STRATEGIC RESPONSES OF COMPANIES LISTED IN THE NAIROBI STOCK EXCHANGE TO GLOBALIZATION

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DECLARATION

Student's Declaration

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

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Supervisor's Declaration

This project has been submitted for examination with my approval as University supervisor.

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Signature ....Date 12/11/2009

DEDICATION

I dedicate this project to my family because of their unconditional love, care and support.

ACKNOWLEDGEMENT

Many thanks to the Almighty God for seeing me through the entire period; I live for you God.

Special thanks to my family for their encouragement and support during this entire period.

Many thanks too to my supervisor for his patience during this entire research period. You gave me the chance to see my best side.

Finally, special thanks to my mentor who encouraged and supported me through this programme without whom I would not have done this programme. This final document is as a result of your participation and input.

ACCRONYMS

NSE- Nairobi Stock Exchange

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ABSTRACT

In an era of globalization, managers, consultants, and researchers have all recognized that the study of industries, strategies, and organizations in a global context needs to be regarded as the norm. Ohmae (1989) argues that success or failure of a business in the twenty-first century will depend on whether it can compete effectively in world markets. The study aimed at determining the strategic response of companies listed at the Nairobi Stock Exchange to globalization.

The population of interest in this study comprised of companies listed at the Nairobi Stock Exchange. There are 47 companies listed at the Nairobi Stock Exchange as of May 2009 (NSE, 2009). Primary data was collected using a questionnaire with close ended, open ended and matrix questions administered to the finance managers of the target companies. The targeted respondents were senior managers in the respective firms, who were involved in strategic decision making. The questionnaires were self administered. The data was coded by assigning numbers to various responses and then statistical computations were used to draw conclusions. Data was interpreted using mean scores, frequencies and percentages and presented using frequency tables.

From the study, the challenges of globalization that affected the companies were political instability, instability of global financial structure, change in technology, competition and greater consumer awareness about products. The strategic responses to globalization adopted by the companies listed at the Nairobi Stock Exchange to deal with the challenges were environmental scanning, operational excellence, customer intimacy, product leadership, market development, differentiation and product development. The study therefore recommends that in order to reduce the effects of globalization in the companies quoted in the NSE, the companies should ensure that they adopt the latest technology, they should be aware of the consumers changing needs, the employees should be fully trained on how to cope with the negative aspects of globalization and also the firms should focus on cost reduction, revenue generation and asset reduction in order to respond to globalization.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

This chapter gives a background of the study as well as the statement of the problem, the objectives of the study and the importance of this study, outlining in detail the main concepts underlying the study.

1.1.1 Concept of strategy and strategic responses

'By strategy, managers mean their large scale, future-oriented plans for interacting with the competitive environment to achieve a company's objectives. A strategy is a company's game plan' (Pearce & Robinson, 2007). Strategy concerns what a firm is doing in order to gain a sustainable competitive advantage (Porter, 1980). The principal concern of corporate strategy is identifying the business areas in which a company should participate in to maximize its long run profitability.

Johnson and Scholes (2002) view strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfil stakeholders' expectations. Strategy comprises actions employed to meet a firm's long-term objectives. Pearce and Robinson (2007) have recommended three critical ingredients for the success of strategy. These are; strategy must be consistent with conditions in the competitive environment; it must take advantage of existing and emerging opportunities and minimize the impact of major threats; and strategy must place realistic requirements on the firm's resources.

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies. Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose.

Because strategy represents the managerial game plan for running an organization, it is nearly always, a blend of prior moves, approaches already in place, and new actions being mapped out. Thompson and Strickland (1993) add that crafting strategy is an exercise in entrepreneurship. This is because some degree of venturesomeness and risk taking is inherent in choosing among alternate business directions. Managers face an ever present entrepreneurial challenge in keeping the organization's strategy fresh, responding to new and changing conditions, and steering the organization into the right business activities at the right time (Mintzberg, 1987). Firms therefore employ strategies in a dynamic environment in order to adapt to new realities such as increased competition, unstable markets and unpredictable and turbulent environment.

Strategic responses adopted by companies reflect the firm's internal strengths and the opportunities faced in the external environment. Strategy will also consider how best to deal with internal weakness and avoid external threats. Hill and Jones (2001) note that internal new venturing is a strategy employed when a company has a set of valuable competencies in its existing business that can be leveraged to enter a new business area. Science based companies use their technology to create market opportunities in related areas mainly through internal new venturing. A firm can also use this strategy to enter and compete in a new business area or an emerging market where there are no established players. Joint ventures as a strategy is adopted where a firm sees an opportunity in a growth industry but is unable to undertake the risks and costs associated with the project. Restructuring is a strategy for reducing the scope of a firm by exiting some business areas. In many cases, companies restructure to divest from diversified activities in order to concentrate on their core business.

1.1.2 Globalization

Globalization in its literal sense is the process of transformation of local or regional phenomena into global ones. It can be described as a process by which the people of the world are unified into a single society and function together. This process is a combination of economic, technological, socio-cultural and political forces (Sheila, 2004). Globalization to Johnson and Scholes (2002) also refers to the strategy of approaching worldwide markets with standardized products. According to Pearce and Robinson (2007), such markets are commonly created by end customers who prefer lower priced standardized products, over the higher priced, customized products, and by global corporations that use their worldwide operations to compete in local markets. Globalization is the integration of economies throughout the world by means of trade, financial and technological flows, the exchange of technology and information and the movement of people, goods and services. Globalization is multi-faceted with economic, political-legal, social-cultural and environmental dimensions. Globalization is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology, (Bhagwati, 2004). Globalization as noted by Ohmae (1989) comes in various forms affecting various sectors of the society. He singles out that economic globalization promotes free trade, cultural and political globalization, driven by communication technology and the west way of life. Globalization is largely the result of planning to break down barriers hampering trade to increase prosperity and interdependence.

Globalization of the world economy is the integration of economies throughout the world through trade, financial flows, the exchange of technology and information and the movement of people. Global corporations headquartered in one country with subsidiaries in other countries experience difficulties that are understandably associated with operating in other countries experience difficulties that are understandably associated with operating in several distinctively different competitive arenas. Awareness of the strategic opportunities faced by global companies and of the threats posed to them is important to planners in every industry (Porter, Rudden and Hout, 1982). Understanding global markets is rapidly becoming a required competence of strategic managers.

1.1.3 Nairobi Stock Exchange

The Nairobi Stock Exchange was formed in 1954 as a voluntary organization of stock brokers and is now one of the most active capital markets in Africa. The administration of the Nairobi Stock Exchange Limited is located on the 1st Floor, Nation Centre, Kimathi Street, Nairobi. As a capital market institution, the Stock Exchange plays an important role in the process of economic development. It helps mobilize domestic savings thereby bringing about the reallocation of financial resources from dormant to active agents. Long-term investments are made liquid, as the transfer of securities between shareholders is facilitated. The Exchange has also enabled companies to engage local participation in their equity, thereby giving Kenyans a chance to own shares. There are as of June 2009, 47 companies listed at the stock exchange.

Members of the Nairobi Stock Exchange transact business within the Nairobi stock market, with a limited proportion of business conducted in foreign securities through overseas agents. The stockbrokers act as financial advisers to their clients and carry out their orders. The

Nairobi Stock Exchange deals in both variable income securities and fixed income securities. Variable income securities are the ordinary shares, which have no fixed rate of dividend payable, as the dividend is dependent upon both the profitability of the company and what the Board of Directors decides. The fixed income securities include Treasury and Corporate Bonds, preference shares, debenture stocks - these have a fixed rate of interest/dividend, which is not dependent on profitability.

The Stock Exchange is a market that deals in the exchange of securities issued by publicly quoted companies and the Government. The major role that the stock exchange has played, and continues to play in many economies is that it promotes a culture of thrift, or saving. The stock exchange assists in the transfer of savings to investment in productive enterprises as an alternative to keeping the savings idle.
A robust stock market assists in the rational and efficient allocation of capital, which is a scarce resource. The fact that capital is scarce means systems have to be developed where capital goes to the most deserving user. An efficient stock market sector will have the expertise, the institutions and the means to prioritize access to capital by competing users so that an economy manages to realize maximum output at least cost. This is what economists refer to as the optimum production level.

