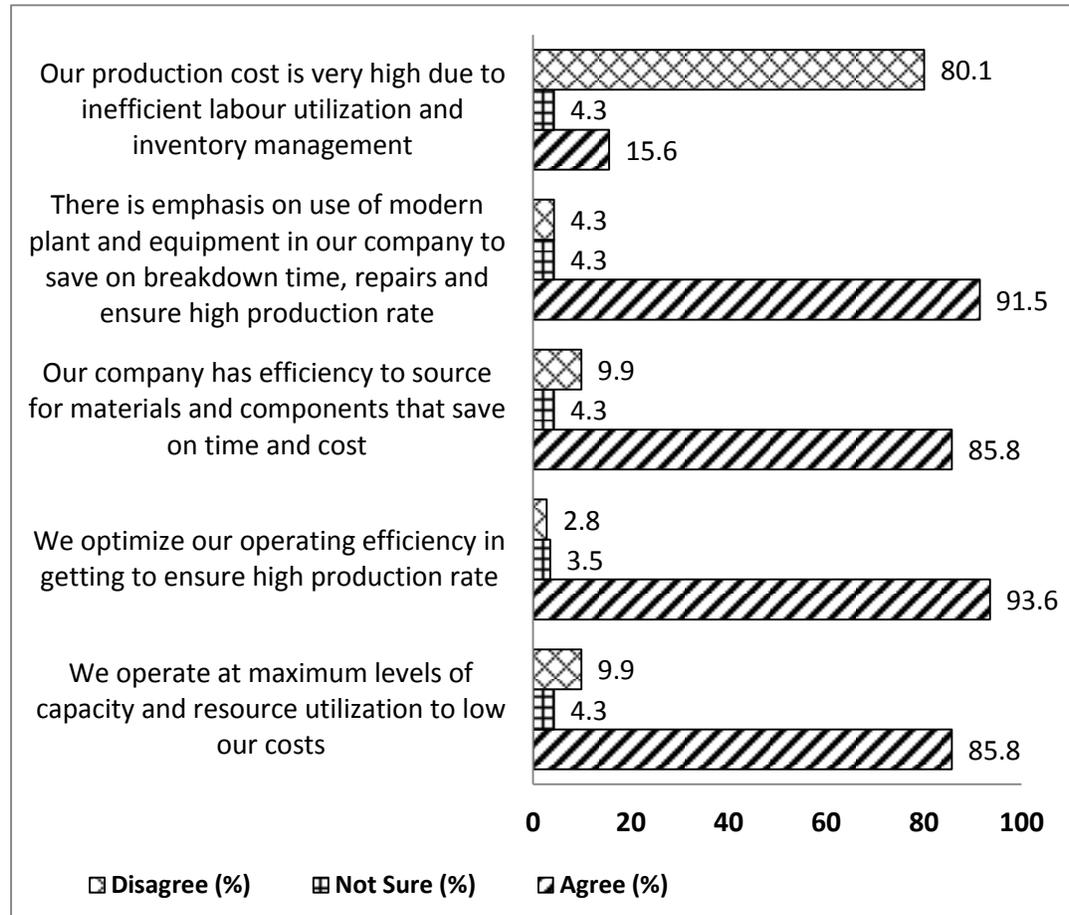
#### **4.3.3 Descriptive Analysis for Strategic Response of MNCs**

According to Cui et al (2005), an organization is a proactive participant in the business environment and that it is capable of establishing a fit between its strategy and the environment, which is referred to as a response in this study. It was enquired of the managers to give their opinions and views concerning the strategic response that their organizations chose when faced with competition in their industry. The strategic response choices available to a firm constituted the dependent variable for the study and include; i) Cost efficiency strategy; ii) Relocation strategy; iii) Product differentiation strategy; iv) Market differentiation strategy; v) Avoidance strategy and vi) Deterrent strategy. The responses to these components are recorded in following paragraphs.

##### **a). Strategy One: Cost Leadership Strategy**

Cost efficiency was measured through presence of prudent operations in the organization particularly in the areas of i) Labour utilization; ii) Inventory

management; iii) Use of modern plant and equipment; iv) Competitive sourcing of materials; v) Capacity utilization and optimization of production rate. The findings are detailed in figure 4.12.



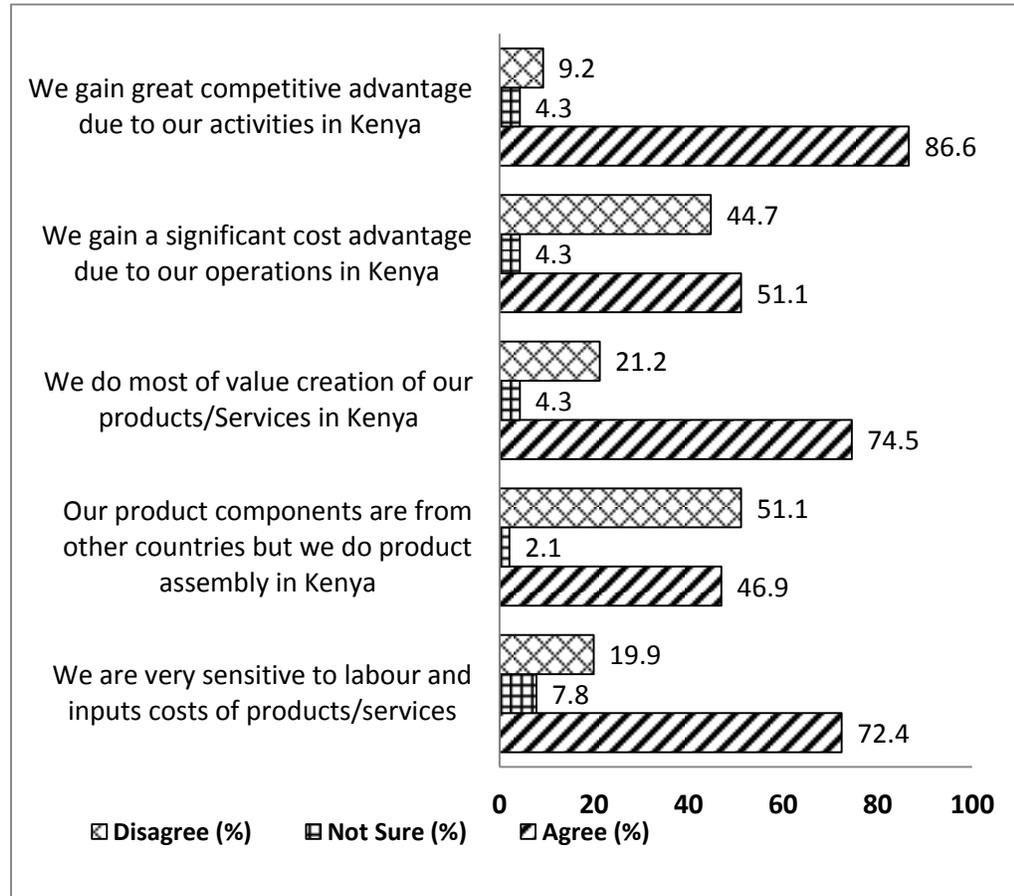
**Figure 4.12 Cost leadership strategy**

The multinational corporations studied operated at maximum levels of capacity and resource utilization to lower their costs and to ensure high production rate according to 85.8% and 93.6% of the respondents respectively. 85.8% of the respondents indicated that their organizations source for materials and components efficiently in order to save on time and cost. 91.5% of MNCs studied confirmed that they use modern plant and equipment to save on breakdown time and repairs while 91.5% of the respondents indicated that their production cost is low because of efficient labour utilization and inventory management.

### **b).Strategy two: Relocation Strategy**

The researcher sort to find out whether MNCs could opt to relocate from a given industry or from Kenyan market altogether. This was done by inquiring on the managers' opinion on i) Sensitivity to labour and inputs costs; ii) Sourcing and assembling of their product components; iii) Where they carryout value creation for their products and services; iv) Presence of significant cost saving and v) Whether Kenya is a strategic location. The findings are detailed in figure 4.13.

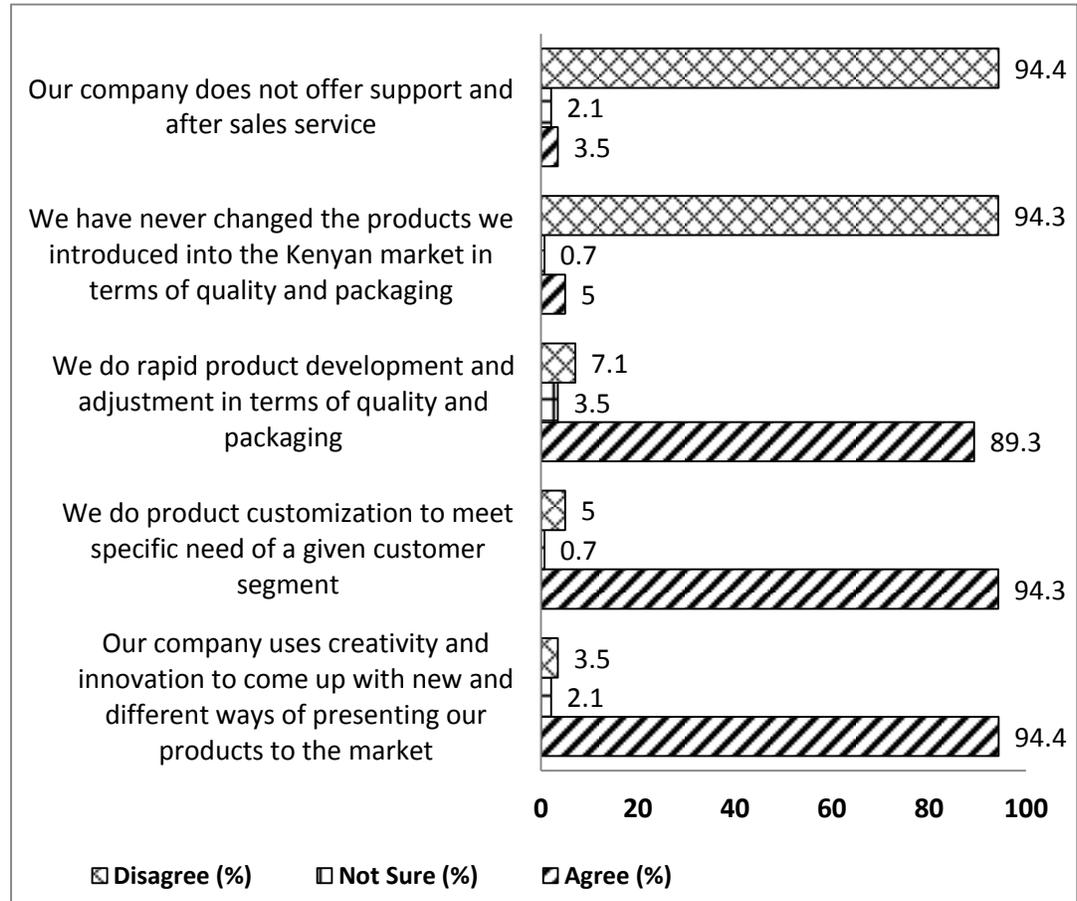
The sensitivity to labour and inputs costs is a major factor that can make some 72.4% of the respondents to relocate from an industry or even the Kenyan market altogether. 74.5% of the respondents indicated that they do most of value creation for their products in Kenya which is consistent with 51.1% of them that indicated that they do not source their components outside Kenya. 51.1% and 86.6% of them indicated that they gain significant cost advantage and gain great competitive advantage due to their operations in Kenya respectively. This implies that relocating from Kenya to other destinations was not their preferred strategic choice.



**Figure 4.13 Relocation strategic response**

**c). Strategy three: Product Differentiation Strategy**

It was sort of the respondents whether their organizations differentiated their products and services as a way of countering competition. The inquiry was on whether the MNCs; i) Offered support and after sales service; ii) Changed their products in terms of quality and packaging; iii) Did rapid products and service development; iv) Did customization of their products and services to target specific customer segments and v) Had innovative and creative ways of presenting products and services to their customers. Their responses are detailed in table 4.14.

