

Corporate strategy: comparative study of select public sector and private sector companies in Kenya

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This paper reviews on their differences and similarities of corporate strategies of both public and private paper and to check whether there is correlation between corporate strategy and the company performance. The reported strategies of select public and private companies in Kenya are comparatively analyzed. Qualitative approach was used to collect the data. The findings provide evidence of which sector has the best business strategy to reach the goal of the organization. The results suggested that it is the private sector which has the best strategy at corporate level, because the financial sector like the standard chartered bank operate on its fixed assets like real estates and provide to the public to build residential and commercial properties.

Field of research: Corporate real estate, corporate strategies

1. Introduction

Corporate Strategy - is concerned with the overall purpose and scope of the business to meet stakeholder expectations. This is a crucial level since it is heavily influenced by investors in the business and acts to guide strategic decision-making throughout the business. Corporate strategy is often stated explicitly in a "mission statement". (By Michael Porter)

Strategy is a very broad term which commonly describes any thinking that looks at the bigger picture. Successful companies are those that focus their efforts strategically. To meet and exceed customer satisfaction, the business team needs to follow an overall organizational strategy. A successful strategy adds value for the targeted customers over the long run by consistently meeting their needs better than the competition does.

According to Kenya Institute of Administration, The Institute has been implementing its strategic plan for the period 2006 – 2011. But according to guidelines issued by the Ministry of Planning, National Development and Vision 2030 on the preparation of strategic plans, all Government Agencies are required to anchor their strategic plans on the Kenya Vision 2030 first Medium-Term Plan (MTP) 2008–2012.

In Kenya corporations quoted on the Nairobi Stock Exchange are 47 in number consisting of organizations in the agricultural, commercial and services industry as well as finance and Investment and within the Industrial and Allied sectors. These are publicly quoted and all operate on real property. Total occupancy can be very high, if rents are being paid, this translates in rent, maintenance cost. If properties are owner-occupied, this also comes with costs of ownership. These costs include rates paid to the local authorities, land rent paid to the central government and maintenance.

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The purpose of this paper is to:

- I. Review on their differences and similarities of corporate strategies of both public and private sector is the main objective of this paper.
- II. To check whether there is correlation between corporate strategy and the company performance
- III. To analyze investors perception on the company having good corporate strategy
- IV. To know which sector has the best corporate strategy

The objective of this paper is to investigate how the selected public and private organizations use a corporate real estate strategy to support their competitive strategy. It provides a theoretical and empirical overview and analysis of effective comparison of firms' real estate- and corporate strategies.

The paper focuses on public sector and private sector which is limited to residential properties. The respondents are the sample size drawn from the population of the study of both public and private corporations. The reason as to why the select government and private corporations is that the researcher is in adequate knowledge of this sample study area and considering the effort and time to carry out the investigation. Another reason being, the researcher feels comfortable in comparing the selected corporations of the sample of the study so as to draw conclusion from the sample of the study.

2. Literature Review

Kooymans (2000) defined corporate real estate as “real estate owned by a corporation, whether it is for investment or not. This included freehold and leasehold real estate that is used by an organization for its own productive purposes, whether or not the corporation also considers the same real estate to be an investment”. Among the pioneers who first made the distinction between real estate and corporate real estate were Zeckhauser and Silverman (1983), Veale (1989) and Nourse (1990). Since then, there have been many studies which documented corporate real estate practices in different countries, for example, Ernst and Young LLP (2002) for Europe, Tay and Liow (2006) for Singapore and Wills (2008) for Australia. Nourse (1992) made the connection between corporate real estate and business strategy in which he argued that there was a need for real estate to remain flexible to complement business strategies. Following this study, there is now a growing body of literature examining the contribution of corporate real estate to business performance and global competitiveness.

O'Mara (1999) used Porter's (1980) five-force model as the basis to develop three generic corporate real estate strategies to support the global competitiveness of businesses under different operational climate. An "incremental" strategy emphasizes a gradual approach to the use and procurement of space. It is recommended when there is a high level of uncertainty in the organization's future and as such major commitments are best delayed or avoided until there is greater clarity in the organization's direction. The second generic strategy is a "value-based" approach. This strategy uses corporate real estate as an expression of the organization's culture and goals. It seeks to positively shape the behavior of employees and customers through the layout, quality and type of physical setting.