Stock markets promote higher standards of accounting, resource management and transparency in the management of business. This is because financial markets encourage the separation of owners of capital, on the one hand, from managers of capital, on the other. The stock exchange also improves the access to finance of different types of users by providing the flexibility for customization. Lastly the stock exchange provides investors with an efficient mechanism to liquidate their investments in securities. The very fact that investors are certain of the possibility of selling out what they hold, as and when they want, is a major incentive for investment as it guarantees mobility of capital in the purchase of assets. Currently the Nairobi Stock Exchange market has got forty seven companies listed at the market. The companies are categorized into four different sections; Agriculture, Commercial and Services, Finance and Investment, Industrial and Allied.

The Nairobi Stock Exchange can be categorized as an emerging market within the frame work provided by the International Finance Corporation. Many emerging market economies at various times have undergone rapid growth and because their stock markets are not highly developed and therefore are less efficient, there is considerable opportunity for relatively high returns from emerging market investments. However, there is also a relatively high level of risk involved as witnessed by the melt down of several Asian emerging stock markets in 1997 and 1998.

The dynamics in emerging market therefore present challenges for investors bearing in mind that share prices respond to events. The following are event classes, though not exhaustive, that are anticipated in security prices include: earnings reports, product releases, trade shows presentations, bonus issues, IPO and dividend announcements.

Capital market studies are as old as the finance discipline itself. This is because of the role that capital markets play in pricing or valuing the securities traded in the market. Efficient valuation of securities enables optimal investment decisions to be made and efficient allocation of scarce investment resources. In order to make rational investment decisions investors require knowledge about the securities' prices and the factors that affect them. Such knowledge can be obtained from the understanding how capital markets enact to new as well as past information. However a look at the role of capital markets in economic development would be necessary as a first step.

Companies listed in the NSE are diverse and are affected by globalization in one way or another. They therefore fit to be under study because of their diversity in size, ownership and location. All he companies will respond to globalization in their own different way making the subjects fit to be studied.

1.2 Statement of the problem

In an era of globalization, managers, consultants, and researchers have all recognized that the study of industries, strategies, and organizations in a global context needs to be regarded as the norm. Ohmae (1989) argues that success or failure of a business in the twenty-first century will depend on whether it can compete effectively in world markets. The days when firms could simply wait for clients to beat a path to their doors are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2000).

With the increasing competition that companies are facing today, rewards will accrue to those who can read precisely what consumers' want by continuously scanning the environment and delivering the greatest value to customers. Strategy, therefore, is vital to the adaptation of the changing business environment. According to the Government of Kenya Economic Survey (2000), implementation of structural adjustment programme and subsequent market liberalization opened the Kenyan market to more foreign investors, leaving businesses at the mercy of market forces. As a result, businesses faced increased competition and registered low profits and even losses. This could probably be attributed to lack of strategic response practices. Various researchers have studied the state of industries in Kenya in relation to changed economic conditions particularly after liberalization. They found that the changed environment has affected business practices and made firms more proactive and competitive (Abdullahi, 2000). To survive in such an environment, the firm has to adjust strategic responses and come up with competitive strategies for dealing with the environment.

Previous studies have dwelt very much on service industry companies while only a select few have focused on companies in the manufacturing sector. Wanjere (1999) proposed that companies should be more involved in strategic marketing and especially as they operate in competitive and turbulent environments. Similar studies such as Kombo (1997) on the motor vehicle franchise holders, Njau (2000) on the East African Breweries and Thiga (2002) on the airline companies confirm that firms respond differently to environmental challenges. Mwanthi (2003) did a case study of strategic responses to environmental challenges by British American Tobacco while Cheluget (2003), studied the responses of milk processing firms to increased environmental turbulence with emphasis on New KCC Limited. Oluoch (2003) studied the perceived attractiveness of the freight forwarding industry in relation to Porter's modified framework. This study will focus on strategic responses adopted by companies listed in the Nairobi Stock Exchange to challenges brought about by globalization.

Recent global happenings such as the economic recession in the West have had serious implications on the local industries and investors too. This effect has much been felt in the Nairobi Stock Exchange where prices have fallen tremendously a fact associated to off loading of shares by foreign investors. As the business environment continues changing and presenting new challenges, it is important that the existing knowledge from these previous studies be updated. Previous studies have done little to address the issue of challenges posed globalization to companies listed at the Nairobi Stock Exchange. There is therefore need to conduct studies to fill this gap and investigate how these firms are facing challenges arising from globalization in their respective sectors. This study therefore focused on the process of globalization and strategic responses adopted by companies listed at the Nairobi Stock Exchange.

The study attempted to answer the following research questions:

i. How does globalization affect companies listed at the Nairobi Stock Exchange?

ii. What are the strategic responses to globalization adopted by the companies listed at the Nairobi Stock Exchange?

1.3 Objectives of the study

The study aimed at determining the strategic response of companies listed at the Nairobi Stock Exchange market to globalization.

1.4 Significance of the study

The study offers valuable contributions from both a theoretical and practical standpoint. From a theoretical standpoint, it contributes to the general understanding of how globalization affects companies listed in the NSE; more specifically, it provides one of the few detailed examinations on how companies in listed in the NSE respond to globalization.

The study will be of great significance to the companies listed at the Nairobi Stock Exchange for it enlightens them on the how global issues affect them directly or indirectly. The study variables will guide them make informed decisions on strategic response as a way to overcome effects of globalization. It will help to sensitize companies in Kenya on the importance of strategic response and raise their awareness of the concept.

The companies the study focuses on will gain from the documentation and analysis of their response strategies and this will help them evaluate their current strategy and plan for the future.

Policy makers will benefit from the issues and insights raised in the study that are important in developing strategic response framework.

The study will add to the existing body of knowledge on the concept of strategic response to benefit academicians and aid further research on the concept. It will form a fundamental base upon which further researches into the field will be based as it will act as both reading and secondary source material in such cases.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter introduces the literature reviewed to providing a theoretical grounding for the study. It also identifies the research issues to be addressed and provides the conceptual framework and a detailed outline of the underlying concepts and variables.

2.2 Strategic Management

Strategic management is the process of specifying an organization's objectives, developing policies and plans to achieve these objectives, and allocating resources so as to implement the plans. A good grip of strategic management could be best achieved with a definition of the concept of strategy. More precisely, it is the action that an organization takes to attain superior performance. Strategy is the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission.

Mintzberg (1987) gives perhaps the most inclusive view. He argued that we could not afford to rely on a single definition of strategy despite our tendency to want to do so. He proposed five definitions of strategy. To him, strategy can be seen as a plan, a ploy, a pattern, a position and a perspective. As a plan, strategy specifies a consciously intended course of action of an organization. The strategy is designed well in advance of action and it is developed purposefully. As a ploy, strategy is seen as a manoeuvre intended to outwit a competitor. As a pattern, strategy is seen as emerging in a stream of actions. Here, strategy is seen as a consistency in behaviour. As a position, strategy is a means of locating the organization in its environment. Lastly, as a perspective, strategy consists of a position and of an ingrained way of perceiving the world. It gives a company an identity or a personality. Pursuance of a strategy is what precipitates strategic management.

2.3 Strategic Responses

This topic explains what strategic responses are, theoretical background, types of strategic responses and factors affecting strategic responses. It gives a review on the concept of strategic responses.

2.3.1 Meaning of Strategic Responses

The alignment between strategy and environment lies at the center of strategic management. Correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfilment of its strategic goals. Strategic responses differ from operational responses in several ways. While operational responses are short-term and focusing more on efficiency of operations, strategic responses are long-term in nature, embracing the entire organization and more concerned with the organization's effectiveness (Migunde, 2000). Strategic responses also involve large amounts of resources, and decisions relating to them are made at corporate and business level.

According to Porter (1996), globalization, modern technology and knowledge transfer have contributed to the enormous expansion of industry over the years. This has in turn increased competitive pressures and contributed to the turbulent and surpriseful environment. Strategic response requires organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy.

To be successful overtime, an organization must be in tune with its external environment. Porter (1996) affirms that it is important for organizations to be able to shift strategy with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant.

There must be a strategic fit between the environment wants and what the firm has to offer, as well as between what the firm need and what the environment can provide (Wheelen and Hunger, 1989). The speed or response time to the environment challenges has been identified as a major source of competitive advantage for numerous firms in today's intensely competitive global economy. It is thus imperative to quickly adjust and formulate strategies so as not to be overtaken by events.