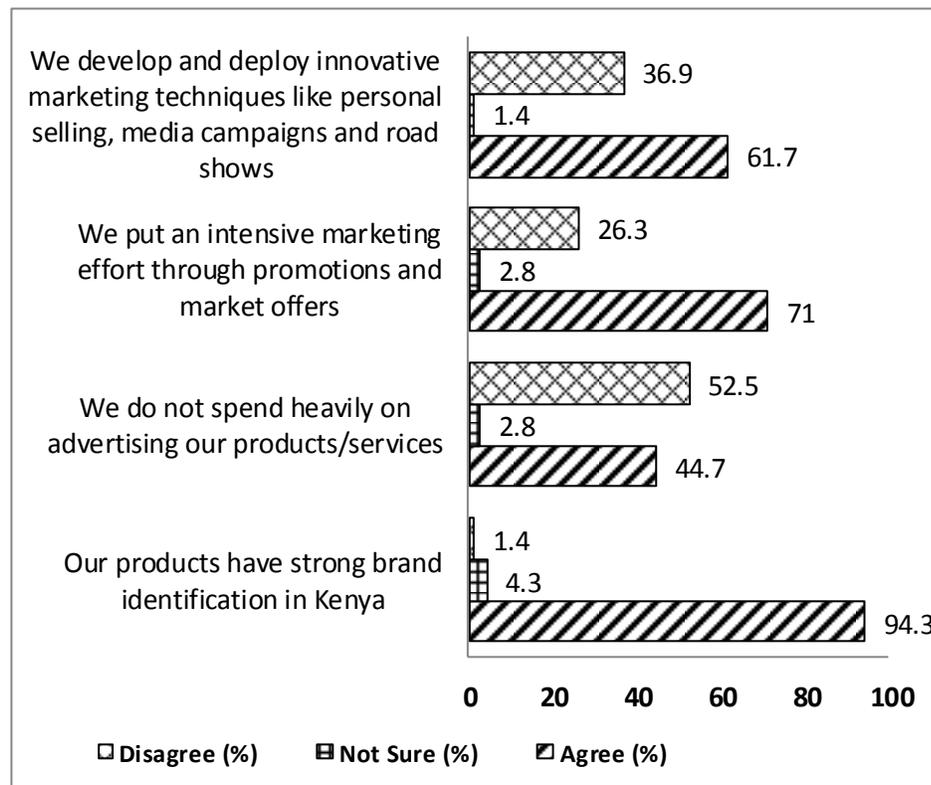


**Figure 4.14 Product differentiation strategic response**

About employment of creativity and innovation in developing different ways of products presentation to their customers, 94.4% of the respondents agreed that they did so and 94.3% indicated that they did product/service customization to meet specific customer needs. 89.3% of the MNCs indicated that they did rapid product development and adjustment in terms of quality and packaging. 94.3% and 94.4% of the respondents indicated that they had changed the initial products they introduced in the Kenyan market and that they offered support and after sales service respectively.

**d). Strategy four: Market Differentiation Strategy**

Market differentiation according to Porter (1985) is a significant limitation of customer base to a well-defined buyer segment which Cohen and Mazzeo (2004) contends that it depends on marketing knowledge of the firm. On whether the firms studied employed market differentiation strategy to counter competition, the managers gave their views on whether their firms; i) Develop and use innovative marketing techniques; ii) Put intensive marketing initiatives like promotions and market offers; iii) They spend heavily on advertising and iv) Their products and services have strong brand identification. They responded as detailed in figure 4.14.



**Figure 4.15 Market differentiation strategy**

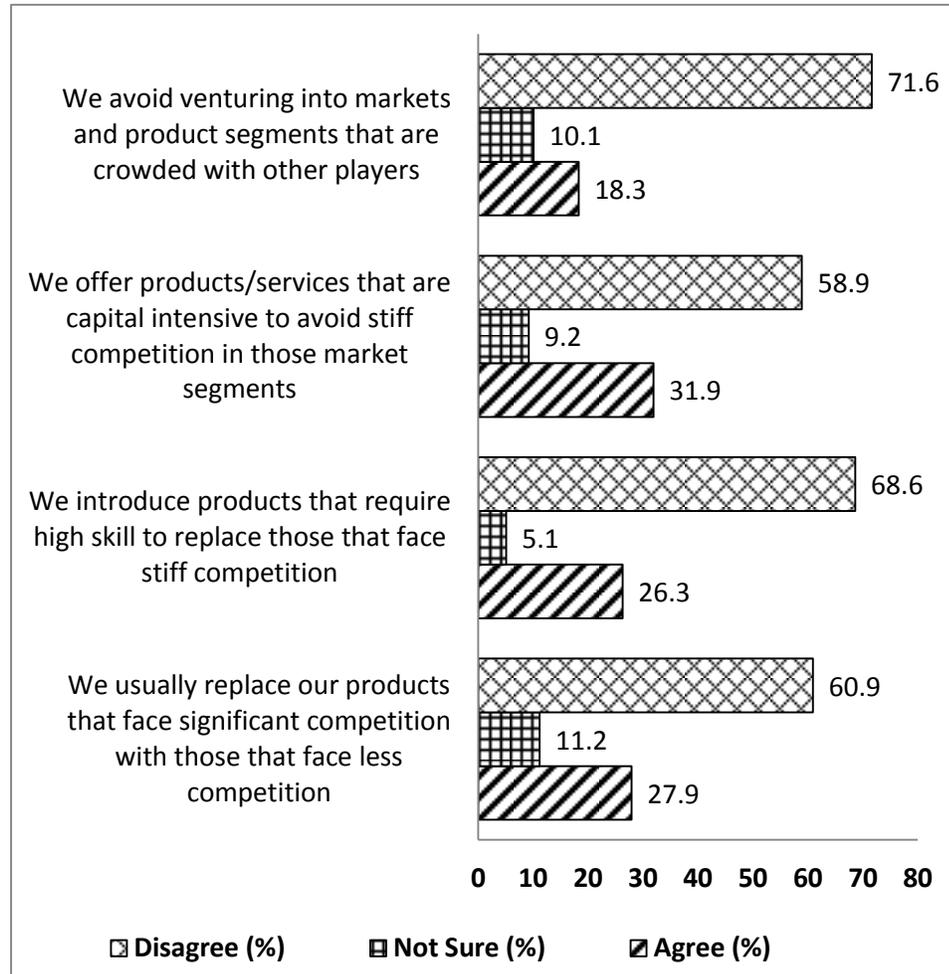
The MNCs studied indicated that they employ market differentiation as a strategic response to competition because 94.3% of them indicated that their products have

strong brand identification, 52.5% of them indicated that they spend heavily on advertising their products and services. 71% and 61.7% of the respondents said that they engage in intensive marketing effort and they employ innovative marketing techniques respectively.

**e). Strategy Five: Avoidance Strategy**

Avoidance strategy as a counter measure to competition is evident when an organization changes their products/services or industry (Bernard and Koerte, 2007). To indicate whether their organizations employed avoidance strategy, the inquiry was on they; i) Avoided venturing into crowded products and market segments; ii) Replaced their products/services that faced stiff competition with the ones that did not; iii) They introduced high skill products to replace those that faced stiff competition and iv) They offered products that are capital intensive to avoid competition. Figure 4.15 presents their responses.

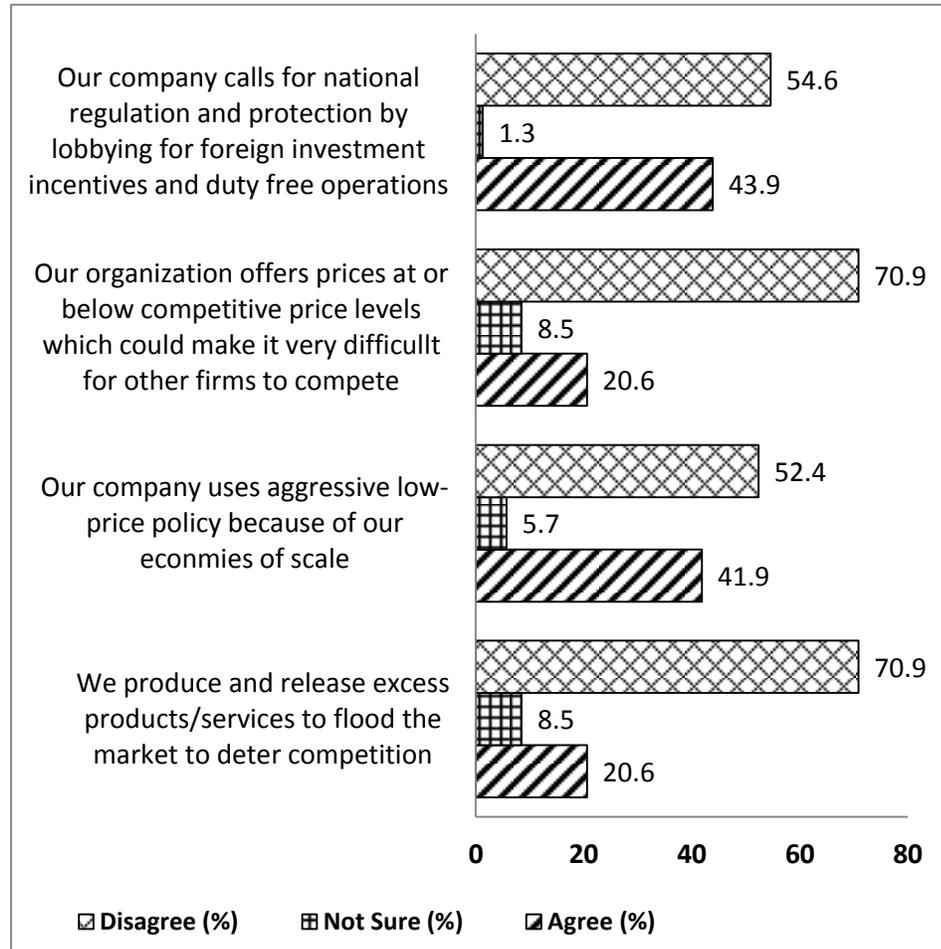
According to 68.6% of the respondents, their organizations do not introduce products that required high skill to replace those that faced stiff competition and 71.6% of them indicated that their firms did not avoid venturing into markets and product segments that were crowded with other player. 60.9% of them said that they replaced their products that faced significant competition with more competitive ones and 58.9% did not offer capital intensive products and services to avoid competition in their market segments.



**Figure 4.16 Avoidance strategic response**

**f). Strategy six: Deterrent Strategy**

Organizations can be said to employ deterrent strategy if there is presence of deliberate efforts to hinder other players from entering into their product and market segments (Bernard and Koerte, 2007). Some of the indicators that the managers studied responded to include whether their firms; i) Lobbied for national regulation and protection; ii) Offered prices at or below competitive price levels to make it difficult for other firms to compete; iii) Aggressively used low-price policy because of their economies of scale and iv) Released excess products/services to flood the market. Figure 4.16 presents their responses.



**Figure 4.17 Deterrent strategic response**

It was found that MNCs did not produce and release excess products and services to flood the market and deter competition as indicated by 70.9 of the respondents. The same number of respondents (70.9) contended that their firms do not make it difficult for other players to compete by offering prices that are low neither do they use low-price policy according to 52.4% of them. 54.6 of the respondents indicated that they do not lobby for national regulation and protection for foreign investment incentives and duty free operations, a move that would deter some firms from entering their product and market segments.

#### 4.3.4 Aggregate of the Dependent Variable

There were six strategies that MNCs could adopt to respond to competition in the industry which were considered as factors constituting the dependent variable for this study. They included cost leadership, relocation, product differentiation, market differentiation, avoidance and deterrent strategies. The six were dichotomous variables and each of them having options of Yes (1) and No (0), therefore the mean can also be interpreted as proportion of respondent who employed a particular strategy. The mean of the ranked responses and standard deviation are detailed in table 4.3.

**Table 4.3 Summary of means and standard deviation Strategic Responses**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
Cost Leadership Strategy	141	0.00	1.00	0.72	0.45
Relocation Strategy	141	0.00	1.00	0.43	0.50
Prod Differe Strategy	141	0.00	1.00	0.66	0.48
Market Differe Strategy	141	0.00	1.00	0.71	0.46
Avoidance Strategy	141	0.00	1.00	0.06	0.25
Deterrent Strategy	141	0.00	1.00	0.43	0.50
Valid N (list wise)	141				

The aspects of strategic response were recorded on a scale: 0: Disagree; 1: Agree.