Corporate image is enhanced through corporate real estate's physical communicative power. Finally, a "standardization" strategy is a control and cost-centered approach. Standards are applied across the design of facilities, space layout, furniture systems and corporate real estate operations such as space allocation. As more corporations go global, the role of corporate real estate will become more a central source of creating and maintaining global competitive advantage (Wills, 2008). According to Roulac (2001), this can be achieved through transforming a firm's property portfolios to increase market share and enhance shareholder value. While a firm's global competitiveness can be achieved through the tangible/physical dimension of corporate real estate, Heywood and Kenley (2008) argued that intangible corporate real estate management practices may also be competitively valuable through the organizational capabilities they produce. Similarly, Joroff et al. (1993) noted that the search for sustainable competitive advantage is implicitly conceived within the highest level of corporate real estate management practices.

These practices may relate to real estate holding, financing, accounting, location/site selection, workplace styles, real estate information management and benchmarking (Heywood and Kenley, 2008). The argument that corporate real estate can be a source of capability to give companies its competitive advantage in a hypercompetitive climate is intuitively reasonable. First, corporate real estate practices are non-tangible in nature and therefore harder for competitors observe and imitate. Further, corporate real estate is still a relatively less obvious resource for many organizations when developing a competitive strategy. Manning and Roulac (2001) found that while business dimensions external to the organization are probably of more interest to senior and business unit managers, there was a paucity of research connecting the external strategic business dimension to corporate real estate. Understanding of corporate real estate capabilities and its development as a response to maintaining competitive advantage is at best still at its formative stage compared to the understanding of corporate real estate as a facility within the internal environment and its management. To this end, the following section seeks to identify the corporate real estate capabilities that are important for responding to globalization. Corporate real estate is today regarded as an important strategic resource which can provide businesses with a difficult resource to duplicate (Wills, 2008). Real estate has come a long way from the stepchild of business research status in the 1980s. There have been a number of empirical studies that have explored

corporate real estate's ability to enhance organizational wealth (O'Mara, 1999; Mahlon, 1995).

The proliferation of corporate real estate research has also been fuelled by the continued domination of real estate on the corporate balance sheet as well as the increasingly complex business environment compelling firms to discover their "hidden" real estate values (Liow, 1999; Carn et al., 1999). Corporate real estate managers are becoming aware of the need to conceptualize globalization as being location-responsive customizing real estate to country/customer needs to effectively compete with a wide variety of competitors (Begley and Boyd, 2003; Friedman, 2005; Harvey and Novicevic, 2006).

In this regard, managers must think globally but act locally, i.e. "globalization" in order to develop a well-articulated corporate real estate perspective. Specifically, globalization necessitates the development of new corporate real estate capabilities that reflect a global mindset which can then evolve into a pluralistic management capabilities in relation to corporate real estate decision making (Parayre and Hurry, 2001).

Kenley et al. (2000), stated that "The primary value to the organization is not the investment value of the property but its contribution to the way it does business." The definition of CRE does not include corporations or organizations that hold real estate as the main portion or part of their investment strategy. That is, property trusts (real estate investment trusts), superannuation funds, (pension funds). CRE could then be classified into various classes:

Strategic property. The real property assets that the corporation needs to own and control for its operation and long-term business strategy.

Landmark/flagship property. This real property asset usually displays/states the corporation's image/culture, property that the corporation needs to control either through ownership or lease. Usually, medium- to long-term leasing arrangements put into place.

Core property. The real property that the company needs to control (not necessarily own) for medium-term operations, e.g. includes industrial, retail and Commercial facilities from which the company operates.

Peripheral property. The real property that a company needs on a short-term basis for intermittent cyclical functions/operations. Property is nearly always leased, e.g. extra warehousing space and serviced office space.

Surplus property. Also known as disposal property. This is an area that should be under constant review as the company needs and wants change. The property does not fit into the corporation's long or medium-term strategy or business plan.

CRE could then be classified into six sub-groups These, perhaps give a clearer picture of what corporations include on the balance sheet and refer to as part of their real estate asset holdings:

(1) Buildings. The cost of buildings included in the company's property plant and equipment account.

(2) Construction in progress. The capitalized amount of plant and equipment and

construction that has not been completed.

(3) Land. The cost of land used in the production of revenue.