According to Johnson and Scholes (2002), dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexity. Managers may try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

2.3.2 Theoretical Background

There are two theories discussed under study. The institution-based view and firm size, competitive advantage and strategic response. These are discussed below;

The institution-based view argues that both formal and informal institutions are "the rules of the game," which firms need to conform to remain legitimate (Meyer et al., 2008). Legitimacy for a firm also comes from the acceptance of the firm by stakeholders in its environment (Kostova and Zaheer, 1999). Thus, firms need to respond to pressures from their stakeholders and the institutions to gain and remain legitimate. In addition, firms in a globalized world face diverse stakeholders and different institutions from various countries (Xu and Shenkar, 2002). Especially to firms that are active in globalization and yet remain "domestic" by staying in their home countries, for example exporters and outsource service providers, both home country and host country institutions are the rules that they need to obey because they need legitimacy from both countries to remain in the game. The companies in Nairobi Stock Exchange in this context are ideal for our study for the following reasons.

The institution-based view also argues that when firms make strategic choices, they tend to adopt the strategies that are perceived to be legitimate by their stakeholders and institutions. Often times, these strategies diffuse through the industry and are perceived to be legitimate (Greenwood and Hinings, 1996). This gives us a reason to look for the possible strategic response model to explain how firms react under pressures from institutions. However, firms need both internal and external pressures to adopt these legitimate strategies. Firms in the NSE are diverse in size, capability, resources, and ownership. Some firms become early adopters of certain strategies because they are driven by technical-competitive reasons and some become late adopters that are driven by a quest to conform to the legitimate strategies (Sherer and Lee, 2002).

Moreover, some firms may not join the adopting process due to lack of resources or pressures. At issue is how these companies listed in the NSE strategically respond to foreign recalls if they want to remain in both domestic and international business. Not surprisingly, their strategic responses differ, leading to a strategic response framework which can be passive strategy, defensive strategy or proactive strategy.

In the passive strategy, firms that choose a passive strategy have failed to convey their responsibility to stakeholders in globalization and developed in a way that will introduce more problems and lead to their loss in profits in the end. They also tend to act after recalls are announced, for the reason that only damage to their profits may attract their attention.

In the defensive strategy, similar to firms choosing a passive strategy, firms that choose a defensive strategy also face the pressures from both domestic and foreign institutions. The only difference between them is that firms adopting a defensive strategy acknowledge the influence of both formal and informal institutions and accept their responsibilities. They admit their mistakes and try to improve. While they pay attention to the institutions' demands, they only do what is required by their domestic institutions.

Firms in the proactive strategy accept their responsibilities and comply with both home and host country institutions. Thus, they have a higher chance to maintain legitimacy under institutional pressures. In fact, they often act before recalls are announced. This not only gives them a first mover advantage, but also helps them to maintain legitimacy in the long term.

Second is the firm size, competitive advantage and strategic response theory which states that, within the broader small business and entrepreneurial literature, the merit and disadvantages of firm size continue to be debated (Briscoe, Fawcett, and Todd 2005; Kalantaridis 2004). One specific aspect of the debate concerns the manner in which and the nature of firms' strategic response to a globalization vary as a function of firm size. The broader literature supports that firms' responses are largely dictated by the competitive advantages available to them. Larger firms are hypothesized to garner competitive advantages from three distinct vehicles: economies of scale, economies of scope, and learning effects (Ghemawat 1986). Such competitive advantages help larger firms cope with shifting environmental demands, such as regulatory changes and globalization. Also implicit in such a theoretical position is that smaller firms are at a competitive disadvantage when coping with environmental discontinuity. By their nature, smaller, start-up firms lack the scale to amortize fixed costs across production, are limited in their product and geographic scope, and have yet to develop the institutional wisdom that might proffer learning effect advantages.

Scholars have argued, however, that smaller, more entrepreneurial firms may possess their own unique competitive advantages (Young and Shepherd 2005; Tavakoli and McKiernan 1999). First, entrepreneurial firms may possess a competitive advantage because, hypothetically, they are closer to the market and its customers and are more in tune with the changing needs of the market (Dean, Brown, and Bamford 1998). This sensitivity to the environment is largely driven by their lack of financial resources compared with those of larger firms (Cooper, Gimeno-Gascon, and Woo 1994). This resource shortage has been shown to make organizations more sensitive to environmental changes because they lack the buffer to accommodate poor strategic choices. Accordingly, some scholars contend that organizational slack represents a competitive disadvantage, because it slows a firm's responsiveness to changing environments (Yasai-Ardekani 1986). Thus, smaller firms with fewer resources potentially possess more sensitivity to changing market needs than their larger counterparts, which maybe insensitive to fluctuations in the environment.

Second, smaller firms lack formal planning and processes when compared with their larger organizations; accordingly, when faced with an environmental threat, these smaller firms are not hindered by formal routines that must be adhered to when formulating strategic responses (Ebben and Johnson 2005). In line with this thinking, Chen and Hambrick (1995) argue that smaller firms can gain competitive advantage through their adaptive capabilities, since they are less encumbered by multiple layers of bureaucracy that typically plague larger firms. Hence, smaller firms potentially have a competitive advantage that is derived from their sensitivity to environmental change and their subsequent ability to enact a rapid response. Then the broader debate continues within the literature concerning the effect of firm size on the nature of competitive advantage and its subsequent bearing on strategic response to globalization. The present study frames the larger debate with a specific focus on the manner in which larger, established firms and smaller, entrepreneurial firms respond to environmental change and uncertainty presented by globalization.

2.3.3 Types of strategic responses

There are four main strategies discussed under this study. These are; Hofers' strategies, generic strategies, value disciplines and grand strategies. These are discussed below;

According to Hofers' strategy, Hofer (1980) posits that firms experiencing decline due to internal and/or external causes may adopt three distinct strategic responses: asset reduction, cost reduction, and revenue generation. The broader research hypothesis is that larger firms, which derive competitive advantage from economies of scale, economies of scope, and learning effects, are more likely to adopt strategies designed to capitalize on efficiency through cost and asset reductions, whereas smaller firms will rely on their more flexible organizational structure and proximity to the market to find niches that might offer a moderate level of revenue generation.

Revenue generation strategies are designed to buttress short-term cash flows by focusing on business areas that offer the highest probability for operating profits. Under such a strategy, managers may shift resources and efforts to specific niche product or geographic markets that might provide a modest infusion of operating cash in the short term. Underlying the success or failure of such a strategy is that the firm can be more effective in a specific market or product area than one that is more broadly focused, especially during environmental duress. In concert, functional strategies would require maintaining low to moderate research and development funding, proportionate head count reductions relative to revenues, short-term price reductions, and support for growth with investment in advertising and sales.

Cost-cutting strategies are employed by firms that are closest to a break-even point that require short-term fix in order to demonstrate profitability. The expectation is that cost-cutting strategies may provide positive results in a more timely fashion than revenue generation or asset reduction. Cost-cutting strategies are focused on efficient operations at all levels of the organization under the assumption that during a period of environmental uncertainty, the customer will find the lowest price, thus driving down sales margins. In effect, organizations that possess scale and scope economies will only be able to maintain margins if they exert influence on the single aspect of the equation they can partially control, namely internal costs. From a functional standpoint, cost reduction strategies require efficient scale production capabilities, vigorous pursuit of cost reductions through learning effects, and cost minimization in areas like research and development, service, sales, and advertising.

Asset reduction strategies involve the sale of a business unit, product line, and or service line, maybe adopted by firms in response to environmental uncertainty as a strategy of last resort. Such a course of action maybe considered by firms that are furthest away from the break-even point, but Hofer (1980) states that asset reduction strategies should be deliberately and carefully considered, since they have potentially far-reaching and potentially damaging effects on the organization. Asset reduction strategies provide a one-time infusion of non operating cash flow that might mitigate cash flow strains brought on by environmental discontinuity. By divesting assets, the firm lives to see another day, but at the potential expense of long-term viability, since these assets might have long-term value.

For the purpose of this study, Hofer's framework offers a useful tool to better examine the strategies adopted by firms during globalization and more recent is the global economic recession, more specifically, to ascertain whether or not the turnaround strategies varied in NSE.