Cost leadership strategy had a mean of 0.72 and a standard deviation of 0.45 which indicates that 72% of respondents chose cost leadership strategy as a response to competition. Relocation strategy had a mean of 0.43 and a standard deviation of 0.50 which meant that 43% of the MNCs chose relocation strategy in response to competition. Product differentiation strategy had a mean of 0.66 and a standard deviation of 0.48 indicating that 66% of the MNCs employed this strategy to counter competition in their industries. Market differentiation had a mean of 0.71 and a standard deviation of 0.46 which means that 71% of the MNCs adopt this

strategy to counter competition. The avoidance strategy had a mean of 0.06 and a standard deviation of 0.25 a finding that means that MNCs did not chose avoidance strategy to respond to competition. Finally, deterrent strategy had a mean of 0.43 and standard deviation of 0.50 and indication that only 43% of MNCs employed it to respond to competition.

#### **4.4 Correlation Analysis Between Competition and Strategic Response**

In order to get the linear relationship between the various independent and dependent variables, Spearman's rho correlation was used. The researcher used Spearman's rho instead of Pearson's product Moment correlation because according to Waiganjo (2013), it is used to test correlated ranks between two ordered variables. The Spearman's rho correlation was used because it also ensures that correction of abnormalities in the data is done. Spearman's correlation is designated by ( $r$ ) and it symbolizes the correlation coefficient which ranges between +1 to -1. The sign usually signifies the direction of the relationship while the statistically significant levels were determined at alpha = 0.05 or alpha = 0.01. Where there was no relationship the correlation coefficient was zero (Mugenda and Mugenda, 2003).

The correlation coefficient indicates whether there is a linear relationship between two variables and whether the two variables have a causal relationship. In this case, the variable that influences the other is the independent variable while the one that is influence is the dependent variable. The independent variables for this study were Competition intensity in the industry, firm's product quality, firm's product cost and firm's marketing experience. Each of them was correlated with strategic response which was the dependent variable to find out if there was any relationship, association or correlation between the variables. The researcher also aimed at establishing the magnitude and the direction of the linear relationship which was indicated by the sign of the coefficient (Orodho, 2005). The findings are presented in table 4.4.

**Table 4.4 Correlation Analysis Between Competition and Strategic Response**

Parameters			Competition Intensity in Industry	Firm's Product Quality	Firm's Product Cost	Firm's Marketing Experience	Strategic Response
Spearman's rho	Competition Intensity in Industry	Correlation Coefficient	1				
		Sig. (2-tailed)					
		N	141				
	Firm's Product Quality	Correlation Coefficient	.208*	1			
		Sig. (2-tailed)	.013				
		N	141	141			
	Firm's Product Cost	Correlation Coefficient	.526**	.021	1		
		Sig. (2-tailed)	.000	.801			
		N	141	141	141		
	Firm's Marketing Experience	Correlation Coefficient	.953**	.213*	.496**	1	
		Sig. (2-tailed)	.000	.011	.000		
		N	141	141	141	141	
	Strategic Response	Correlation Coefficient	.220**	.318**	-.059	.291**	1
		Sig. (2-tailed)	.009	.000	.487	.000	
		N	141	141	141	141	141

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

As indicated in table 4.4, it was found that competition intensity in industry has a positive correlation with strategic response with Spearman's rho correlation coefficient of  $r = 0.220$  was significant ( $p = 0.009$ ) at  $\alpha = 0.01$  level of significance. This implies that completion intensity in the industry of a MNC has a linear relationship with the choice of a strategic response by a MNC and that for each unit increase in competition intensity, the chances of choosing a given strategic response increased by 0.22 times.

It was also found that there was a significant and a positive linear relationship between Firm's Product quality and choice of strategic response of a MNC with

Spearman's rho correlation coefficient of  $r = 0.318$  was highly significant ( $p < 0.001$ ) at alpha = 0.01 level of significance. This implies that product quality of an organization has a linear relationship with the choice of a strategic response by a MNC and that for each unit increase in product quality aspect of competition, the chances of choosing a given strategic response increased by 0.318 times.

The findings also indicated that Firm's Marketing experience has a positive correlation with strategic response with Spearman's rho correlation coefficient of  $r = 0.291$  was highly significant with  $p < 0.001$ . This implies that the organization's marketing experience has a linear relationship with the choice of a strategic response by a MNC and that for each unit increase in marketing experience, the chances of choosing a given strategic response increased by 0.291 times.

However, as regards Firm's product cost, it was found that it had a negative relationship with strategic response with Spearman's rho correlation coefficient of  $r = - 0.059$  was not significant ( $p = 0.487$ ) implying that the two did not have a linear relationship.

#### **4.5 Logistic Regression For Independent and Dependent Variables**

The researcher used Binary Logistic Regression analysis to determine the linear statistical relationship between the independent and dependent variables of this study because as Peng et al (2002) contend, it measures the relationship between a categorical dependent variable and a continuous independent variable by converting the dependent variable to probability scores.

##### **4.5.1 Case Processing**

The minimum ratio of valid cases to independent variables for logistic regression is 10 to 1, with a preferred ratio of 20 to 1 for simultaneous and hierarchical logistic regression. In this analysis, there are 141 valid cases shown in table 4.5 and there were 4 independent variables. The ratio of cases to independent variables is therefore 35.25 to 1, which satisfies the minimum requirement. In addition, the

ratio of 35.25 to 1 satisfies the preferred ratio of 20 to 1 when using simultaneous and hierarchical logistic regression. This analysis has used the simultaneous and hierarchical logistic regression method for including variables in the regression equation using a guideline provided by Hosmer and Lemeshow (2000).

**Table 4.5 Case Processing Summary**

<b>Case Processing Summary</b>			
<b>Unweighted Cases<sup>a</sup></b>		<b>N</b>	<b>Percent</b>
Selected Cases	Included in Analysis	141	100.0
	Missing Cases	0	.0
	Total	141	100.0
Unselected Cases		0	.0
Total		141	100.0

a. If weight is in effect, see classification table for the total number of cases.

#### **4.5.2 Coding For Dependent Variable**

The binary logistic regression requires that the dependent variable be dichotomous (Peng et al, 2002). In this analysis, the dependent variable was dichotomous and the cases were either Yes or No which satisfied the level of measurement requirement. The dependent variable was coded 0 for No and 1 for Yes cases. In the SPSS, Hosmer and Lemeshow (2000) contends that the model is always constructed to predict the group with higher numeric code, therefore in this analysis, SPSS predicted membership in the Yes category. The Yes category in this study indicates that an independent variable or all independent variables have a role in determining choice of strategic response by Multinational Corporation.

**Table 4.6 The coding for dependent variable**

<b>Original Value</b>	<b>Internal Value</b>
0	0
1	1

#### **4.5.3 Overall Relationship Between Independent And Dependent Variables**

The researcher found it necessary to establish whether there existed a relationship between dependent and independent variable. This was used to accept or reject the null hypothesis stated as;

$H_0$ : There is no difference between the model with only a constant and the model with independent variable.

The establishment of the overall relationship between dependent and independent variables is done through three major steps that include i) Measurement of error before including independent variables; ii) Measurement of error after including independent variables and iii) working out their overall relationship.

##### **a). Step 1: Measurement of the error without independent variables**

This analysis has the initial -2 log likelihood of 182.143, which is the measure of the error associated with trying to predict the dependent variable without using any information from the independent variables as shown in appendix 5. After the independent variables were entered in block 1, the -2 log likelihood was again measured and presented in table 4.7 and explained in step 2.

**Table 4.7 Measure of the error with independent variables**

**Iteration History<sup>a,b,c,d</sup>**

		Coefficients					
		-2 Log likelihood	Constant	Firm's Product Quality	Firm's Product Cost	Firm's Marketing Experience	Competition Intensity in Industry
Step 1	1	150.665	-.797	.493	-.564	1.770	-1.202
	2	148.711	-1.031	.651	-.719	2.287	-1.584
	3	148.680	-1.056	.676	-.742	2.361	-1.642
	4	148.680	-1.057	.677	-.742	2.362	-1.643
	5	148.680	-1.057	.677	-.742	2.362	-1.643

a. Method: Enter

b. Constant is included in the model.

c. Initial -2 Log Likelihood: 182.143

**b). Step 2: Measurement of the error with independent variables**

This analysis has the ending -2 log likelihood of 148.680 shown in table 4.7 above, is the measure of the error associated with trying to predict the dependent variable using information from the independent variables. Upon entering the independent variables in block 1, the -2 log likelihood was measured and it came to 148.680. The overall relationship is established by working out the difference between the ending and beginning -2 log likelihood as explained in step 3.

**c). Step 3: Measurement of overall relationship between independent and dependent variables**

According to Hosmer and Lemeshow (2000) the presence of a relationship between the dependent variable and combination of independent variables is based on the statistical significance of the model chi-square at step 1 of logistic regression after the independent variables have been added to the analysis. The

difference between ending and beginning -2 log likelihood is the model Chi-square that was used in the testing of overall statistical significance.

In this analysis, the probability of the model Chi-square is 33.463, derived from subtracting ending -2 log likelihood of 148.680 from the initial -2 log likelihood of 182.143 as indicated in appendix 5. This is highly significant with  $p < 0.001$  at  $\alpha = 0.01$ . The null hypothesis that there is no difference between the model with only a constant and the model with independent variable was rejected. The existence of a relationship between the independent variables and the dependent variable was supported.

#### 4.5.4 Comparing Accuracy Rates

Operationally, the classification accuracy rate should be 25% or more than the proportional by chance accuracy rate. In this study, the proportional by chance accuracy rate was computed by calculating the proportion of cases for Yes or No group and then squaring and summing the proportion of cases in each group. In order for the model in this study to be characterized as useful, the researcher compared the overall percentage accuracy rate produced by SPSS at the last step in which variables are entered, as shown in table 4.9 as 72.3% to a 25% more than the proportional by chance shown in table 4.8.

**Table 4.8 Percentage accuracy rate by chance**

**Classification Table<sup>a,b</sup>**

		Predicted			Percentage Correct
		Strategic Response			
Observed	Strategic Response	0	1		
		Step 0		0	0
		1	0	92	100.0
Overall Percentage					65.2

a. Constant is included in the model.

b. The cut value is .500

In this analysis, the accuracy rate by chance was calculated;  $= (49/141)^2 + (92/141)^2 = 54.65\%$ . Because the classification accuracy rate should be 25% more, then the proportional by chance accuracy criteria is  $1.25 \times 54.65\% = 68.3\%$ . For the model developed by the researcher in this study to be characterized as useful, it must satisfy this requirement for logistic regression. The overall percentage accuracy rate produced by SPSS at the last step must be equal to or more than the proportional by chance accuracy criteria of 68.3%. This is illustrated in table 4.9.

**Table 4.9 Percentage accuracy rate at last step**

**Classification Table<sup>a</sup>**

		Predicted		
		Strategic Response		Percentage Correct
Observed		0	1	
Step 1	Strategic Response 0	23	26	46.9
	1	13	79	85.9
Overall Percentage				72.3

a. The cut value is .500

The SPSS reports the overall accuracy rate in the last step as 72.3%, which is more than the proportional by chance accuracy criteria of 68.3% meaning that the model of this study is useful and data analysis can be under taken.

#### **4.5.5 Checking for Multicollinearity**

Checking for numerical problems and multicollinearity was done for this study. Hosmer and Lemeshow (2000) contend that multicollinearity in a logistic regression solution is detected by examining the standard errors for the B coefficients. A standard error larger than 2.0 indicates numerical problems, such as multicollinearity among the independent variables. They argue that analyses that indicate numerical problems should not be interpreted. The findings for this analysis are shown in table 4.10.

**Table 4.10 Checking for Multicollinearity**

		<b>Variables in the Equation</b>					
	<b>Parameters</b>	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Step 1 <sup>a</sup>	Competition Intensity in Indus	-1.643	.850	3.734	1	.050	.193
	Firm's Product Quality	.677	.226	9.009	1	.003	1.968
	Firm's Product Cost	-.742	.363	4.173	1	.041	.476
	Firm's Marketing Experience	2.362	.779	9.187	1	.002	10.616
	Constant	-1.057	1.067	.981	1	.322	.348

a. Variable(s) entered on step 1: Competition Intensity, Firm's Product Quality, Firm's Product Cost, Firm's Marketing Experience.

The standard errors are 0.850, 0.226, 0.363 and 0.779 for Competition Intensity in the industry, firm's product quality, product cost and marketing experience respectively. None of the independent variables in this analysis had a standard error larger than 2.0. There was therefore no multicollinearity among the independent variables in this study and as such, the data can be interpreted. The standard error for the constant is not included in this check.

