CHALLENGES FACED BY KENYA COMMERCIAL BANK IN SELECTING FOREIGN MARKETS

BY

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DECLARATION

This project is my original work and has not been submitted for a degree to any other University.

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

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DEDICATION

I dedicate this project to my family who encouraged me through the research, colleagues who offered me their assistance and lecturers who patiently guided me through the process.

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I would like to express my gratitude to all those who made it possible for me to complete this thesis.

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ABSTRACT

The objective of the study was to determine the challenges Kenya Commercial Bank Ltd face in selection of the foreign markets. This study sought to answer the following research question: What are the challenges that Kenya Commercial Bank Ltd face in selection of the foreign markets?

This research adopted a case study approach to determine the challenges that Kenya Commercial Bank Ltd face in selecting and entering international markets. The pertinent primary and secondary data was collected to meet the objectives of the study. The researcher personally interviewed the interviewees using the pre-prepared interview guide. The study used both Primary and Secondary data. Structured interview guide and personal interviews consisting of open ended questions was used to avoid subjectivity resulting from limiting the respondent's answers to questions. The Kenya Commercial Bank Ltd officials targeted for interviewing were the head of marketing, head of operations, head of human resource, head of finance and head of administration. The open-ended interview guide enabled the interviewees to give as much information as possible without any form of limitation. The researcher designed the interview guide on the basis of the objective of the research and the study's literature review. The primary data was supplemented by secondary data from the existing records of Ministry of Finance, Central Bank of Kenya (CBK), Journals and organization's internal circulars. Content analysis was used to analyze the data collected. This was a systematic qualitative description of the composition of objects or materials of study. It involved observation and detailed description of themes, items and content from the interviews.

Study findings indicate that the biggest challenges faced by KCB Bank Ltd in internationalization include bureaucracy in host country government administration, corruption, huge costs of entry and the language problem. Other challenges include host country residents fearing foreigners and the name of the bank. Lack of openness by host government and its people was another key challenge in some foreign markets. There were also some specific country risks that challenged KCB entry in various regional markets. This was brought by the uncertainty about the environment, which has three sources: political, financial, and economic. Other major challenges emanating from organizational system include challenge in sourcing start-up capital, challenge in integrating the IT platform to coordination the whole branch network, approval of foreign market investment by the bank's board and resistance by management and staff.

The following key recommendations were made after considering the study findings. First, regional governments should ensure that their markets do away with market imperfections such as high cost of entry, poor infrastructure, poor regulation and corruption. This will go a long way in increasing competitiveness in such markets which is beneficial to customers. Secondly, globalizing companies need to reformulate their global or regional strategy, adopting a broader focus. This entails developing new initiatives to stimulate and capture demand in their traditional markets and at the same time they must formulate new strategies to target the wide range of growth opportunities in other countries throughout the region.

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CHAPTER ONE: INTRODUCTION

1.1 Background Of the study

International business has been going through the most fundamental and far-reaching process of change of the post war period. This change has had significant impacts on all economics of the world with major effects on efficiency, productivity and competitiveness (Intrilligator, 2001). Globalization of companies is continually growing in response to the changing environment of international trade. This accelerating trend is as a result of global consumer convergence in social economic, demographic characteristics, habits and culture. These forces are leading international companies to be more consumers driven rather than geographically driven (Intriligator, 2001).

Many organizations now consider the pursuit of global strategies as offering distinct benefit of cost reduction, improved qualities, better ability to meet consumer needs and increase competitive leverage (Johnsons scholes, 2001). Liberalization of the world economy has reduced trade protection leading to a more liberal world trading system. This has effectively increased the movement of capital and other factors of production. Businesses have found themselves competing or even collaborating with a new cast of global players (stoner et al, 2001). Thus corporations that have been mainly focused on a local market have extended their range in terms of markets and production facilities to a national, multinational, international or even global race.

Janet and Hennessey (1993) have also observed that the increase in globalization has also contributed to companies to re-examining the manner to which they do business internationally. They argued that clear globalization trends are evidenced at three levels; customer; markets; industry and competition. This therefore has forced companies to adopt global strategies for survival.

1.1.1 Foreign Market Selection

According to Terpestra (1990), international marketing is the practice of all the marketing activities (market intelligence, product development, pricing distribution and promotion at home, plus the effort to export products to foreign countries. The same firm becomes more of an international marketer as it increases its direct involvement in these markets by participating in pricing, promotion, after sales service and ultimately manufacturing. International marketing activities result from various forces that force companies to seek international markets in a process called internationalization. Albaum etal (1989) defines internalization as a step-by-step process of international business development whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets.