Second are the generic strategies. Following on from his work analysing the competitive forces in an industry, Porter (1980) suggested four "generic" business strategies that could be adopted in order to gain competitive advantage. The four strategies relate to the extent to which the scope of businesses' activities are narrow versus broad and the extent to which a business seeks to differentiate its products.

The four strategies are summarised in the figure below;

Competitive Strategies

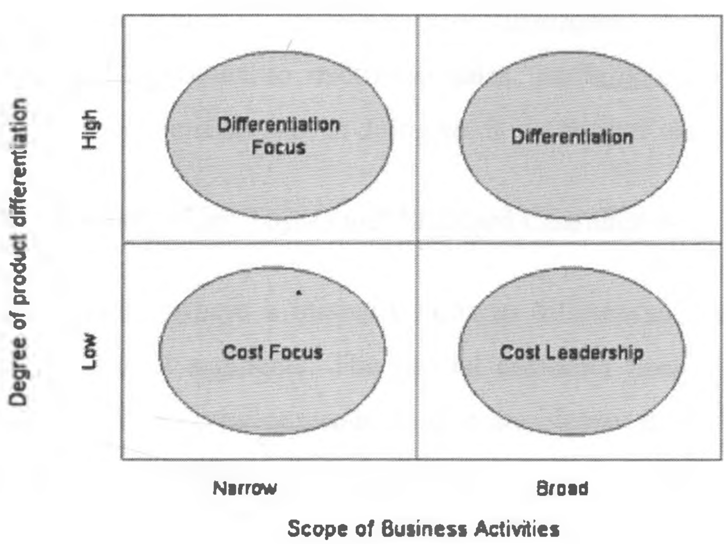

Figure 1

Source: Exploring corporate strategy by Johnson G and Scholes K., (2003)

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry.

Differentiation strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product - often to reflect the higher production costs and extra value-added features provided for the consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and about giving customers clear reasons to prefer the product over other, less differentiated products.

Examples of Differentiation Strategy: Mercedes cars and Karen Hospital.

Cost leadership strategy's, objective is to become the lowest-cost producer in the industry. Many (perhaps all) market segments in the industry are supplied with the emphasis placed minimising costs. If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will (in theory) enjoy the best profits. This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation.

that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximise sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

Examples of Cost Leadership: Toyota and Standard Chartered Bank

Differentiation focus is where a business aims to differentiate within just one or a small number of target market segments. The special customer needs of the segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting a broader group of customers. The important issue for any business adopting this strategy is to ensure that customers really do have different needs and wants - in other words that there is a valid basis for differentiation - and that existing competitor products are not meeting those needs and wants.

Examples of Differentiation Focus: any successful niche like Citi Bank focuses on corporate clients only.

Cost focus is where a business seeks a lower-cost advantage in just on or a small number of market segments. The product will be basic - perhaps a similar product to the higher-priced and featured market leader, but acceptable to sufficient consumers. Such products are often called "me-too's". Example of Cost Focus: Many smaller retailers featuring own-label or discounted label products like Softa.

Third are the value disciplines. Treacy and Wiersema (1993), propose alternative approach strategy that is value disciplines. They believe that strategies must centre on delivering superior customer value through one the three disciplines; operational excellence, customer intimacy or product leadership.

Operational excellence approach refers to providing customers with convenient and reliable products or services at competitive prices with minimal inconvenience. Companies that employ the operational excellence work to minimize costs by reducing transaction costs, and optimizing business processes across functional and organizational boundaries.

Customer intimacy involves offering tailored to match the demands of identified niches. Companies excelling in customer intimacy combine detailed customer knowledge with operational flexibility. They respond quickly to almost any need, from the customizing a product to fulfilling special requests to create customer loyalty.

Product leadership involves offering customers leading-edge products and services that make rivals' goods obsolete. Companies in this case strive to produce a continuous stream of state of the art products and services. The three challenges must be met to attain the goal; creativity, innovation and continual improvement.

Finally are the grand strategies. According to Pearce and Robinson (2007), a grand strategy is a master long term plan that provides basic direction for major actions directed toward achieving long term business objectives. These are 15 discussed below; Grand strategies are a means to get to your ends – growth, profitability. The more time that you spend researching and learning about your environment, your market and your business, the more clearly these come into focus for you. While there is always some uncertainty and some risk with any business decision, a strategic decision with the proper homework done is a pretty clear cut one.

The major Grand Strategies are: Concentrated Growth, in this strategy, a firm directs it resources to the profitable growth of a dominant product, in a dominant market, with a dominant technology; Market Development, this strategy consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion; Product Development, this strategy involves the substantial modification of existing products or the creation of new, but related, products that can be marketed to current customers through established channels; Horizontal Integration, in this term strategy there is growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain. Such acquisitions eliminate competitors and provide the acquiring firm with access to new markets; Vertical Integration, a company's aim in this strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouses for finished products). When supplying firms are acquired, it is called Backward Vertical Integration. When output firms are acquired, it is called Forward Vertical Integration; Concentric Diversification, this strategy involves the acquisition of businesses that are related to the acquiring firm in terms of technology, markets, or products. With this strategy, the selected new businesses possess a high degree of compatibility with the firm's current businesses; Conglomerate Diversification, in this strategy, a firm, particularly a very large one, plans acquire a business because it represents the most promising investment opportunity available. The principal concern of the acquiring firm is the profit pattern of the venture, rather than creating product-market synergy with existing businesses; Turnaround,-this is a strategy used by a firm that is in trouble. Its managers believe that the firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinctive competences. There are two basic forms of retrenchment: Cost Reduction and Asset Reduction; Divestiture, this strategy involves the sale of a firm or a major component of a firm; Liquidation, in this strategy, the firm typically is sold in parts, only occasionally as a whole—but for its tangible asset value and not as a going concern.

2.3.4 Factors affecting strategic responses

Chen (1996), sites that strategic actions receive strategic responses. Strategic actions elicit fewer total competitive responses. The time needed to implement and assess a strategic action delays a company's responses.

2.4 Globalization

2.4.1 Meaning of Globalization

Globalization is the integration of economies throughout the world by means of trade, financial and technological flows, the exchange of technology and information and the movement of people, goods and services. Globalization refers to the strategy of approaching worldwide markets with standardized products (Levit, 1983). According to Hill and Jones (2001), globalization of production entails individual companies dispersing parts of their production process to different locations around the globe to take advantage of the national differences in the cost and quality of the factors of production. The objective is to lower costs and boost profits. Globalization of markets on the other hand, entails firms moving away from the economic system in which national markets are distinct entities, isolated from each other by trade barriers and barriers of time, distance, and culture, towards a system where national markets are merging into one, huge global market place. Increasingly, consumers around the world demand and use the same basic product offering. Consequently in many industries, it no longer meaningful to talk about a national market, as there is only the global market.

The shift from national to global markets during the last twenty years has intensified competitive rivalry in industry after industry. National markets that were once consolidated oligopolies dominated by three of four companies and subjected to relatively little foreign competition have been transformed into segments of fragmented global industries, where a number of companies battle each other for market share in country after country. This rivalry has driven down profit rates, and made it all the more critical for companies to maximize their efficiency, quality, customer responsiveness, and innovative ability. Painful restructuring and downsizing has been a commonplace over the last five years as firms came tog rips with the reality of globalization. This more than anything else was a response to increased intensity of global competition (Hill and Jones (2001).

2.4.2 Globalization Theory; World-System Theory

According to Wallerstein (1998), globalization is the process completed in the twentieth century, by which the capitalist world-system spreads across the actual globe. Since that world-system has maintained some of its main features over several centuries, globalization does not constitute a new phenomenon. At the turn of the twenty-first century, the capitalist world economy is in crisis; therefore, according to the theory's leading proponent, the current "ideological celebration of so-called globalization is in reality the swan song of our historical system"

In the twentieth century, the world-system reached its geographic limit with the extension of capitalist markets and the state system to all regions. It also witnessed the rise of the United States as a hegemonic power-one that has seen its relative economic and political strength diminished since the last years of the Cold War. Newly independent states and communist regimes challenged core control throughout the century, and some formerly peripheral countries improved their economic status, but none of this shook the premises of a system that in fact was becoming more economically polarized. The nineteenth-century ideology of reform-oriented liberalism, which held out the hope of equal individual rights and economic advancement for all within states, became dominant in the twentieth but lost influence after 1968. Such twentieth-century developments set the stage for what Wallerstein calls a period of transition. New crisis of contraction can no longer be solved by exploiting new markets; economic decline will stimulate struggle in the core; challenges to core dominance will gather strength in the absence of a strong hegemonic power and a globally accepted ideology; polarization will push the system to the breaking point. While this chaotic transition may not produce a more equal and democratic world, it does spell the end of capitalist globalization.