#### **4.5.6 Relationship of Individual Independent Variable to Dependent Variable**

The relationship between individual independent variables and the dependent variable was analyzed in order to answer the research questions for the study. The researcher used the approach of testing the null hypothesis that were developed for the study and used the findings in deciding whether to accept or reject the null hypothesis. Since the dependent variable in this study is a Logit, the magnitude of the influence of a given independent variable is indicated by the odds ratio generated from its Exp (B). Odds ratio is the probability of success divided by the probability of failure (Szumilas, 2010).

**Table 4.11 Relationship of Individual Independent Variable to Dependent Variable**

		<b>Variables in the Equation</b>					
	<b>Parameters</b>	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Step 1 <sup>a</sup>	Competition Intensity in Indus	-1.643	.850	3.734	1	.050	.193
	Firm's Product Quality	.677	.226	9.009	1	.003	1.968
	Firm's Product Cost	-.742	.363	4.173	1	.041	.476
	Firm's Marketing Experience	2.362	.779	9.187	1	.002	10.616
	Constant	-1.057	1.067	.981	1	.322	.348

a. Variable(s) entered on step 1: Competition Intensity, Firm's Product Quality, Firm's Product Cost, Firm's Marketing Experience.

**a) Relationship of Competition Intensity in Industry to Strategic Response**

The probability of the Wald statistic for the variable competition intensity in the industry was 3.734 which was significant ( $p = 0.050$ ) at  $\alpha = 0.05$  as shown in table 4.11. The null hypothesis that the B coefficient for Competition intensity was equal to zero was rejected. This supports the relationship that competition intensity in an industry influences the choice of strategic response of Multinational Corporations.

From the analysis, the value of Exp (B) was 0.193 which implies that a one unit increase in competition intensity in an industry decreased the odds that MNCs choice of strategic response is negatively influenced by competition intensity by 80.7%. This confirms the statement of the amount of change in the likelihood of belonging to 1 (Yes) of strategic response associated with a one unit change in Competition Intensity in an industry.

**b). Relationship of Firm's Product Quality to Strategic Response**

The second independent variable was analyzed and it was found that the probability of the Wald statistic for the variable Firm's product quality was 9.009

and was significant ( $p = 0.003$ ) at  $\alpha = 0.05$  as shown in table 4.11. The null hypothesis that the B coefficient for Firm's product quality was equal to zero was rejected. This supports the relationship that firm's product quality positively influences the choice of strategic response of Multinational Corporations. The value of Exp (B) was 1.968 which implies that a one unit increase in Firm's product quality increased the odds that MNCs choice of strategic response is positively influenced by competition by 96.8%

**c). Relationship of Firm's Product Cost to Strategic Response**

After analyzing the third independent variable, it was found that the probability of the Wald statistic for the variable Firm's product cost was 4.173 which was significant ( $p = 0.041$ ) at  $\alpha = 0.05$  as shown in table 4.11. The null hypothesis that the B coefficient for Firm's product cost was equal to zero was rejected. This supports the relationship that firm's product cost determines the choice of strategic response of Multinational Corporations. The value of Exp (B) was 0.476 which implies that a one unit decrease in Firm's product cost increased the odds by 52.4% that MNCs choice of strategic response is influenced by competition.

**d). Relationship of Firm's Marketing Experience to Strategic Response**

The analysis of the fourth independent variable revealed that the probability of the Wald statistic for the variable Firm's product cost was 9.187 and was significant ( $p = 0.002$ ) at  $\alpha = 0.05$  as shown in table 4.11. The null hypothesis that the B coefficient for Firm's marketing experience was equal to zero was rejected. This supports the relationship that firm's marketing experience determines the choice of strategic response of Multinational Corporations. The value of Exp (B) was 10.616 which imply that a one unit increase in Firm's marketing experience increased the odds by 10.616 times that MNCs choice of strategic response is influenced by competition.

The basis for discussing the relation of each independent variable with the dependent variable was because the general objective of this study aimed at

establishing the role of competition in determining the choice of strategic response of Multinational corporations in Kenya. The findings that are detailed in table 4.13 confirms that competition has a statistical significance in influencing the choice of strategic response by MNCs has indicated by the direction and magnitude of regression coefficients.

**a). The direction of the regression coefficients**

From the findings illustrated in table 4.11, the B coefficients were -1.643, 0.677, -0.742 and 2.362 for competition intensity in industry, firm's product quality, firm's product cost and firm's marketing experience respectively. According to Menard (2002), a sign that is associated with B coefficient of independent variable indicated whether the likelihood of success increases or decreases, with a positive and a negative sign indicating an increase and a decrease respectively. In this study and as shown in table 4.11, the B coefficients for competition intensity and firm's product cost are negative indicating that the likelihood of selecting a given strategic response decreases for their every unit increase. The firm's product quality and the firm's marketing experience have positive B coefficients, indicating that for their every unit increase, the likelihood of selecting a given strategic response increases.

**b). The magnitude of the regression coefficients**

The magnitude of regression coefficient indicates the likelihood of a given strategic response happening due to influence of competition. It helps in understanding the best predictors in the research model which are known by the magnitude of B coefficients which is expressed by the odds ratio for each variable. In this analysis, the best predictor is firm's marketing experience which had a B coefficient of 2.362 and an odds ratio of 10.616 meaning that for every unit increase in firm's marketing experience, the likely hood of choosing a given strategic response increased more than 10 times. The second best predictor was firm's product quality which had a B coefficient of 0.677 and an odds ratio of 1.968 meaning that for every unit increase in firm's product quality, the likelihood

of choosing a given strategic response increased by 96.8%. As for the competition intensity in the industry and firm's product cost, every unit increase on them decreased the likelihood of choosing a give strategic response by 80.7% and 52.4% respectively.

#### 4.6 Fitting The Logistic Regression Function

In order to fit the logistic regression function, the findings for the coefficients of the four variables constituting competition were generated and reported in table 4.12.

**Table 4.12 The Regression Function**

		Variables in the Equation					
	Parameters	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	Competition Intensity in Indus	-1.643	.850	3.734	1	.050	.193
	Firm's Product Quality	.677	.226	9.009	1	.003	1.968
	Firm's Product Cost	-.742	.363	4.173	1	.041	.476
	Firm's Marketing Experience	2.362	.779	9.187	1	.002	10.616
	Constant	-1.057	1.067	.981	1	.322	.348

a. Variable(s) entered on step 1: Competition Intensity, Firm's Product Quality, Firm's Product Cost, Firm's Marketing Experience.

In this study, the logistic regression model for this study was developed as;

$$\text{logit}(p) = \beta_0 + \beta_1 \text{ Competition intensity in industry} + \beta_2 \text{ firm's Product Quality} + \beta_3 \text{ firm's Product Cost} + \beta_4 \text{ Firm's Marketing Experience} + \varepsilon.$$

Where:  $p$  is the probability of selecting a given strategic response.

$\beta_0 = -1.057$  = the coefficient of constant

$\beta_1 = -1.643$  = the coefficient of competition intensity in industry

$\beta_2 = 0.677$  = the coefficient of firm's product quality

$\beta_3 = -0.742$  = the coefficient of firm's product cost and

$\beta_4 = 2.362$  = the coefficient of firm's marketing experience

$\varepsilon$  = is the error term.

The analysis of the logistic regression model for this study was done and the B coefficients for the four independent variables were fitted and expressed in terms of the variables used in this study. The results showed the logistic regression equation is;

**Choice of Strategic Response** =  $-1.057 - 1.643 \cdot \text{Competition intensity in industry} + 0.677 \cdot \text{Firm's product quality} - 0.742 \cdot \text{Firm's product cost} + 2.362 \cdot \text{Firm's marketing experience}$ .

#### **4.7 Test of Statistical Significance of Independent Variables**

The analysis of the test of statistical significance for each of the coefficients in the logistic regression model was done. The Chi-Square was distributed with degree of difference (df) 1 and the results showed that the Wald statistic had p-values of 0.050, 0.003, 0.041 and 0.002 for Competition intensity, Firm's product quality, Firm's product cost and Firm's market experience respectively. After testing for statistical significance of independent variables, it was found that all variables were statistically significant at  $\alpha = 0.05$ . Competition intensity in Industry was significant with  $p = 0.050$ ; Firm's product quality was significant with  $p = 0.003$ ; Firm's product cost was significant with  $p = 0.041$  and Firm's marketing experience was significant with  $p = 0.002$ . Because the four independent variables were statistically significant, their coefficients and that of the intercept were included in the logistic regression equation.

#### 4.8 Test of Null Hypothesis

The five null hypotheses for this study as stated in chapter one were tested in order to find out whether the data collected was valid and also to determine their accuracy. The researcher tested the hypotheses using stepwise regression models in which the order of entering the variables is based on statistical decision. The main aim in the hypothesis testing was for the researcher to decide whether to accept the null hypothesis or to reject the null hypothesis as contended by Kothari (2009). The levels of statistical significance of each variable were used in deciding the acceptance or rejection of the null hypothesis as detailed in table 4.13.

**Table 4.13 Testing of null hypothesis**

		<b>Variables in the Equation</b>					
	<b>Parameters</b>	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Step 1 <sup>a</sup>	Competition Intensity in Indus	-1.643	.850	3.734	1	.050	.193
	Firm's Product Quality	.677	.226	9.009	1	.003	1.968
	Firm's Product Cost	-.742	.363	4.173	1	.041	.476
	Firm's Marketing Experience	2.362	.779	9.187	1	.002	10.616
	Constant	-1.057	1.067	.981	1	.322	.348

a. Variable(s) entered on step 1: Competition Intensity, Firm's Product Quality, Firm's Product Cost, Firm's Marketing Experience.

##### 4.8.1 Hypothesis One

H<sub>01</sub>: Competition intensity in an industry has no significant influence on determining choice of strategic response of MNCs in Kenya.

The Chi-Square was distributed with degree of difference (df) 1 and the results showed that the Wald statistic for Competition intensity in Industry was significant ( $p = 0.050$ ) at  $\alpha = 0.05$ . Therefore, this null hypothesis was rejected.

As presented in table 4.13 , it was found that competition intensity in industry negatively and significantly influenced the choice of strategic response of Multinational corporations in Kenya with Exponential (B) of 0.193 which is significant ( $p = 0.050$ ) at alpha  $p = 0.05$ . This implies that for every unit increase in competition intensity, there was a corresponding decrease in the odds that MNCs in Kenya choose a given strategic response by 80.7%. This finding is consistent with that of Spearman's Correlation coefficient between competition intensity and strategic response which shown that there is a significant correlation, with coefficient of 0.220, that is significant ( $p = 0.009$ ) at alpha = 0.01 clearly reported in table 4.4.

The finding of this study is consistent with that from a study by Mokaya et al (2012) who concluded that a firm's competitive positioning in the market plays a pivotal role in development and choice of its marketing strategy. Similarly, the study by Gibcus and Kemp (2003) arrived at findings that are consistent with this study because they found that there is a positive and significant path coefficient of 0.72 between marketing new products in an industry, and firm's differentiation strategy which was highly significant ( $p < 0.001$ ) at alpha = 0.01. They also found that there is a positive and significant path coefficient of 0.73 between research and development of new products for the market and the organizations strategy which was highly significant with  $p < 0.001$ . This supported the hypothesis of their study that the organizational strategy of a firm is positively associated with the development and introduction of new products in an industry, which leads to intensified competition in the industry. However, this study differs with Gibcus and Kemp (2003) because while they found a positive relationship between components of competition intensity and the choice of strategy, this study has found negative relationship between competition intensity in industry and the choice of strategy by a firm.

#### **4.8.2 Hypothesis Two**

H<sub>02</sub>: Firm's product quality has no significant influence on determining choice of strategic response of MNCs in Kenya.