(4) Leases. The capitalized value of leases and leasehold improvements included in property plant and equipment.

(5) Natural resources. The cost of irreplaceable natural resources including mining properties, oil fields and timber lands.

(6) Other. Additional components of property

The performance of corporate real estate after determining what real property a corporation is holding, the next step would be to see if it is “performing” in its own right. There are various methods of measuring this performance and it is often referred to as benchmarking. Benchmarking has been corporate real estate practice discussed extensively over the last ten years, but just what is it? It is best described as, a process of comparing a set of performance figures and ratios, either within an individual large operation, between different organizations in the same industry, or even between similar processes in different industries. The whole concept of this process is to quantify aspects of property performance. CRE managers have a unique opportunity to gain access to very accurate detailed property figures from their own property portfolio. The theory being that once you have these data you can start analyzing it in detail and pinpoint areas, or properties that are not performing and take appropriate measures to deal with them. Harrington (1996, p. 6) points out that there are now recognized sets of figures from the Property Council of Australia that enable most commercial and retail properties to be benchmarked against industry levels. Benchmarking the performance of private and public CRE is slightly different to that of the “standard” commercial or retail property in that many times the organizations “property” is not actually returning any income. Herein the problem lies, so other methods of performance, or key performance indicators (KPI) must be used.

The methods that could be used to measure the performance of CRE can be broken into two main groups, quantitative and qualitative.

Quantitative metrics include: (they are self-explanatory). Based on Kenley et al. (2000, p. 45) and Timm (2001) and expanded by research interviews:

- a) occupancy cost/m²;
- b) occupancy cost/person;
- c) lease cost as a percentage of occupancy cost;
- d) lease income as a percentage of total occupancy cost;
- e) capital expenditure as a percentage of total assets;
- f) capital expenditure as a percentage of total occupancy cost;
- g) outages (space cannot be used because of repair/maintenance problem);
- h) occupancy cost as a per cent of total revenue;
- i) occupancy cost as a per cent of total expenditure;
- j) m² per person;
- k) vacant space as a per cent of total space;
- l) subleased space as a per cent of total space and hours the facilities utilised;
- m) asset value per person; and

n) asset value increase.

The above-quantitative metrics can then be measured:

- I. By portfolio over time;
- II. By property;
- III. Against other markets; and
- IV. Against other companies.

To maximize shareholder wealth, it becomes necessary to measure the performance of each CRE property and the overall portfolio. To this end, the question of benchmarking was studied. About 44 per cent of companies undertook definite benchmarking processes, 44 per cent made no attempt to benchmark and 12 per cent did not know or understand what benchmarking was. Overall, this shows that 56 per cent of respondents made no effort to monitor the performance of any of their CRE assets (on a property analysis basis, not a company performance/profit basis).

Anecdotally, some of the measures used (of property owned) were; sales \$/m², internally properties compared to one another, against industry averages and rent \$/m². One particular company and their outsource service provider used a method of ensuring quality CRE deals, both in dollar terms and company needs, by adopting a “gain-share” approach. This approach was undertaken on the basis that if the outsource service provider could save the company money, any “gain” made above (or below) a benchmark figure was “split” 50/50 or even a larger percentage for the outsource service provider, if the saving was greater.

2.1 The concept of dynamic capabilities

In response to an increasingly competitive environment, many management researchers have argued for a resource-based view (RBV) approach to maintain competitive advantage by focusing on the inside elements of the company (Barney, 1995; Grant, 1991). The RBV contends that organizations compete through control of unique and inimitable resources. Inimitable resources centre principally on the cumulative bodies of organization-specific knowledge and skill that are the result of organizational learning processes. Under this framework, an organization’s long-term survival rests on the organization’s ability to develop capabilities and innovation. Hence, this perspective emphasizes skill acquisition, organization learning and capability accumulation. Capabilities can be thought of as the efficiency with which an organization uses the resources available to it and converts them into whatever output it desires.