Analysis; A world-system is any historical social system of interdependent parts that form a bounded structure and operate according to distinct rules, or "a unit with a single division of labour and multiple cultural systems". Three concrete instances stand out: mini-systems, world empires, and world-economies. The modern world-system is a world-economy: it is "larger than any juridical defined political unit" and "the basic linkage between its parts is economic". It is a capitalist world-economy because the accumulation of private capital, through exploitation in production and sale for profit in a market, is its driving force; it is "a system that operates on the primacy of the endless accumulation of capital via the eventual commodification of everything".

Structure; the system consists of a single division of labour within one world market but contains many states and cultures. Labour is divided among functionally defined and geographically distinct parts arranged in a hierarchy of occupational tasks. Core states concentrate on higher-skill, capital-intensive production; they are militarily strong; they appropriate much of the surplus of the whole world-economy. Peripheral areas focus on low-skill, labour-intensive production and extraction of raw materials; they have weak states. Semi peripheral areas are less dependent on the core than peripheral ones; they have more diversified economies and stronger states. In the first centuries of world-system development, Northwest Europe constituted the core, Mediterranean Europe the semi periphery, and Eastern Europe and the Western hemisphere (and parts of Asia) the periphery. By the end of the twentieth century, the core comprised the wealthy industrialized countries, including Japan; the semi periphery included many long-independent states outside the West; poor, recently independent colonies mainly constituted the periphery.

Cyclical crisis that occur when, after periods of innovation and expansion, reduced profit rates and exhaustion of markets lead to recession and stagnation, to be followed by a new period of accumulation. These are reflected in multi-decade "waves" of increasing or declining growth rates.

Current situation;"We have entered into the crisis of this system an historic transition". But the direction of the system is not clear: "We are face to face with uncertainty". The main reason is that the world economy is in a phase of recession and stagnation, increasingly reflected in social unrest. "Structural limitations to the process of endless accumulation of capital that governs our existing world are coming to the fore currently as a brake on the functioning of the system. They are creating a structurally chaotic situation a new order will emerge out of this chaos over a period of fifty years". US hegemony has been in decline since about, increasing the likelihood of struggle in the core.

2.4.3 Advantages of globalization

It is the advantages of globalization which act to bring about economic welfare on international levels, thereby benefiting the worldwide population. Mentioned below, are the advantages of globalization which facilitate the development of world economies immensely.

Free movement of capitals offers access to the foreign investments to many countries like the United States of America. The worldwide commercial market becomes so flexible due to the advent of globalization, that transactions of the international companies are not restricted to geographical borders of the countries. Globalization enhances the flow of capital, permitting the investors to invest on the untapped resources of the developing countries.

Globalization of the mass media has reduced the global space substantially, keeping the people informed about all latest international happenings through different television channels. The democratic thoughts are rapidly spread among countries across the world, owing to globalization.

Improvement in global communication networks leads to easy flow of important information not only to individuals but at company levels as well. Globalization stresses on increasing mutual dependence among all the nation-states across the world.

Globalization lessens the possibilities of warfare among developed countries to considerable extents. Peace should be easier to maintain between nations as no country would remain isolated in this new world order.

The developed countries display a tendency for working towards protecting their surrounding environments to large extents. Globalization enhances free international trades among countries across the world.

The total output levels of a country increase when productions become competition-oriented. This means that to compete with the existing world market, the products must be of best qualities and they also improve the lifestyle of the overall population.

Cheap imports and extensive competition on international level keep a check on the prices leading to lower inflation rates, which occasionally interrupt the economic growth and development of a nation. Economic globalization ushers in the concept of Open Economy, where there is an extensive promotion of technological growth and inventions. This requires new topics and concepts to be imported from abroad.

Employments in the export-oriented industries generally pay its employees approximately 15% more than the import-oriented jobs in a country. One of the positive effects of globalization is the smooth and speedy transportation of people and commodities to different corners of the world. Globalization reduces cultural blockages and differences among nations, by encouraging fellow-feeling and mutual compassion.

2.4.4 Effects of Globalization

Globalization has been faced with various challenges that continue to hamper its success. Though emergence of worldwide financial markets and better access to external financing for borrowers and organizations there are some negative effects that came with it. The worldwide structures grew more quickly than any transnational regulatory regime, these led to instability of the global financial infrastructure, as evidenced by the financial crisis of late 2008. Also realization of a global common market is based on the freedom of exchange of goods and capital. The interconnectedness of these markets however meant that an economic collapse in any one given country could not be contained. This effect is best felt by the economic melt-down of USA which has affected other countries in Europe and Africa, (Tausch, 2009). Furthermore, survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skilfully in order to face increased competition.

Also poorer countries are sometimes at disadvantage: While it is true that globalization encourages free trade among countries, there are also negative consequences because some countries try to save their national markets. The main export of poorer countries is usually agricultural goods. Larger countries often subsidize their farmers, which lowers the market price for the poor farmer's crops compared to what it would be under free trade, (Hurst, 2007).

The deterioration of protections for weaker nations by stronger industrialized powers has resulted in the exploitation of the people in those nations to become cheap labour. Due to the lack of protections, companies from powerful industrialized nations are able to offer workers enough salary to entice them to endure extremely long hours and unsafe working conditions, though economists question if consenting workers in a competitive employers' market can be decried as "exploitive". The abundance of cheap labour is giving the countries in power incentive not to rectify the inequality between nations. If these nations developed into industrialized nations, the army of cheap labour would slowly disappear alongside development. It is true that the workers are free to leave their jobs, but in many poorer countries, this would mean starvation for the worker, and possible even his/her family if their previous jobs were unavailable, (Chossudovsky, 2003).

The emergence of global competence to provide competitive products and services. Though a technology may be born in the United States, it can easily migrate to any country that is prepared to adopt it and invest in improvements and applications. Technology and information are tremendous levelling tools. They do not discriminate based on political ideology, ethnic origins, language, social class, geographic location, or corporate boundaries. Companies and countries that develop an internal, integrated learning base possess a competitive advantage that will allow them to dominate an industry.

With advancement in technology in various areas of operation within the organization due to globalization, competition in the market has intensified. To remain competitive in the market, technology alone cannot guarantee success of any organization. To quote Henry Chesbrough, "technology by itself has no single objective value. The economic value of a technology remains latent until it is commercialized in some way" (Chesbrough, 2003). This implies that for any organization to stand the stiff global competition, every organization must invest in innovation.

2.5 Globalization and Strategic Response

Global strategic management is concerned with managing a firm's relationship with the global business environment. More specifically, it is concerned with strategies for managing the challenge of international competition. The global business environment is both locally and foreign based. This is because the global business challenge is pervasive or omnipresent. Globalization strategy makes sense in those cases where there are strong pressures for cost reductions and where demands for local responsiveness are minimal (Porter, 1996). Increasingly, these conditions prevail in many industrial goods industries. However, the strategy is inappropriate where demands for local responsiveness are high. Companies that pursue a global strategy focus on increasing profitability by reaping the cost reductions that come from experience curve effects and location economies. That is, they are pursuing a low cost strategy. The production, marketing and research and development activities of companies pursuing global strategy are concentrated in a few favourable locations.

Porter (1996) further adds that in order to achieve a competitive advantage, strategy needs to focus on unique activities. Operational effectiveness is necessary but not sufficient for achieving a sustainable competitive advantage. Firms are faced with the challenge of managing strategy. Strategic issues need to be understood in terms of firm's particular context. Different firms are therefore likely to emphasize different aspects of the strategic management process. For some firms, it is competitive advantage, for others, understanding competencies while others create a fit as well as innovation (Johnson and Scholes, 1998).