The findings shown in table 4.13 indicate that the Chi-Square was distributed with degree of difference (df) 1 and the results showed that the Wald statistic for Firm's product quality was significant ( $p = 0.003$ ) at  $\alpha = 0.05$  with a Chi-Square distribution of degree of difference (df) 1. Therefore, this null hypothesis was rejected. The firm's product quality aspect of competition has Exp (B) value of 1.968 which implies that a one unit increase in Firm's product quality increased the odds that MNCs choice of strategic response is influenced by competition by 96.8%. As it is shown in table 4.4, the researcher found this relationship consistent with that of Spearman's Correlation coefficient between firm's product quality and strategic response which indicated that there is a positive significant correlation, with coefficient of 0.318 that is highly significant with  $p < 0.001$  at  $\alpha = 0.01$ . This finding is consistent with was found by Bernard and Koerte (2007) who found that when MNCs operate in foreign markets they face stiff competition due to quality of product offered by the industry players which informs the choice of coping strategy they employ, a finding that is consistent with that of this study.

The empirical findings of this study indicate that similar results were arrived at in a study by Amoako-Gyampah and Acquah (2007) found that there is a positive path coefficient of 0.403 which was highly significant with  $p < 0.001$  at  $\alpha = 0.01$  between product quality manufactured by an organization and its cost leadership strategy. They also found out that there is a positive path coefficient of 0.449 which was highly significant with  $p < 0.001$  between product cost of an organization and its differentiation strategy at the same level of alpha. This supported the study hypothesis that competitive strategy of a firm is positively associated with the product quality of an organization.

### 4.8.3 Hypothesis Three

H<sub>03</sub>: Firm's product cost has no significant influence on determining choice of strategic response of MNCs in Kenya.

At Chi-Square distribution with degree of difference (df) 1 and the results showed that the Wald statistic for Firm's product cost was significant ( $p = 0.041$ ) at  $\alpha = 0.05$  as indicated in table 4.13. Therefore, this null hypothesis was rejected. With the value of Exp (B) being 0.476 which implies that a one unit decrease in Firm's product cost increased the odds by 52.4% that MNCs choice of strategic response is influenced by competition. This finding is different from that of Mokaya et al (2012) who found that only 39.1% of organization's performance was explained by product cost with a confidence level of 95% while 60.9% was explained by other factors.

The results of Spearman's Correlation coefficient analysis between firm's product cost and strategic response shown in table 4.4 indicated that there is a negative correlation between them with coefficient of -0.059. However, the correlation was not significant meaning that there is no linear relationship between firm's product cost and the choice of strategic response by the firm. In their study, Mokaya et al (2012) found similar results with there being a negative correlation coefficient of -0.706 between cost of products and pricing strategies of an organization, but unlike this study, theirs indicated that the correlation was significant ( $p < 0.001$ ) at  $\alpha = 0.05$ , confirming an existence of linear relationship between the two. These two studies are differing at this point.

The research study by Amoako-Gyampah and Acquah (2007) found out that at  $\alpha = 0.01$ , there is a positive path coefficient of 0.403 which was significant with  $p < 0.001$  between product cost of an organization and its cost leadership strategy. The study also found out that there is a positive path coefficient of 0.279 that was significant with  $p < 0.001$  between product cost of an organization and its

differentiation strategy. This supported his study hypothesis that competitive strategy of a firm is positively associated with manufacturing cost of its products.

In another study by Gibcus and Kemp (2003) it was found that the organization's product cost affects the cost leadership strategy. Their findings were that there is a positive path coefficient of 0.78, 0.79 and 0.57 between cost leadership strategy of the firm and reduction of overall product costs, reducing manufacturing cost and development of new product manufacturing process respectively, all highly significant ( $p < 0.001$ ) at  $\alpha = 0.01$ .

#### **4.8.4 Hypothesis Four**

H<sub>04</sub>: Firm's Market experience has no significant influence on determining choice of strategic response of MNCs in Kenya.

The findings of this study reported in table 4.13 shows that the Chi-Square was distributed with degree of difference (df) 1 and the results showed that the Wald statistic for Firm's marketing experience was significant ( $p = 0.002$ ) at  $\alpha = 0.05$ . Therefore, this null hypothesis was rejected. Firm's marketing experience positively and significantly influence choice of strategic response of Multinational Corporations in Kenya implying that for every unit increase in firm's marketing experience, there was a corresponding increase in the odds that MNCs in Kenya choose a given strategic response 10.616 times. This finding is consistent with that of Spearman's Correlation coefficient between firm's marketing experience and strategic response whose results indicated that there is a significant correlation, with coefficient of 0.291, that is highly significant with  $p < 0.001$  at  $\alpha = 0.01$  as indicated in table 4.4.

The finding of this study are consistent with several empirical studies including that by Ogutu and Nyatichi (2012) found that marketing experience of a competing firm in an industry influenced the choice of competitive strategies adopted by Multinational banks in Kenya, which confirms the finding of this study. They

indicated that organizations need to set up research department which can help them to enhance their marketing experience and address customer needs, tastes and preferences. A similar finding was reported by Bernard and Koerte (2007) who found that there is a significant correlation between firm's marketing experience and relocation, avoidance, and market differentiation strategies of an organization.

A study by Amoako-Gyampah and Acquah (2007) found that there is a positive path coefficient of 0.421 that is highly significant ( $p < 0.001$ ) at  $\alpha = 0.01$  between organization's mode of marketing and delivery of its products and its cost leadership strategy. They also found out that there is a positive path coefficient of 0.272 that is highly significant with  $p < 0.001$  between organization's mode of marketing and delivery of its products and its differentiation strategy. The flexibility of an organization's marketing approach also had a positive path coefficients of 0.497 and 0.443 all highly significant ( $p < 0.001$ ) with organization's cost leadership and differentiation strategies respectively. This supported their study hypothesis that competitive strategy of a firm is positively associated with its marketing approach.

#### **4.9 Choice of Strategic Response**

The findings of this study indicates that competition influences the choice of strategic response of MNCs in Kenya owing to the fact that the four aspects of competition are all statistically significant, a finding that is supported by the studies of Mokaya et al (2012), Amoako-Gyampah and Acquah (2007) and Gibcus and Kemp (2003). This study supports the findings by Ogutu and Samuel (2012) that once MNCs in Kenya are faced with competition, they respond by adopting strategies that include product and market differentiation and cost leadership strategies.

The findings detailed in table 4.3 on aggregate of the dependent variables shows that 72% of the MNCs in Kenya employs cost leadership strategies to counter

competition, which is consistent with the majority of the respondents (52.3%) that indicated that they employ cost efficient operations. This finding supports Michael Porter's view that a firm acquires cost leadership in an industry by having skills for efficient manufacturing (Porter, 2004). Similar findings were arrived at by Kioko (2012) who indicated that independent petroleum companies in Kenya use cost leadership strategies to be competitive and increase their market share.

From the analysis, it is found that 43% of MNCs would employ relocation strategy as a response to competition, which is consistent with Owour (2011) and Okoth (2010) who content that indeed ten MNCs have relocated from Kenya in the last ten years. This finding is also consistent with that of Bernard and Koerte (2007) who found out that MNCs in USA and Germany adopts relocation strategies to counter competition.

The study further showed that 66% of the MNCs that were studied would adopt product differentiation strategy when faced by competition which is also indicated by respondents agreed to the indicators of product differentiation like use of creativity and innovation, product customization, rapid product development, regular quality and packaging reviews and offering after sales support services. This finding supports the findings of Ogutu and Nyatichi (2012) who found that Multinational banks in Kenya employs product differentiation strategy to maintain their competitive edge. A research on independent petroleum companies in Kenya by Kioko (2012) also arrived at similar findings.

Majority of the respondents (71%) would employ market differentiation strategy in response to competition through initiatives such as developing strong brand and company identification, a finding that was also reported by Gibcus and Kemp (2003). The organizations in this study also indicated that they spend heavily in advertisement, conducts sales promotions and offers and also employs innovative marketing techniques like media campaigns and road shows. Similar findings were

reported by Kioko (2012), Ogutu and Nyatichi (2012), Ogutu and Samuel (2011) and Bernard and Koerte (2007).

Only 6% of the respondents indicated that they could chose avoidance strategy when faced by competition in their industries. Majority of the respondents indicated that they do not replace their products that face stiff competition with those that are more competitive either by employing high skill or capital intensity. They also do not avoid to venture into the markets that are crowded with other players, meaning that most of MNCs in Kenya would not employ avoidance strategy to counter competition. Because there is stiff competition in Kenyan market as shown in table 4.3.2, then this finding is supported by the findings of Bernard and Koerte (2007) who reported that as competition increases in and industry, the organizations reduce reliance on avoidance strategy.

Deterrent strategy would also be employed by 43% of the respondents to counter competition, with the rest 57% indicating that they would not, according to this study. This result is consistent with the descriptive results of this study that majority of the respondents do not flood their markets with excess products, they do not use low-price policy, they do not offer their products at below market prices and they do not lobby the national regulatory bodies for protection or incentives. In their study, Bernard and Koerte (2007) found that there was no correlation between competition and deterrent strategy, meaning that firms could employ deterrent strategy due to other reasons other than competition, or has Blomstorm (2002) contends, governments have introduced various forms of investment incentives to encourage foreign owned companies to invest in their jurisdiction. This could have been the reason for MNCs in this study not to have used deterrent strategy.

#### **4.10 General Information Of the Respondents**

##### **a). Respondent's Information**

The study findings are based on the opinions of both male and female managers who were aged between 26 to more than 55 years. This consideration was important in that it brought to the study the views and opinions of both youthful and old and experienced managers. The respondents had the highest level of education ranging between Tertiary/Diploma level to Masters degree which indicates that the respondents had high qualifications and were capable of giving relevant information for this study. Majority of the respondents in this study (62%) had worked in their current organizations for more than five years, a thing that is critical because the respondents had experience of more two cycles of 5 year strategic plans and therefore could authoritatively comment on the strategic response of their organization to competition.

##### **b). Organizational Information**

Majority of the MNCs in Kenya (81%) have been doing business in the country for more than ten years which gives them many years of experience in the Kenyan market to an extent of understanding the effects of competition and development of appropriate counter strategies. This enhanced the accuracy of the views and opinions of the respondents. Both large and small firms were studied based on their market share. The market share which MNCs commanded ranged between below 25% to above 75% which gave this study a good mix of views and opinion concerning the role that competition plays in determining the choice of strategic response.

This study found out that majority of the MNCs in this study had indications of increased performance regardless of very intense competition in their industries. This means that they developed and employed strategic interventions that enabled them to achieve their organizational goals. This study has found that MNCs in Kenya chose cost leadership, product differentiation and market differentiation

strategies as counter measure to competition, which could have informed their increased performance in the last five years. Only 43% of them could employ relocation and deterrent strategies and 6% could employ avoidance strategy.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The main focus of this chapter is on presentation of research summary, conclusions and recommendations which are drawn from the data analysis and findings that was done in chapter four. In this study, the data was cumulated and was analyzed using quantitative analysis. The findings were presented in form of tables and figures.

In attempting to answer the research questions, the study involved administration of 165 questionnaires to the Chief Executive Officers and Managers of Multinational Corporations in Kenya. The data that was gathered for this study was treated using a variety of quantitative and qualitative statistical analysis techniques with an aim of answering the research questions and to test the study hypothesis. The findings of this study in comparison to study findings by other scholars are presented in this section. The findings reported here are also based on the literature review and on the basis of the findings that are discussed in chapter four. The researcher has attempted to cover in a summary form the findings of each specific area of this study in view of addressing the purpose of this study, which was to explore the role of competition in determining the choice of strategic response of MNCs in Kenya.

#### **5.2 Summary**

The main purpose of this study was to explore the role of competition in determining the choice of strategic response of MNCs in Kenya. From this study, it has been found that all the four independent variables are statistically significant in influencing the choice of strategic response of MNCs which led to the rejection of all the null hypotheses for this study. This therefore means that the four variables are constituents of competition and have converged to the study's hypothesized model. This finding is important considering that this study was done

in Kenya and the convergence of the four variables into a single factor is concurrent with findings of studies done in other parts of the world such as USA and Germany Bernard and Koerte (2007).

The study has revealed that the best predictor of strategic response to be chosen by a MNC in Kenya is the firm's marketing experience. This means that a prior exposure of an organization into a given industry is very important in informing competitive strategies to be employed. The longevity of involvement in a certain industry is also critical to a firm, mainly because such a firm knows the competition dynamics, the market trends and consumer behaviour that are critical in determining the choice a competitive strategy. This finding has a link with the strategic choice model advanced by Kochan (1984) and the dynamic fit model (Nissen, 2009).