This reasoning suggests that capabilities are clearly intermediate transformation ability between resources (i.e. inputs) and objectives (i.e. outputs). Since capabilities are an intermediate step between resources and outputs, only the inputs that an organization uses and the outputs it achieves are observable. Their ability in converting one to the other remains invisible. If capabilities were indeed hard to observe, they would be hard

to imitate or buy, as the theory suggests, and therefore, would lead to a sustainable competitive advantage position. Along the same vein, Srivastava et al. (1998) argued that while tangible assets, i.e. plant and equipment, raw materials, etc. can be leveraged by an organization to improve its competitive position, it is the intangible assets that can give organizations a more sustainable form of competitive advantage. Intangible external assets such as knowledge and relationship with stakeholders are socially complex and tacit phenomena which makes them difficult to imitate. The intimacy of relationships with channels and customers attained by firms such as Nordstrom and Johnson Controls has proved almost impenetrable by many rivals (Treacy and Wiersema, 1995).

However, in a highly turbulent market, i.e. hyper competition, it is important to understand the value-creating processes that respond to the fast-changing customer needs and wants (Juttner and Wehrli, 1994). Recent research on capabilities has suggested that in a business environment that is undergoing rapid and unpredictable changes, it is the commingling, integrating and of both tangible and intangible capabilities to address the changing environments that are the real source of competitive advantage (Eisenhardt and Martin, 2000; Teece et al., 1997). This is known as dynamic capability.

Global dynamic capabilities relate to the creation of difficult-to-imitate combinations of resources, including effective coordination of inter-organizational relationships, on a global basis that can provide a firm a competitive advantage (Dyer and Singh, 1998; Teece et al., 1997). Global dynamic capabilities theory has two primary components: (1) developing systemic global coherence while recognizing the unique features of each country's environment to facilitate customization of individual country strategies; and (2) adaptation, integration and reconfiguring of internal and external assets to match opportunities in the global marketplace (; Eisenhardt and Martin, 2000; Teece et al., 1997). Global dynamic capabilities are derived from a firm leveraging its internal and external assets which in turn enhance its power in its global relationships, thereby enabling it to coordinate inter-organizational activities and respond rapidly, in a flexible manner, to global competitors' strategies (Eisenhardt and Martin, 2000; Teece et al., 1997). This broader resource-based perspective suggests that an organization can gain a competitive edge not only by developing key assets and through multiple resource interaction (Smith et al., 1996) but also by developing new capabilities through skill acquisition, learning and accumulation of organizational and intangible assets over time (Teece et al., 1997)

3. Methodology

The method used is case study approach. It provides a theoretical and empirical overview and analysis of effective comparison of firms' real estate- and corporate strategies. A qualitative method was used to collect the data for this paper. The data was analyzed using effective comparison between the select public and private sector companies in Kenya.

4. Discussions and findings

4.1 Public sector

Kenya Railways Corporation (KRC) was incorporated in 1978 by an Act of Parliament to provide rail and inland waterways transport services to serve the country and the region. KRC is a Government owned public enterprise regulated under The Kenya Railways Corporation Act Cap 397 and the State Corporations Act. The Government supervises the Corporation through the Ministry of Transport.

KRC assets include land, buildings, workshops, track, signaling, telecommunication facilities, locomotives, passenger coaches and freight wagons, a wagon ferry on Lake Victoria and the Railway Museum.

The Context of the Strategic Plan

The performance of KRC declined over several decades. This state of affairs was caused by inadequate investment, poor management, a legal framework that limits independence, competition from other modes of transport and increasing operational costs. As a result the Corporation relied on financial support from the Exchequer for several years. Table 1 below provides data on performance for the period 2001 to 2005 to illustrate this decline.

KRC's contribution to the transport sector also declined from 3.2 percent to 1.8 percent between 2001 and 2005, despite the growth of the transport sector in general. This is illustrated in Table 2 on page 3.

Rationale for KRC's Strategic Plan

KRC's Strategic Plan 2006-2011 is being implemented at a time when the Government is implementing the national strategy contained in the ERSWEC 2003-2007 and Kenya Vision 2030. Being a major player in the transport sector, KRC is expected to play its role in the Country's economic recovery. Currently transportation costs are estimated to account for 30% of the cost of production. This is extremely high compared to other growing economies where the average cost is between 11% and 15%. Reducing this

cost is critical to achieving economic recovery and KRC has a major role to play in this endeavor.

The Plan outlines measures to be taken to improve performance. The internal and external environment within which KRC operates was analyzed and emerging environmental factors considered. From the analysis strengths, weaknesses, opportunities and threats were identified.