As competitive intensity has increased, so has the rate of innovation. Companies strive to gain an advantage over their competitors by pioneering new products, processes and ways of doing business. The result has been to compress product life cycles and make it more vital for companies to stay of the leading edge of technology. Even though globalization has increased both the threat of entry and the intensity of rivalry within many formerly protected national markets, it has also created enormous opportunities for companies in those markets. The steady decline in trade barriers has opened up many protected markets to companies based outside them. Global companies tend not to customize their product offering and marketing strategy. The reason is that customization raises costs for it involves shorter production runs and the duplication of functions. Instead, global companies prefer to market a standardized product worldwide so that they can reap the maximum benefits from economies of scale that underlie the experience curve. They also tend to use their cost advantage to support aggressive pricing in world markets.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design, sampling methods, and techniques to be used in data collection and analysis. This chapter presents the methodology that was used to carry out the study. This includes the study design, target population, data collection tools to be used and data collection technique, and data analysis method and presentation. This research methodology was aimed at enabling the researcher to obtain and process the data on the responses of companies listed in the NSE to globalization.

3.2 Research Design

This study used a descriptive survey. A descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). In this case, the research problem was globalization and strategic responses to globalization to respond to it. The research aimed at understanding the variables of globalization and how best to deal with it in the Kenyan context. Descriptive research is more rigid than an exploratory research and seeks to describe uses of a product, determine the proportion of the population that uses a product, or predict future demand for a product. As opposed to exploratory research, descriptive research should define questions, people surveyed, and the method of analysis prior to beginning data collection.

3.3 Population of Study

The population of interest in this study comprised companies listed at the Nairobi Stock Exchange. There are 47 companies listed at the Nairobi Stock Exchange as of May 2009 (NSE, 2009). The census was surveyed.

3.4 Data Collection

Primary data was collected using a questionnaire with close ended, open ended and matrix questions administered to the finance managers of the target companies (See Appendix 2). The questionnaire was divided into three parts. The first part was mainly on the company background which is the name, years in operation, sector and size of the company. This was to enable the researcher to know the nature of the company. The second part was on globalization.

It enabled the researcher identify the challenges the company faces and any other new challenges not mentioned. The final part was on strategic responses. It enabled the researcher explore on the existing responses and new ones and which companies focus on what responses.

The targeted respondents were senior managers in the respective firms, who were involved in strategic decision making. The population under study was the best because it represented several categories in the market and in different sizes and situated in different areas of the country thus more representative. Some are local while others were multinational companies. The difference in size, location, ownership and industry will respond to the research question in their own way. Companies listed in the NSE are public owned and the information were easily disseminated unlike private and government owned companies.

The questionnaires were self administered. The researcher sent them through hand delivery to the Finance Directors and asked the respondents to complete the questionnaires themselves. The researcher gave the respondents a period of two weeks and follow up on the respondents to pick up the questionnaires. For the respondents who did not have responded, the researcher gave them a further one week and follow up on their response. For those who had not responded within this time frame, the researcher considered them as no response.

3.5 Data Analysis

The nature of data collected was purely quantitative. The data was coded by assigning numbers to various responses and then statistical computations will be used to draw conclusions. The statistical computations were frequencies, mean, mode, medians and percentages. SPSS and Likert type scale were used in analysing the matrix questions.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents the analysis and interpretations of the results from the field. From a population of 47 respondents, 30 respondents responded which comprised of 63.8% response rate.

4.2 Background Information

Table 1: Years in operation

Years	Frequency	Percent (%)
6-15 years	6	20.0
16-30 years	11	36.7
over 50 years	13	43.3
Total	30	100.0

The findings in Table 1 show the organizations' years of operation. From the study, most of the firms (43.3%) had been in operation for over 50 years, 36.7% of the firms had been in operation for 16-30 years, while 20% of the firms had been in operation for 6-15 years. This implies that all these firms were well versed with process of globalization and strategic responses adopted as all of them had been in operation for over 6 years.

Table 2: Number of employees

No of employees	Frequency	Percent (%)
101-500	10	33.3
501-1000	7	23.3
over 2001	13	43.3
Total	30	100.0

From the responses in Table 2 on the number of employees in the firms, most of the firms had over 2001 employees. 33.3% of the firms had more than 101 employees but less than 500 employees, while 23.3% of the firms had 501-1000 employees and 43.3% had more than 1000 employees. This implies that all the firms were large scale organizations.

Table 3: Sector

Sector	Frequency	Percent (%)
Agriculture	2	6.7
Finance and Investment	7	23.3
Commercial and Services	9	30.0
Industrial and Allied	12	40.0
Total	30	100.0

The study also sought to establish the sector that the firms were in. According to the study as in Table 3, most of the firms were in industrial and allied sector as shown by 40% , 30% of the firms were in commercial and services, 23.3% of the firms were in finance and investment, while 6.7% of the firms were in the agricultural sector.

Table 4: Revenue

Revenue (Kshs Mn)	**2008**		**2007**		**2006**	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
Up to 100	3	10.0	3	10.0	3	10.0
500 – 1,000	0	0	0	0	4	13.3
1,000 – 10,000	17	56.7	20	66.7	16	53.3
Over 10,000	10	33.3	7	23.3	7	23.3
Total	30	100.0	30	100.0	30	100.0

The findings in Table 4 show the revenue of the firms for three consecutive years that is, 2008, 2007 and 2006. From the study, most of the firms had revenue of Kshs 1Bn-10Bn as shown by 56% in 2008, 66.7% in 2007 and 53.3% in 2006. This implies that the majority of the firms quoted at NSE had a high income of Kshs 1Bn and above.

Table 5: Total Operational Costs

Total Operational Costs (Kshs Mn)	2008		2007		2006	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
50 - 250	4	13.3	4	13.3	4	13.3
250 -750	3	10.0	3	10.0	6	20.0
750 – 5,000	13	43.3	16	53.3	13	43.3
Over 5,000	10	33.3	7	23.3	7	23.3
Total	30	100.0	30	100.0	100.0	100.0

From the results in Table 5 on the total operational costs of the firms, the study found that most of these firms had an operational cost of over KShs 750Mn - 5Bn as shown by 43.3% of the firms in 2008, 53.3% of the firms in 2007 and 43.3% in 2006. This information shown that the majority of firms had a high operation cost of KShs 750Mn and above.

Table 6: Profit before Tax

Profit before Tax (Kshs Mn)	2008		2007		2006	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
0.5 - 100	0	0	3	10.0	0	0
100 -1,000	11	36.7	14	46.7	14	46.7
1,000-10,000	16	53.3	10	33.3	13	43.3
Over 10,000	3	10.0	3	10.0	3	10.0
Total	30	100.0	30	100.0	30	100.0

On profit before tax as shown in Table 6, the study found that most of the firms in 2008 had a profit of Kshs 1Bn - 10Bn as shown by 53.3% of the respondents, while in 2007 and 2006; most of the firms had a profit before tax of Kshs 100Mn - 1Bn as shown by 46.7% in each. This information shows that most of the firms increased their profit before tax in 2008.

Table 7: Total Assets

Total Assets (Kshs Mn)	2008		2007		2006	
	Frequency	Percent (%)	Frequency	Percent (%)	Frequency	Percent (%)
500 - 1,000	4	13.3	4	13.3	4	13.3
1,000-10,000	7	23.3	7	23.3	7	23.3
10,000-50,000	9	30.0	9	30.0	9	30.0
Over 50,000	10	33.3	10	33.3	10	33.3
Total	30	100.0	30	100.0	30	100.0

On total assets as illustrated in Table 7, the study found that most of the firms had total assets of Kshs 10Bn and above as shown by 63.3% in 2008, 63.3% in 2007 and 63.3% of the firms in 2006.

4.3 Globalization

Table 8: Impact of Globalization on the Company

	Frequency	Percent (%)
Very positively	7	23.3
Positively	19	63.3
Negatively	4	13.4
Total	30	100.0

From the results in Table 8, the study revealed that in most of the firms (63.3%) the impact of globalization was positive ,23.3% of the firms the impact of globalization was very positive, while 13.3% of the firms said that the impact of globalization on the firms was negative. This information shows that in most of the firms quoted in NSE, globalization had a positive impact.

Table 9: Level of Competition in the Sector

	Frequency	Percent (%)
Very high	20	66.7
High	7	23.3
Low	3	10.0
Total	30	100.0

The study also sought to establish the level of competition in the sector. According to the study as illustrated in Table 9, most of the respondents (66.7%) reported that the level of competition was very high, 23.3% of the respondents reported that it was high, while 10% of the respondents said that there was low competition in the sector.