It was also found that there is stiff competition among the MNCs in Kenya as indicated by the presence of three forces of industry competition in the Kenyan market. These findings are linked to Michael Porters theory of industry forces that include threat of new entrants, threat of substitute goods and threat of internal rivalry (Porter, 1980). Going by this theory, it was however found that the intensity of competition in Kenya is not due to the threat of powerful consumer or powerful supplier as the theory contends.

Another finding of this study that is linked to the model of generic strategies developed by Michael Porter (Porter, 2004) was that the majority of the Multinational corporations in Kenya employs cost leadership strategy to counter competition. This shows that cost of products plays an important role in the competitiveness of firms in Kenyan market. Moreover, going by this model, MNCs in Kenya also employs product and market differentiation, which is an indicator that customers can be grouped into various product and market segments. Such segments will consider other factors other than offering price of the products

It was found that a very significant number of MNCs in Kenya employs relocation strategy, meaning that such industry players would either quit from the Kenyan market or shift from their main stay industries. This finding is important because the relocation of MNCs of that magnitude from Kenyan market has a big economic implication and will negate the efforts by GOK to realize vision 2030 by attracting multinational corporations through the BPO and FDI initiatives (GOK 2007). The choice of relocation strategy by explains why in the last 10 years, some 10 MNCs have relocated from Kenya to other investment destinations as found by Owour (2011) and Okoth (2010). The Kenya market is not unique in this characteristic of industry players relocating because Bernard and Koerte (2007) report similar findings for the USA and German Multinationals.

The study findings have also revealed that MNCs in Kenya do not employ avoidance strategy to counter competition. This indicates that those tactics that would place an organization a head of the other industry players like employment of high skill labour and capital intensive undertakings do not make much difference to the consumer. It also means that production costs are restrictive in the Kenyan market, especially electricity, specialized labour and poor utility infrastructures as contended by Owour (2011). This finding could also be attributed to attractive government incentives that encourage foreign owned companies to invest in their jurisdiction as was found by Blomstorm (2002) in his study.

#### **5.2.1 Specific Objective 1: To determine the role of competition intensity in determining choice of strategic response of MNCs in Kenya.**

The findings of this study have shown that strategic response of a Multinational Corporation in Kenya is influenced by competition intensity in the industry. The all the parameters that were testing the presence of intense competition in the Kenyan markets were found present. The industry has a high number of organizations operating which leads to very aggressive marketing of their products

to attain or sustain their competitive position. On annual basis, most industries in Kenya attract new organization, which stiffens the competition in the already crowded markets. The availability of substitute goods and alternative suppliers from which consumers can source their requirements is also an indicator of how intense the competition is. These factors explain why the market share is spread across the industry players without an outright firm that is a monopoly. This finding has a link with the internationalization theory of Multinational Enterprises which contends that increased outsourcing by MNCs is a significant feature of market open to international players (Schienstock, 1992).

### **5.2.2 Specific Objective 2: To establish the role of firm's product quality in determining choice of strategic response of MNCs in Kenya.**

Based on the findings of this study, it was found that strategic response of Multinational Corporations in Kenya is positively influenced by firm's product quality aspect of competition. The results show that firm's product quality is a factor that is used by industry players to outcompete their rival firms. This finding is linked to the product quality theory of David Garvin (Calfa, 2010) which describes product quality in terms of perceived quality, consistency of products and services quality, reliability and the longevity of products and services in the market. In this study, all these attributes were indicated by the respondents as very important factors they consider when choosing their competitive strategies.

### **5.2.3 Specific Objective 3: To determine the role of firm's product cost in determining choice of strategic response of MNCs in Kenya.**

The findings of this study indicate that strategic response of a MNC in Kenya is negatively influenced by firm's product cost aspect of competition. The competitiveness of a firm through product cost is determined by the sourcing of the supplies and the production cost which further influences the product offer prices and the profit margins. In order to gain product cost competitiveness, MNCs

in Kenya do not source their material supplies from a single supplier and in order to gain competitive product prices, they do not sell their finished products and services to a single large consumer. This finding has a link with Michael Porter's five forces of industry competition and specifically, the management of threat of powerful supplier and powerful buyer (Wheelen and Hunger, 2005).

It was also found that MNCs in Kenya make better profit margins than their rivals due to cost efficient operations, which is a key factor of producing products and services at competitive costs. To achieve product cost competitiveness and in line with Porter's generic competitive strategies (Porter, 2004), MNCs in Kenya source their raw material supplies from multiple suppliers. They also availing their finished products and services to multiple consumers so that they fetch competitive margins and putting in place cost efficient operations as theorized in resource based model that the competitive advantage of a firm is drawn from its internal resources and competences (Wilburn, 2011).

#### **5.2.4 Specific Objective 4: To establish the role of firm's marketing experience in determining choice of strategic response of MNCs in Kenya.**

From this study, it has been found that the choice of strategic response of a MNC in Kenya is positively influenced by Firm's marketing experience positively. This is supported by the findings that most of the MNCs in Kenya have a vast marketing experience considering that most of them have been doing business in Kenya for 10 years and above. The firm's marketing experience enables the organizations in Kenya to offer a wide range of products and services to the market with a very a high level of understanding and responsiveness to the customers' needs. MNCs in Kenya avails their products and services to a great range of both wholesale and retail market segments, which enables them to serve varied market segments and hence making them very competitive.

The findings have a linkage with differentiation strategy which has an argument that a firm seeks to be unique in its industry along some dimension that is widely valued by the buyers (Cohen and Mazzeo, 2004) and that is why MNCs in Kenya have established exclusive distribution channels, complete with appointed distributors and defined territories which gives them a competitive advantage. It has also been found that the vast experience of the firms enables them to introduce new products and venture into new markets in a timely manner well before the competing firms and the new entrants get there.

### **5.3 Conclusion**

In conclusion, competition plays a critical role in determining the choice of strategic response of MNCs in Kenya and that competition constitutes the four variables are constituents of competition intensity in industry, firm's product quality, firm's product cost and firm's marketing experience. Out of these four, firm's marketing experience is the best predictor of the strategic response to be chosen by a MNC. When faced by stiff competition, a significant number of MNCs in Kenya will relocate to other industries or investment destination which would affect the country's economic development agenda greatly. Avoidance strategy is not an option in the Kenyan market because of other important factors like availability of skilled labour, capital and infrastructure.

#### **5.3.1 Specific Objective 1: To determine the role of competition intensity in determining choice of strategic response of MNCs in Kenya.**

It can be concluded that competition intensity in an industry is a constituent of competition and influences the choice of strategic response of MNCs in Kenya. This conclusion is arrived at because the findings of this study have shown that competition intensity is statistically significant to influence strategic response. Further analysis has also shown that competition intensity has a negative significant correlated to strategic response.

It can further be concluded that MNCs in Kenya face very intense industry competition, owing to the presence of many firms that offer products and services that are similar across the firms. The industry players are very aggressive in marketing their products and services. Their industries in which MNCs operate in Kenya attract many new entrants every year and that there is stiff competition due to availability of substitute products and services. These factors make it difficult to have an outright market leader and instead industry players share out the market. In order to remain competitive, MNCs in Kenya employ commonly appropriate strategies that include cost leadership strategy, product differentiation strategy and market differentiation strategy. A few firms have indicated to relocate from an industry or the Kenyan market all together as a coping strategy.

**5.3.2 Specific Objective 2: To establish the role of firm's product quality in determining choice of strategic response of MNCs in Kenya.**

The findings of this study have informed the conclusion that firm's product quality is a constituent factor of industry competition and that it has statistical significant influence on choice of strategic response of MNCs in Kenya. This conclusion is also informed by the finding of a positive significant correlation between the firm's product quality and strategic response.

The main aspects of product quality that a MNC should have in order to remain competitive include perceived quality, attaining acceptable quality standards, durable products, consistent and reliable products and services. MNCs remain competitive in the market by employing cost leadership strategies and product differentiation strategies as indicated by majority of the respondents in this study.

### **5.3.3 Specific Objective 3: To determine the role of firm's product cost in determining choice of strategic response of MNCs in Kenya.**

Based on the results of this study, it can be concluded that firm's product cost is a constituent of industry competition and that it influences the strategic response choice by MNCs in Kenya. This independent variable is found to have statistically significant influence on strategic response and also it has a positive significant correlation with strategic response.

It can further be concluded that MNCs in Kenya compete on the basis of production costs, the offering prices for the products and services and cost efficient operations. However, MNCs in Kenya do not source their material supplies from one large supplier, neither do they sell their finished products to one large consumer. This fact cushions the industry players in this study from the treat of a powerful supplier and that of powerful consumer. In order to retain their competitive position, MNCs employ cost leadership strategy in their industries.

### **5.3.4 Specific Objective 4: To establish the role of firm's marketing experience in determining choice of strategic response of MNCs in Kenya.**

The results of this study have led the researcher into concluding that firm's marketing experience as a constituent of industry competition statistically and significantly influences the choice strategic response of MNCs in Kenya. This factor has a negative significant correlation with strategic response.

The industry players in Kenya exhibit their marketing experience through offering a wide range of products and services to their customers, understanding their customer needs and responding to them satisfactorily, serving both wholesale and retail markets, developing exclusive distribution channels, introduction of new products and venturing into new market in a timely manner. In order to gain competitive position, MNCs employ market differentiation strategy, product

differentiation strategy and some adopts relocation strategy if their industry or host country does not give them competitive advantage.

## **5.4 Recommendations**

### **5.4.1 Recommendation for policy development**

The findings of this study are recommended to the economic development policy offices of various governments and especially in Kenya so that realize that a significant number of MNCs in their industries would employ a relocation strategy as a response to stiff competition. This would greatly have a negative effect on their efforts to realize the economic development plans such as vision 2030 of Kenya. Interventions for attracting and retaining foreign investors should be employed. The findings of this study could also be used by governments to develop ways of protecting their local firms against unfair competition.

### **5.4.2 Recommendation for foreign markets entry**

It is recommended that the findings of this study be used to inform organizations that brae aspiring to venture into foreign markets. Because the market in the host countries have both international and local players, prospecting firms should appraise themselves with the four competition aspects detailed in this study and the six strategic responses they can employ. This study plugs the gap that has been there in the existing in theory.

### **5.4.3 Recommendation for market and trade blocs**

The theories and models reviewed in the study could be used by regional market players and trade blocs to enhance their cross-border trade aided by understanding of competition by MNCs and the various competitive strategies employed by industry players. The findings of this study would also enhance regional economic integration especially by allowing industry players to level out competition without employing deterrent strategies as is the case with the findings.

#### **5.4.4 Recommendation for managerial Practice**

There is need for the current industry players and prospective foreign investors to understand the Kenyan market especially because this study has found that it is characterized by intense competition. The understanding will inform MNCs to develop and employ appropriate competitive strategy that suits their situation. Most MNCs in Kenya as evidenced by this study use adaptive strategies of cost leadership, product differentiation and market differentiation. There is great need for managers of industry players to understand the industry and market needs so that they can adapt their strategies to local needs and demands.

#### **5.4.5 Study's contribution to theory**

The findings of this study confirmed that there were four aspects of competition which included i) Competition intensity in industry; ii) Firm's product quality; iii) Firm's product cost and iv) Firm's marketing experience. These four constituted a single main factor which was competition, the Independent Variable of the study. The four aspects of competition converged to the study's hypothesized model which was used to measure the choice of strategic response of MNCs in Kenya, which was the dependent variable of the study. The findings of this study indicate that even though the four aspects of competition were developed using the literature and theoretical context from studies of diverse fields, their various measuring attributes converged very well such that they were configured and applied to this study among the MNCs and in Kenyan context.

This study has also made another contribution because of its approach that enabled the analysis of data from independent variables that have both linear and nonlinear relationships with the dependent variable. In this study, table 4.4 indicates that Firm's product cost has no linear relationship with choice of strategic response after the correlation analysis. But going further to analyze data using binary logistic regression, firm's product cost is actually a significant variable as shown in table 4.12. This is a unique contribution of this study.

Because this study was conducted locally in Kenya, it has enabled the comparison of the findings with empirical studies of other parts of the world. This, together with the literature reviewed in the study has availed the much needed information for use in Kenya's local market and by international organizations.

Moreover, this study has availed findings of choice of strategic response as a dependent variable and also gone further to unbundled it into various strategies. It has been found that when faced by stiff competition, MNCs employs six possible responses. This finding gives greater depth of detail and lays ground for further research.