The objectives and activities outlined in this Plan aim at making maximum use of the organization's opportunities and strengths and mitigating against threats and weaknesses. This Plan is also an expression KRC's determination to position itself as a key player in transport service provision in Kenya, East Africa and the emerging markets of the Great Lakes region and the Horn of Africa.

The objectives, targets and activities outlined in this Plan will form the basis of KRC's annual Performance Contract with GOK. To achieve the strategic objectives and targets set in the annual Performance Contracts, the Corporation will need to engage, develop and maintain a highly effective and motivated team.

The Plan also provides a framework for monitoring planned activities and the outputs. Continuous monitoring and evaluation will be necessary to assist the Board and Management in evaluating the effectiveness of the strategies and outcomes. This information will be used to identify areas that require corrective action in a timely manner.

4.2 Private sector

Standard Chartered Bank opened its branches in Kenya in January 1911, with 2 branches; one at Treasury Square in Mombasa and the other on Kenyatta Avenue in Nairobi. Today, 97 years later, the Bank has an excellent franchise, with a network of 32 branches strategically located across the country, 84 Automated Teller Machines (ATMs) and 1,040 employees. With 25% local shareholdings, Standard Chartered Bank has remained a public quoted company on the Nairobi Stock Exchange since 1989.

As the oldest foreign bank in Kenya, we enjoy a market share of approximately 27%. The Bank has two core business divisions: – Wholesale Banking and Personal Banking. These two businesses are supported by the functions of Operations & Technology, Finance, Human Resources and Corporate Affairs. The corporate and institutional business is mainly handled out of the four major cities in Kenya: Nairobi, Mombasa, Kisumu and in Eldoret Town.

Standard Chartered is an active member of the communities in which it operates. The Bank supports projects that focus on the socio-economic development of the youth with a heavy emphasis on health and education.

Business and strategy

Standard Chartered PLC, listed on the London, Hong Kong and Mumbai stock exchanges, ranks among the top 20 companies in the FTSE-100 by market capitalization. The London-headquartered Group has operated for over 150 years in some of the world's most dynamic markets, leading the way in Asia, Africa and the Middle East. Its income and profits have more than doubled over the last few years primarily as a result of organic growth, supplemented by acquisitions.

The following figure shows some strategies of standard chartered bank Kenya:

Source from standard chartered website.

A Strategy for a Sustainable Performance

Our strategic intent	To be the world’s best international bank	<p>A healthy global economy needs international banks to:</p> <ul style="list-style-type: none"> • facilitate trade across our markets • enable our multinational clients to conduct complex business transactions • service the needs of an increasingly international consumer base
How we deliver	Focusing on Asia, Africa and the Middle East	These are growth markets and we know them intimately. In the past two years we have celebrated 150 years in China, Hong Kong, India and Singapore
	Building long-term, deep relationships with our customers and clients	The shift to a customer-focused model in Consumer Banking reinforces this approach, whilst becoming a core bank to more of our clients is at the heart of our Wholesale Banking strategy
	Continuing to manage our balance sheet conservatively	Our capital position, allied with strong liquidity, has enabled us to remain open for business, support our clients and seize business opportunities
	Focusing on organic growth as the primary driver of value creation	Acquisitions play an important but secondary role in our strategy
	Continuing to nurture and reinforce our distinctive culture	We have a presence in more than 70 markets yet our unique culture and our values bind us together
Supported by our ways of working	As One Bank, leveraging the synergies between our businesses and geographies	
	With an ongoing commitment to sustainable business practices, upholding high standards of corporate governance, social responsibility, environmental protection and employee diversity	

5. Recommendation and conclusion

The strategies for the standard chartered bank Kenya include; Building long-term, deep relationships with our customers and clients, continuing to manage balance sheet conservatively, Focusing on organic growth as the primary driver of value creation, Continuing to nurture and reinforce our distinctive culture.

The strategies for the Kenya Railway Corporation include; The Plan outlines measures to be taken to improve performance, determination to position itself as a key player in transport service provision in Kenya, annual Performance Contracts, the Corporation will need to engage.

Based on strategies of both private and public sector, it is the private sector which has the best strategy at corporate level, because the financial sector like the standard chartered bank operate on its fixed assets like real estates and provide to the public to build residential and commercial properties.

On the other hand the Kenya Railway corporation also provide the public with residential and commercial properties but not as much as the private sector does.

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