Table 10: How the organization is currently able to compete in the market

	Frequency	Percent (%)
To a very great extent	13	43.3
Great extent	14	46.7
Very low extent	3	10.0
Total	30	100.0

The study from the findings in Table 10 found that most of the organizations (46.7%) were able to compete in the market to a great extent, followed by 43.3% of the respondents who said to a very great extent. 10% of the respondents felt that their organizations were able to compete in the market to a very low extent.

Table 11: Globalization challenges affecting the organization

	Mean	Std. Deviation
Instability of global financial structure	2.1	1.22428
Freedom of exchange of good and capital	3.5	1.16658
Change in technology	2.3	1.02833
Cheap labour	3.5	1.59201
Competition	2.3	1.42232
Political instability	1.9	1.04826
Greater consumer awareness about products	2.4	1.47352
Faster product life cycle	2.8	1.45468

The study required the respondents to indicate the extent that the challenges of globalization in Table 11 affected their organization, where 1 represented very high, 2 high, 3 moderate 4 low and 5 very low.

From the results, the challenges that affected most of the firms to a high extent were political instability shown by a mean score of 1.9, instability of global financial structure shown by a mean score of 2.1, change in technology and competition as shown by a mean score of 2.3 in each case and also greater consumer awareness about products shown by a mean score of 2.4.

Freedom of exchange of good and capital affected and cheap labour affected most of the firms to a low extent as shown by a score of 3.5 in each, while faster product life cycle affected most of the firms to a moderate extent.

Table 12: Effects of Globalization

	Mean	Std. Deviation
Revenue	2.9	.96431
Profit	2.8	.89955
Price	3.2	.81720

On the effects of globalization represented in Table 12, the study found that most of the companies cited that revenue, profit and price had a moderate effect on globalization. However, profit had the greatest effect as shown by 2.8, followed by revenue as shown by 2.9 and price shown by a score of 3.2.

Global Environmental Factors Considered Important

The study proceeded to establish the various global environmental factors that the respondents considered important. The respondents cited investor confidence, interest rates and technology. In addition, the respondents cited political stability, instability of financial markets, climate change and exchange rate fluctuations as the global environmental factors that they considered important.

Aspects of Globalization in the Sector

In this area, the aim of the study was to determine the various aspects of globalization. This was divided into positive and negative effects. On the positive effects, the respondents cited technological advancement in the provision of services; expansion of operational footprints and innovations. In addition, the respondents cited target markets and the opening up of management awareness and responsiveness to changes. On the negative effects, the respondents cited reduction of revenue flow and customer confidence, compromised on quality, declining tourist arrivals and diminished remittances. In addition, the respondents political stability, competition and dwindling foreign direct investments.

Steps that the Government can undertake to hinder penetration of negative aspects of Globalization to Kenyan market

The study proceeded to establish the various steps that the government could undertake to hinder penetration of negative aspects of globalization to Kenyan market. The respondents cited proper legislation, prevention of economic crimes, appropriate legislation and avoidance of negative publicity. In addition, the respondents cited the avoidance of infiltration of inferior goods, market interest rates, market foreign direct investments', introduction of stronger laws and policies to curb counterfeit goods and also government employees should be empowered to understand negative aspects of globalization.

4.4 Strategic Response

Table 13: Whether the Company Engages In Environmental Scanning

	Frequency	Percent (%)
Yes	24	80.0
No	6	20.0
Total	30	100.0

In this area of study as shown in Table 13, the aim was to determine whether the companies engaged in environmental scanning. Majority of the companies engaged in environmental scanning (80%) while 20% of the companies did not.

How the information obtained from environmental scanning was utilized

The study proceeded to ascertain how the information from environmental scanning was utilized.

The respondents reported that the information was used in strategic planning, implementation, monitoring and review; designing of financial plans, planning of company's expansion, ensure their business is environmental friendly and ethical, review the risks and how best to cope with competition and afforestation. In addition, the respondents' cited safety of customer premises and equipments to reduce accidents due to electrical problems.

Table 14: Main focus of the organization in responding to globalization

	Frequency	Percent (%)
Cost reduction	11	36.7
Revenue generation	19	63.3
Asset reduction	0	0
Total	30	100.0

The findings in Table 14 show the main focus of the organizations in responding to globalization. From the study, most of the organization's main focus was on revenue generation as shown by 63.3% of the respondents, while 36.7% of the respondents reported that their organization's main focus in responding to globalization was on cost reduction. There was no organization that focused on asset reduction.

Table 15: Strategies implemented by organizations in responding to Globalization

	Yes	No
Operational excellence	90	10
Customer intimacy	90	10
Product leadership	80	20
Differentiation	66.7	33.3
Concentrated growth	46.7	53.3
Market development	80	20
Product development	63.3	36.7
Horizontal integration	30	70
Vertical integration	20	80
Concentric diversification	10	90
Conglomerate diversification	23.3	76.7
Turnaround	33.3	66.7
Divestiture	33.3	66.7
Liquidation	0	100

According to the study illustrated in Table 15, the strategies that had been implemented by most of the organizations in responding to globalization were operational excellence and customer intimacy as shown by 90% in each, product leadership and market development shown by 80% in each, differentiation shown by 66.7% of the respondents and product development as shown by 63.3% of the respondents. Diversification and integration strategies were least used while there were no organizations that implemented liquidation while responding to globalization.

Table 16: Strategic Responses important in dealing with Globalization challenges facing the organization

Strategic Response	Mean	Std. Deviation
Product differentiation	2.1	1.08066
Customer satisfaction	1.1	.30513
Train staff	1.5	.68229
Retrenchment	4.6	.67466
Technology	1.4	.67891

The respondents were also required to indicate the extent of importance of the strategic responses given to their organizations in dealing with globalization challenge. From responses in Table 16, the most important strategic responses to most of the organizations were customer satisfaction shown by a mean score of 1.1, technology shown by a score of 1.4, train staff shown by a mean score of 1.5 and product differentiation as shown by a mean score of 2.1.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, gives conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to determine the strategic response of companies listed at the Nairobi Stock Exchange market to globalization

5.2 Summary

From the study, globalization had a positive impact in most of the companies. The study also found that there was a high competition in the market and most of the companies were able to compete in the market to a great extent. From the study, the challenges of globalization that had affected the firms were political instability, instability of global financial structure, change in technology, competition and greater consumer awareness about products. The study also found that revenue, profit and price had negligible effects on globalization.

The global environmental factors considered to be most important were investor confidence, interest rates and technology. In addition, the respondents cited political stability, instability of financial markets, climate change and exchange rate fluctuations as the global environmental factors that they considered important. The positive aspects of globalization in the sector were technological advancement in the provision of services; expansion of operational footprints and innovations, target markets and the opening up of management awareness and responsiveness to changes, while the negative aspects were reduction of revenue flow and customer confidence, compromised on quality, declining tourist arrivals and diminished remittances, political instability, competition and dwindling foreign direct investments.

According to the study, the steps that government can undertake to hinder penetration of negative effects of globalization to Kenyan market include; proper legislation, prevention of economic crimes, appropriate legislation and avoidance of negative publicity, avoidance of infiltration of inferior goods, market interest rates, market foreign direct investments' and introduction of stronger laws and policies to curb counterfeit goods.

The study also revealed that most of the companies engaged in environmental scanning and the information obtained from environmental scanning was utilized in strategic planning, implementation, monitoring and review; designing of financial plans, planning of company's expansion and through afforestation. In addition, the respondents' cited safety of customer premises and equipments to reduce accidents due to electrical problems.

According to the study, most of the organization focused on revenue generation in responding to globalization. The strategies that the organizations had implemented in responding to globalization were operational excellence, customer intimacy, product leadership, market development, differentiation and product development. The strategic responses that had been important to the organizations in dealing with challenges the organizations were facing with globalization were customer satisfaction, technology, training of staff and product differentiation.