#### **5.4.4 Areas for Further Research**

The results of this study have provided empirical evidence that competition influences the choice of strategic response of MNCs in Kenya. The aspects of competition that were used in this study included competition intensity in the industry, the firm's product quality, the firm's product cost and the firm's marketing experience. The aspects of competition are quite diverse and therefore it is recommended that further research be done to find out other factors other than competition that influences the choice of strategic response by MNCs in Kenya. It is also important to investigate why a high number of MNCs (43%) gave indications they would employ relocation strategy, their preferred investment destination once they leave Kenya and possible interventions to prevent it. Further investigation should be carried out to establish why the Kenyan market is characterized by intense competition, considering that all the four constitute variables of competition were statistically significant. With 94% MNCs indicating that they could not employ avoidance strategy, it is recommended that investigations be done as to why, considering that MNCs in the USA and Germany use it.

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## **APPENDICES**

### **Appendix 1: Questionnaire Cover Letter**

The questionnaire that is attached herewith is designed to gather information to help in exploring different strategic responses adopted by Multinational Corporations when faced with product competition in Kenya. This study is being done in fulfillment of the requirements of the degree of Doctor of Philosophy in Business Administration, Strategic management option of Jomo Kenyatta University of Agriculture and Technology.

The information in this questionnaire will be treated with uttermost confidentiality and it is confirmed here that at no instance will your name be mentioned in this research. The information gathered will also not be used for any other purpose other than for this research.

Your support and assistance in facilitation of the information gathering will highly be appreciated. Upon your request, a copy of this research will be availed to you.

Thank you very much,

Peter M. Nthigah.

## Appendix 2: Research Questionnaire

### Title: Role of Competition in Determining Choice Strategic Response of Multinational Corporations In Kenya.

#### PART A: GENERAL INFORMATION

A1. Please indicate the name of your organization \_\_\_\_\_

A2. How long have you been employed by your current company? \_\_\_\_\_ years.

A3. Please tick the appropriate box:                      Male                       Female

A4. Please indicate the highest level of your education by ticking one of the following:

Secondary School Level	<input type="checkbox"/>	Tertiary education (Diploma level)	<input type="checkbox"/>
Bachelors Degree	<input type="checkbox"/>	Masters Degree	<input type="checkbox"/>
PhD Degree	<input type="checkbox"/>	Other (Specify) _____	

A5. What age bracket in years do you fall? (Tick one)

Less than 25     25 – 34     35 – 44     45 – 54     More than 55

A6. What is the age of the organization you work for (Number of years the organization has been in operation in Kenya)? \_\_\_\_\_ years.

A7. What is the size of the organization (Total number of permanent employees)? \_\_\_\_\_

A8. What is the ownership status of your organization?

Wholly foreign owned                       Joint Venture                       Other (specify) \_\_\_\_\_

A9. What percentage of the market share do you command in your industry?

Below 25%                       26-50%                       51-75%                       Above 75%

A10. What is your current customer base? (Number of customers) \_\_\_\_\_

## Part B: About Competition In The Industry

The following statements refer to key areas of competition such as competition intensity, Firm's product quality, Firm's product cost and Firm's marketing experience. Please indicate the extent to which you agree with each of these statements (Tick one for each line across).

<b>Competition In The Industry</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>B1. Competition Intensity In Industry</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
There are many firms offering products/services similar to ours in the market					
Firms in our industry are very aggressive in marketing their products/services					
Our competitors control a very small market share in our industry					
Our industry attracts many new organizations every year					
It is not easy for our customers to find an alternative supplier offering same products					
<b>B2. Firm's Product Quality</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Our competitors offer products/services perceived to be of high quality					
The products/services offered by our competitors have an acceptable quality standard					
The products/services offered by our competitors last a long time locking out our products from the market					
The performance of our competitors' products/services is consistent and reliable					
<b>B3. Firm's Product Cost</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Our competitors enjoy lower production costs for their products/services that our company					
We source our supplies from one large supplier					

Our competitors sell their products/Services at lower prices than our products					
Our products are far cheaper compared to those of Kenyan firms					
Our company has better profit margins than other firms due to cost efficient operations					
<b>B4. Firm's Marketing Experience</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Our competitors offer a great variety of products/services and give customers a wide range of choice under one roof					
Our competitors understand customer needs and respond to them satisfactorily					
Firms in our industry serve a great range of wholesale and retail markets with their products					
We have exclusive distribution channels of appointed distributors and defined territories.					
Competitors in our industry offer new products/Services to the market in a timely manner					
Our competing firms ventures into new markets well before our company					

**B5.** What is your view on product competition within your industry in Kenyan market?

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**B6.** What aspects of product quality are of concern to the customers within your industry in Kenya?

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### Part C: About Strategic Response

The following statements refer to key areas of strategic response to competition such as Cost Effectiveness, Relocation, Product Differentiation, Marketing Differentiation, Avoidance and Deterrent Strategies. Please indicate the extent to which you agree with each of these statements (Tick one for each line across).

<b>Strategic Response To Competition</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>C1. Cost Effectiveness Strategy</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
We operate at maximum levels of capacity and resource utilization to low our costs					
We optimize our operating efficiency in getting to ensure high production rate					
Our company has efficiency to source for materials and components that save on time and cost					
There is emphasis on use of modern plant and equipment in our company to save on breakdown time, repairs and ensure high production rate					
Our production cost is very high due to inefficient labour utilization and inventory management					
<b>C2. Relocation Strategy</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
We are very sensitive to labour and inputs costs of products/services					
Our product components are from other countries but we do product assembly in Kenya					

We do most of value creation of our products/Services in Kenya					
We gain a significant cost advantage due to our operations in Kenya					
We gain great competitive advantage due to our activities in Kenya					
<b>C3. Product Differentiation Strategy</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Our company uses creativity and innovation to come up with new and different ways of presenting our products to the market					
We do product customization to meet specific need of a given customer segment					
We do rapid product development and adjustment in terms of quality and packaging					
We have never changed the products we introduced into the Kenyan market in terms of quality and packaging					
Our company does not offer support and after sales service					
<b>C4. Marketing Differentiation Strategy</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Our products have strong brand identification in Kenya					
We do not spend heavily on advertising our products/services					
We put an intensive marketing effort through promotions and market offers					
We develop and deploy innovative marketing					

techniques like personal selling, media campaigns and road shows					
<b>C5. Avoidance Strategy</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
We usually replace our products that face significant competition with those that face less competition					
We introduce products that require high skill to replace those that face stiff competition					
We usually replace our products that face significant competition with those that face less competition					
We avoid venturing into markets and product segments that are crowded with other players					
<b>C6. Deterrence Strategy</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
We produce and release excess products/services to flood the market to deter competition					
Our company uses aggressive low-price policy because of our economies of scale					
Our organization offers prices at or below competitive price levels which could make it very difficult for the Kenyan firms to compete					
Our company calls for national regulation and protection by lobbying for foreign investment incentives and duty free operations					

**Part D: About Organizational Performance**

The following statements refer to key areas of organizational performance as a result of the strategic response of MNC in the last five (5) years. Please indicate the extent to which you agree with each of these statements (Tick one for each line across).

<b>Performance of the Organization</b>	<b>Strongly Agree</b>	<b>Agree</b>	<b>Not Sure</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
<b>In the last five years .....</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
We have expanded our market share.					
Our company has acquired new customers.					
The number of our employees has not increased.					
We have not opened new branches.					
Our recruitment expenditure has been increasing annually.					
The salaries budget for our employees has been increasing.					
The trend of our sales has been decreasing.					

### **Appendix 3: Research Interview Guide**

#### **Title: Role of Competition in Determining Choice Strategic Response of Multinational Corporations In Kenya.**

1. Which indicators are mostly used to know the level of competition in your industry?
2. How important is the quality of your product/service to your target market?
3. Suggest ways in which your firm can counter competition.
4. How important is production cost of your products/service is to your operations?
5. To what extent do your organization link competitive strategy to countering competition?
6. Would you attribute your organizational performance to your competitive strategy?

#### Appendix 4: List of Multinational Corporations in Kenya

	<b>COMPANY</b>	<b>COUNTRY</b>	<b>PRODUCT</b>
1	Bata Shoes Co (K) Ltd	Canada	Shoes
2	Tiomin Resources Inc	Canada	Mining
3	China Jiangsu International Economic-Technical Cooperation Corporation	China	Manufacturing & exporting
4	China National Aero-Technology Import –Export Corp	China	Manufacturing & merchandise trading
5	China Overseas Engineering Corp	China	Engineering
6	China Road & Bridge Corporation	China	Construction
7	Chinese Technical Cooperation	China	Infrastructure construction
8	Sietco Development Corp	China	Construction
9	Sinotaco	China	Maritime organization
10	Airlink Ltd	Netherlands	Netherlands Aviation
11	Anova Food BV	Netherlands	Fish Supplies & Exports
12	Anova East Africa (ANEA)	Netherlands	Fresh and Frozen Fish Products
13	Christchurch Holdings	Netherlands	Transport
14	Dreamcoat Automotive Refinishing Products Ltd	Netherlands	Manufacturing
15	Fairview Hotel	Netherlands	Hotel
16	Fourteen Flowers	Netherlands	Horticulture
17	Grabowsky & Poort (Arcadis)	Netherlands	Consulting Engineers & Architect
18	Groundwater Survey (Kenya) Ltd	Netherlands	Ground Water Consultants
19	Happy Cow Limited	Netherlands	Dairy Products
20	Indu Farm EPZ Ltd	Netherlands	Horticulture processing
21	Jet Travel Ltd	Netherlands	Travel Agency
22	Kenya Shell & BP	Netherlands	Petroleum products
23	KLM Royal Dutch Airlines	Netherlands	Aviation
24	Logistic Container Centre	Netherlands	Logistics
25	Martinair Holland BV P & O	Netherlands	Shipping & Logistics

	Nedlloyd		
26	Philip Medical Systems	Netherlands	Electronic Medical Equipments
27	Procter & Gamble	Netherlands	Food products, cereals
28	Regina Seeds	Netherlands	Agriculture
29	SDV Transami	Netherlands	Cargo agents/Freight forwarders
30	SERA Software East Africa	Netherlands	IT
31	Sher Flowers	Netherlands	Floriculture
32	TNT Express Worldwide	Netherlands	Courier
33	Van Leer East Africa Ltd	Netherlands	Packaging
34	WEC lines Ltd	Netherlands	Shipping
35	D.T. Dobie (Kenya)	France	Motor Vehicles
36	Peugeot Kenya	France	Motor Vehicles
37	Total Kenya ltd	France	Petroleum products
38	BASF	Germany	Manufacturing and marketing of a wide range of chemical products
39	Bayer East Africa Ltd	Germany	Pharmaceuticals
40	Henkel Kenya Ltd	Germany	Chemicals
41	Pfizer Laboratories Ltd	Germany	Pharmaceuticals
42	Siemens	Germany	Tele-com, Electrical Equipments
43	Schenker Ltd	Germany	Logistics services
44	Air India	India	Aviation
45	Bank of Baroda	India	Banking
46	Bruce Trucks Ltd – Iveco trucks	India	Motor Vehicles
47	Cadila Pharmaceuticals ltd	India	Pharmaceutical
48	CMC (Maruti)	India	Motor Vehicles
49	Kenindia Assurance company ltd	India	Insurance
50	Kingsway Motors (Eicher)	India	Motor Vehicles Dealers
51	Lakshmi Textiles Exports ltd	India	Textile
52	Manugraph Kenya Ltd	India	Printing
53	Marshalls EA (Tata)	India	Motor Vehicles

54	Orient Paper Mills (Pan African Paper Mills)	India	Paper
55	Praj Industries Ltd	India	Engineering & Fabrication, Alcohol & Brewery plants
56	UB Pharma ltd	India	Pharmaceutical
57	Auto Italia / Car & General (agents for Alfa Romeo & Piaggio)	Italy	Motor Vehicles Dealers
58	Chimaco East Africa (agents for Enichem)	Italy	Chemical dealers
59	Fila East Africa	Italy	Sports wear
60	Framin Kenya Ltd (agents for Farmitalia)	Italy	Pharmaceutical
61	Kenya Motors (agents for IVECO)	Italy	Motor Vehicles Dealers
62	Kirdam Consortium	Italy	Drilling
63	New Holland – Fiat Spa	Italy	Motor Vehicle Dealers
64	Pirelli Tyre	Italy	Tyres
65	Technogym	Italy	Fitness and rehabilitation Equipment
66	Asahi Shimbun Nairobi Bureau	Japan	Media
67	Asami Motor Services	Japan	Motor vehicle dealers
68	Chiyo & Company	Japan	Watches manufacturer
69	Construction Project Consultants	Japan	Construction
70	Escape Ltd	Japan	IT
71	Falcon Travel services	Japan	Tours & Travel
72	Itochu Corporation	Japan	Trading Company
73	Japan African Culture Interchange Institute	Japan	Cultural Exchange Programs
74	Japan External trade Corporation	Japan	Foreign Trade Promotions
75	Japanesse International Cooperation Agency (JICA)	Japan	International Assistance & Corporation
76	Kajima Corporation	Japan	General Contracting firm
77	Kenya Tenri Society	Japan	Foreign Development Agency