5.3 Conclusions

The study concluded that globalization affects companies listed at the Nairobi Stock Exchange. This is because from the study, there were some challenges of globalization that affected the companies which included; political instability, instability of global financial structure, change in technology, competition and greater consumer awareness about products. The study also found that revenue, profit and price had negligible effects on globalization. Globalization had positive and negative aspects in the sectors, where the positive aspects were technological advancement in the provision of services; expansion of operational footprints and innovations, target markets and the opening up of management awareness and responsiveness to changes, while the negative aspects were reduction of revenue flow and customer confidence, compromised on quality, declining tourist arrivals and diminished remittances, political instability, competition and dwindling foreign direct investments.

The study also concludes that the strategic responses to globalization adopted by the companies listed at the Nairobi Stock Exchange were environmental scanning, operational excellence, customer intimacy, product leadership, market development, differentiation and product development. The strategic responses that had been important to the organizations in dealing with challenges the organizations were facing with globalization were customer satisfaction, technology, training of staff and product differentiation.

During globalization, consumers change their priorities and spending also reduces leading to a drop in sales and organizations respond by cutting costs, postponing investments and sometimes reducing prices to increase sales. An organization needs to identify the change in needs and adjust its strategies to meet the needs. This is customer value proposition which ensures that an organization's brands remain emotionally connected to the customer.

5.4 Recommendations

The study therefore recommends that in order to reduce the effects of globalization in the companies quoted in the NSE, the companies should ensure that they adopt the latest technology, they should be aware of the consumers changing needs, the employees should be fully trained on how to cope with the negative aspects of globalization and also the firms should focus on cost reduction and revenue generation in order to respond to globalization. According to Marshall (2009), to be able to forecast what the next global shock will be, we need to be able to make predictions about geopolitics, war, terrorism, extreme weather events, earthquakes and pandemics. Scenario planning and risk management provides at least a partial solution. While we may never be able to predict extreme events with any certainty, investors and executives need to prepare for the future by analysing the worst-case scenarios and consider how they can deal with them.

According to Ndaa (2009), an organizations' long term performance is synonymous with its expected or desired results. The goals are determined through strategy development and strategy planning process. They are key outcomes of an organization's strategy. Leadership is the mobilising of organisational energy to achieve expected results. Leadership is therefore about managing for long term performance to ensure an organization remains competitive and relevant.

5.5 Suggestions for Further Research

This study focused on the strategic response of companies listed at the Nairobi Stock Exchange market to globalization, further studies should therefore be conducted in other types of organizations to establish the strategic response to globalization in those organizations.

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APPENDICES:

APPENDIX 1: INTRODUCTION LETTER

Dear Sir/Madam,

RESEARCH QUESTIONNAIRE

I am a student at University of Nairobi pursuing postgraduate programme, Master of Business Administration. In partial fulfilment of the requirement to the award of the MBA degree, I am required to do and write a research paper. The topic of my research is 'Strategic Responses of Companies listed in the Nairobi Stock Exchange to Globalization'.

You have been selected to participate in this survey and I would kindly request for your assistance in filling the attached questionnaire.

The information provided is strictly for academic purposes and will be handled with utmost confidence. Your assistance and co-operation will be highly appreciated.

A copy of the final research report would be availed to you upon request.

Yours sincerely,

Pauline Gumo

APPENDIX 2: QUESTIONNAIRE
Strategic responses of companies listed in Nairobi Stock Exchange to Globalization

Section A: Background Information

1. **Name of company** ____

2. **Name of respondent (optional)** __________________________________

3. **Years in operation** ____________________

4. **Number of employees**________________

5. **Sector:**

☐ **Agriculture** ☐ **Finance and Investment**

☐ **Commercial and Services** ☐ **Industrial and Allied**

6. **Products/Services offered by company:** __________________________

7. **Revenue** **2008**_____________________

2007_____________________

2006_____________________

8. **Total Operational Costs** **2008**_____________________

2007_____________________

2006_____________________

9. **Profit before tax** **2008**_____________________

2007_____________________

2006_____________________

10. Total Assets **2008**____________________

2007____________________

2006____________________

Section B: Globalization

1. **How would you rate the impact of globalization on your company?**

☐Very positively ☐Positively ☐Negligible ☐Negatively ☐Very negatively

2. **What is the level of competition in your sector?**

☐Very high ☐High ☐Moderate ☐Low ☐Very Low

3. **How well is your organization currently able to compete in your market?**

☐To a very great extent ☐Great extent ☐Moderate ☐Low extent ☐Very Low extent

4. **Is your organization affected by the following globalization challenges?(Please assign numbers 1-5 meaning 1 is very high and 5 very low)**

Instability of global financial structure ☐

Freedom of exchange of goods and capital ☐

Change in technology ☐

Cheap labour ☐

Competition ☐

Political instability ☐

Greater consumer awareness about products ☐

Faster product life cycle ☐

Others____

5. What are the effects of globalization on;

	V.negatively	Negatively	Negligible	Positively	V.positively
Revenue	☐	☐	☐	☐	☐
Profit	☐	☐	☐	☐	☐
Price	☐	☐	☐	☐	☐

6. Which global environmental factors do you consider the most important?

____

____

____

7. What are the aspects of globalization in your sector?

Positive

____

Negative

____

8. **What steps can the government undertake to hinder penetration of negative aspects of globalization to Kenyan market?**

____

____

Section C: Strategic Responses

1. **Does your company engage in environmental scanning?**

   ☐ Yes ☐No

2. **How is the information obtained from environmental scanning utilized?**

   ____

   ____

   ______

3. **Which of the following is the main focus of your organization in responding to globalization? (Please tick)**

   Cost reduction ☐

   Revenue generation ☐

   Asset reduction ☐

   How____

4. **Which of the following strategies has your organization implemented in responding to globalization? (Please tick)**

Operational Excellence ☐

Customer Intimacy ☐

Product leadership ☐

Differentiation ☐

Concentrated Growth ☐

Market Development ☐

Product Development ☐

Horizontal Integration ☐

Vertical Integration ☐

Concentric Diversification ☐

Conglomerate Diversification ☐

Turnaround ☐

Divestiture ☐

Liquidation ☐

Others____

5. **How important have the following strategic responses been to your organization in dealing with challenges your organization is facing with globalization? (Please assign numbers 1-5 meaning 1 is very high and 5 very low)**

Product differentiation ☐

Customer satisfaction ☐

Train staff ☐

Retrenchment ☐

Technology ☐

APPENDIX 3: COMPANIES LISTED AT THE NSE

Agriculture

1. Rea Vipingo Ltd.
2. Sasini Tea and Coffee Ltd.
3. Kakuzi Ltd.

Commercial and Services

4. Access Kenya Group
5. Marshalls E.A. Ltd.
6. Car and General Ltd.
7. Hutchings Biemer Ltd.
8. Kenya Airways Ltd.
9. CMC Holdings Ltd.
10. Uchumi Supermarkets Ltd.
11. Nation Media Group Ltd.
12. TPS (Serena) Ltd.
13. ScanGroup Ltd.
14. Standard Group Ltd.
15. Safaricom Ltd.

Finance and Investment

16. Barclays Bank of Kenya Ltd.
17. CFC Stanbic Bank Ltd.
18. Housing Finance Company of Kenya Ltd.
19. Centum Investment Ltd.

20. Kenya Commercial Bank Ltd.

21. National Bank of Kenya Ltd.

22. Pan Africa Insurance Holdings Co. Ltd

23. Diamond Trust Bank of Kenya Ltd.

24. Jubilee Insurance Co. Ltd

25. Standard Chartered Bank Ltd.

26. NIC Bank Ltd.

27. Equity Bank Ltd.

28. The Co-operative Bank of Kenya Ltd.

29. Kenya Re Corporation

30. Olympia Capital Holdings

Industrial and Allied

31. Athi River Mining Ltd.

32. BOC Kenya Ltd.

33. British American Tobacco Kenya Ltd.

34. Carbacid Investments Ltd.

35. E.A. Cables Ltd.

36. E.A. Breweries Ltd.

37. Sameer Africa Ltd.

38. Kenya Oil Ltd.

39. Mumias Sugar Company Ltd.

40. Unga Group Ltd.

41. Bamburi Cement Ltd.

42. Crown Berger (K) Ltd.

43. E.A Portland Cement Co. Ltd.

44. Kenya Power and Lighting Co. Ltd.

45. Total Kenya Ltd.

46. Eveready East Africa Ltd.

47. Kengen Ltd.

Source; www.nse.co.ke,(2009)