78	Kyodo News Services	Japan	Media
79	Matsushita Electric Industrial	Japan	Electrical & electronics components
80	Metameta Office	Japan	IT – Web Design
81	Mitsubishi Corporation (Rep Office)	Japan	Motor vehicles
82	Mitsui & Co ltd	Japan	Widespread – exploration, power
83	Nec Corporation	Japan	Electronics
84	Nippon Koei Ltd	Japan	General Engineering & Consulting
85	Nissan (KVA)	Japan	Motor Vehicle – Urvan (Caravan)
86	Nissho Iwai Corporation	Japan	Heavy Construction machinery & Equipment
87	Osaka Motors Company	Japan	Used motor vehicles Dealers
88	Overseas Courier Company	Japan	Courier services
89	Sanyo Armco	Japan	Electronic, Home Appliances
90	Sumitomo Corporation	Japan	Widespread
91	Toyota Kenya	Japan	Motor Vehicles
92	Daewoo Corporation	Korea	Motor Vehicles
93	Hwan Sung Industries (Kenya) Ltd	Korea	Furniture
94	Hyundai Corporation	Korea	Motor Vehicles
95	LG	Korea	Electronics
96	Safari Park Hotel	Korea	Hotels
97	Samsung	Korea	Electronics
98	Alfa Laval Regional Office	Sweden	Ship technology
99	Atlas Copco	Sweden	Manufactures compressors, generators, industrial tools etc
100	EARS group Kenya	Sweden	Guarding & Alarms
101	Kenya Grange Vehicle Industries	Sweden	Motor Vehicles
102	Photomap (Kenya) ltd	Sweden	Mapping
103	Riverdell Gardens	Sweden	Hotels
104	Sandvik (Kenya)	Sweden	Hand Tool Manufacturer

105	Scala (EA) Ltd	Sweden	Computers-Software& Services
106	Skanska	Sweden	Construction services
107	SKF (Kenya) Ltd	Sweden	Manufacturing bearings
108	Technical engineering ltd	Sweden	Engineering
109	Tetra Pak Ltd	Sweden	Integrated processing, packaging and distribution line
110	Tour Africa Safaris	Sweden	Tourism
111	Ulf Ashcan Safaris	Sweden	Tourism
112	Water & Drilling Consultancy Ltd	Sweden	Water Consultancy
113	ABB Asea Brown Boveri Ltd	Switzerland	Power and automation technologies
114	African Safari Club	Switzerland	Hotels
115	Airside Ltd	Switzerland	Aviation
116	Andre Promotion & Consulting Co. Ltd	Switzerland	Consulting Agents
117	Baobab Farm Ltd	Switzerland	Wildlife Conservatory & Tour Site
118	Ciba Geigy	Switzerland	Pharmaceuticals
119	Express Kenya	Switzerland	Cargo Agents / Freight Forwarders
120	Heritage All Insurance Ltd	Switzerland	Insurance
121	International Cementia	Switzerland	Cement
122	Nestle	Switzerland	Processed food products
123	Pollmans Tours	Switzerland	Tour Companies
124	Private Safaris	Switzerland	Tour companies
125	Roche Products	Switzerland	Pharmaceutical Company
126	Schindler	Switzerland	Manufactures, maintains, and modernizes elevators, escalators
127	SGS Kenya Ltd	Switzerland	Custom Inspection & Valuation
128	Texchem Ltd	Switzerland	Textile Chemical Products
129	Yellow Wing Air Services Ltd	Switzerland	Air Charter Services
130	Abercrombie & Kent Tours Ltd	UK	Tourism – Hotels & Tour

			Companies
131	African Consulting Engineering	UK	Engineering
132	African Highland Produce Co Ltd	UK	Agriculture
133	Avery Kenya Ltd	UK	Petroleum Equipment dealers
134	Bacho United Printers	UK	Printing
135	Barclays Bank (K) Ltd	UK	Banking
136	Barker & Barton (K) Ltd	UK	Hotels
137	Baumann (K) Ltd	UK	Investment
138	Bee Health Propolis Ltd	UK	Bee Glue / Propolis
139	Berger Paints	UK	Paints
140	Blackwood Hodge	UK	UK 2nd Hand Spares for heavy machinery
141	BOC Kenya Limited	UK	Industrial gases
142	Bonar EA ltd	UK	Plastic Bag Dealer
143	Booker Tate	UK	Professional management services
144	BP Solar	UK	Solar Panels & Batteries
145	Brackla Nodor Ltd	UK	Dartboards
146	British Airways	UK	Aviation
147	British American Tobacco	UK	Tobacco/Cigarettes
148	British Broadcasting Corporation	UK	Media
149	British Leyland	UK	Motor Vehicle, especially military
150	Cadbury Kenya	UK	Beverages
	Carnaud Metalbox Kenya Ltd	UK	Metal packaging
151	Carnaud Metalbox Kenya Ltd	UK	Metal packaging
152	Chancery	UK	Investment
153	Chloride Exide	UK	Car Batteries
154	Church Orr & Associates	UK	PR Agency (tourism)
155	Coates Bros (EA)	UK	Chemicals
156	Commonwealth Development Cooperation	UK	Investment

157	Crown Paints	UK	Paints
158	Cussons & Co Ltd	UK	Toiletries
159	De La Rue	UK	Security printing firm
160	Deloitte & Touché	UK	Auditors
161	Dunlop Kenya	UK	Rubber, Tyres & tubes
162	Eastern Produce Kenya	UK	Coffee & Tea
163	Elgon Chemicals Ltd	UK	Chemicals
164	Ernst & Young	UK	Auditing
165	George Williamson	UK	Agriculture
166	Gestetner	UK	Office Equipments
167	GlaxoSmithkline Beecham (GSK)	UK	Pharmaceuticals
168	Guinness PLC	UK	Brewery
169	ICL Kenya	UK	IT
170	Inchcape Shipping Services	UK	Shipping
171	Intercontinental Hotels	UK	Hotels
172	Kenya Supply & Logistics	UK	Shipping Logistics
173	Knight Frank	UK	Estate Agents
174	KPMG Peat Marwick	UK	Auditors
175	La Farge Cement UK (East Africa Portland Cement	UK	Cement
176	Mackenzie Maritime Ltd	UK	Shipping
177	Magadi Soda	UK	Soda Ash
178	Minet ICDC Insurance Brokers	UK	Insurance
179	Nairobi Hilton Hotel	UK	Hotels
180	Next Technology	UK	IT
181	Otis Elevators	UK	Elevators & Lifts
182	Pricewaterhouse Coopers	UK	Auditors
183	Rea Vipingo Plantations	UK	Agriculture – Sisal
184	Rectitt Benkiser	UK	Toiletries & Domestic Chemicals
185	Rentokil Ltd	UK	Pest Control / Fumigation
186	Reuters	UK	Media

187	Ryden International	UK	Property Consultant
188	Securicor	UK	Guarding, Courier & Alarms services
189	Shell-British Petroleum	UK	Petroleum products
190	Silentnight	UK	Furniture
191	Sir Isaac Pitman	UK	Secretarial Shorthand Exams
192	Sollatek electronics	UK	Power Protection Products
193	Standard Chartered	UK	Banking
194	Stem cor Kenya	UK	Steel products
195	Thomas Cook Group Ltd	UK	Travel Agents
196	Tibett & Britten Kenya	UK	Warehousing & distribution (logistics) company
197	Unilever E.A.	UK	Vegetable oils & toiletries, agriculture & beverages
198	Vitafoam	UK	Foam mattresses
199	Vodafone (Safaricom)	UK	Tele-com
200	Watson Wyatt Worldwide Actuaries	UK	Consulting Firm
201	Wilken Communications Ltd	UK	Communication Equipment
202	World Cargo	UK	Cargo
203	Caltex Oil (Kenya) Ltd	USA	Oil Refinery Products
204	Coca Cola	USA	Soft Drinks
205	Colgate Palmolive	USA	Toiletries
206	Firestone East Africa	USA	Tyres
207	Fresh Del Monte	USA	Canned Fruits
208	General Motors	USA	Vehicle Assembly
209	IBM	USA	IT
210	Mobil Oil Kenya ltd	USA	Refinery products
211	The Wrigley Company (EA) Ltd	USA	Confectionery
212	DHL	USA	Courier
213	Microsoft	USA	IT

Source: Kenya bureau of Statistics/Economic Survey 2007 and Kenya Association of Manufacturers (2011).

## Appendix 5: Logistic Regression

**Case Processing Summary**

Unweighted Cases <sup>a</sup>		N	Percent
Selected Cases	Included in Analysis	141	100.0
	Missing Cases	0	.0
	Total	141	100.0
Unselected Cases		0	.0
Total		141	100.0

a. If weight is in effect, see classification table for the total number of cases.

**Dependent Variable Encoding**

Original Value	Internal Value
0	0
1	1

### Block 0: Beginning

**Iteration History<sup>a,b,c</sup>**

Iteration	-2 Log likelihood	Coefficients
		Constant
Step 0 1	182.156	.610
2	182.143	.630
3	182.143	.630

a. Constant is included in the model.

b. Initial -2 Log Likelihood: 182.143

c. Estimation terminated at iteration number 3 because parameter estimates changed by less than .001.

**Classification Table<sup>a,b</sup>**

			Predicted		Percentage Correct
			Strategic.Response.f		
Observed			0	1	
Step 0	Strategic.Response.f	0	0	49	.0
		1	0	92	100.0
Overall Percentage					65.2

a. Constant is included in the model.

b. The cut value is .500

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 0 Constant	.630	.177	12.688	1	.000	1.878

**Variables not in the Equation**

	Score	df	Sig.
Step 0 Variables			
Competition.Intensity	6.825	1	.009
Compe.Prod.Quality	14.263	1	.000
Compe.Prod.Cost	.490	1	.484
Marketing.Experience	11.906	1	.001
Overall Statistics	30.967	4	.000

**Block 1: Method =**

**Iteration History<sup>a,b,c,d</sup>**

Iteration		-2 Log likelihood	Coefficients				
			Constant	Competition .Intensity	Compe.Prod. Quality	Compe. Prod.Cost	Marketing. Experience
Step 1	1	150.665	-.797	-1.202	.493	-.564	1.770
	2	148.711	-1.031	-1.584	.651	-.719	2.287
	3	148.680	-1.056	-1.642	.676	-.742	2.361
	4	148.680	-1.057	-1.643	.677	-.742	2.362
	5	148.680	-1.057	-1.643	.677	-.742	2.362

a. Method: Enter

b. Constant is included in the model.

c. Initial -2 Log Likelihood: 182.143

d. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

**Omnibus Tests of Model Coefficients**

	Chi-square	df	Sig.
Step 1 Step	33.463	4	.000
Block	33.463	4	.000
Model	33.463	4	.000

**Model Summary**

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	148.680 <sup>a</sup>	.211	.291

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

**Classification Table<sup>a</sup>**

Observed		Predicted		Percentage Correct	
		Strategic.Response.f			
		0	1		
Step 1	Strategic.Response.f	0	23	26	46.9
		1	13	79	85.9
Overall Percentage					72.3

a. The cut value is .500

**Variables in the Equation**

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup> Competition.Intensity	-1.643	.850	3.734	1	.050	.193
Compe.Prod.Quality	.677	.226	9.009	1	.003	1.968
Compe.Prod.Cost	-.742	.363	4.173	1	.041	.476
Marketing.Experience	2.362	.779	9.187	1	.002	10.616
Constant	-1.057	1.067	.981	1	.322	.348

a. Variable(s) entered on step 1: Competition.Intensity, Compe.Prod.Quality, Compe.Prod.Cost, Marketing.Experience.