The effects of globalization and liberalization have hit banks world all over. Even though the effect has been felt by all the banks, African Banks have felt the impact immensely and on a wider scale. For instance the African states are opening their trade block to much stronger foreign competitors as a result of pressure from the World Bank and other international donors in the framework of worldwide globalization that is being forcefully promoted.

Many African banks also increasingly face the challenge posed by the richer and more technologically advanced foreign ones. The unfavourable competition has also been complicated by majority of them put on receivership and mergers allegedly for not having enough cash flow float. These challenges lead to many banks adopting various strategies for survival. Protecting current markets, entering new markets and formation of new alliances have become the norm. Banking business alliances is now a global trend that enables banks pool resources that lead to synergistic effects. These synergistic effects include; the synchronization of operation schedules, interest rates, among others. Even though Africa has a number of African banks, that ought to play a leading role in the world banking industry, their contribution is minimal and rarely felt. This is because of a number of challenges that they have to contend with in entering international business markets which might be more unique to the African banks compared to banks from other parts of the world (World Report, December 2001)

Koch (2001), in a study done in Australia, notes that every international market expansion and entry mode selection process begin with the recognition of the need to expand internationally. This recognition is based on an analysis of company objectives. The circumstances in which a firm may need to expand may differ from case to case. Kimata (2003) did a study on the factors that Kenyan firms consider when deciding to establish subsidiaries/ branches in Uganda and Tanzania. The study found that infrastructure, political stability, and economic growth potential of the country to be the key factors valued by investors

The aforementioned studies concentrated on the process of market selection and entry mode. They also focused on factors to consider in entering foreign markets and also the strategic responses taken by firms given a change in the external business environment. They have not brought out challenges that companies face in servicing foreign businesses. Besides this the study by Koch (2001), concentrated on markets outside Africa. The findings might therefore not be fully relevant to the African markets because of different business environment operating in these markets.

It was therefore necessary to conduct a study to determine the challenges faced by Kenyan Commercial Bank (KCB) in selecting foreign markets to serve. By understanding this challenges firms in the banking industry may be able to design strategies that will grow and expand the banking industry given its contribution to economic growth. The therefore sought to answer the following research question;
What are the challenges that Kenyan Commercial banks specifically Kenya Commercial Bank Ltd (KCB) face in selection and entry in foreign markets?

1.1.2 Internationalisation of African Banks

According to Terpestra (1990), internationalization is the practice of all the marketing activities (market intelligence, product development, pricing distribution and promotion at home, plus the effort to export products to foreign countries. The same firm becomes more of an international marketer as it increases its direct involvement in these markets by participating in pricing, promotion, after sales service and ultimately manufacturing.

Most writers agree that internationalization clearly entails mainly carrying of marketing activities beyond the domestic market i.e taking it across borders. Terpestra, (1990) argues that internationalization can include such activities as overseas manufacturing, working with local partners, licensing, importing sometimes from overseas sub contractors and counter trade. All these are entry mode strategies that are important decisions that affirm has to make in internationalization process. Gillidan (1989) also notes that internationalization activities are mainly carried in environments /countries with various uncontrollable variables. International marketing activities result from various forces that force companies to seek international markets in a process called internationalization. Albaum etal (1989) defines internalization as a step-by-step process of international business development whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets.

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For the African banks to survive, they need to access to international markets and take advantage of the increased customer needs and products exports from their nations to foreign nations. However the selection and entry into international markets has its own challenges that need to be well handled. This is because design and outcomes of each market selection and entry mode selection depend greatly on the external and internal environment circumstances.

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1.1.3 Commercial Banking in Kenya

According to money and banking in Kenya- a CBK publication (1972), commercial banking was established in Kenya at the turn of the century immediately following the establishment of British presence in Kenya. The national bank of India was the first to open an office in Mombasa in 1896. it was soon followed by the standard bank of south Africa in 1910 and the national bank of south Africa – a bank incorporated in south Africa, which amalgamated with the colonial bank and the Anglo Egyptian limited in 1962 to form Barclays bank (dominion, colonial and overseas) in 1916.Of these three banks, two were branches of British banks established in London. In common with British banks at the time, they followed the development of trade in the colonies and concentrated on the finance of international trade. The national bank of India, which later became the national and grind lays bank, operated mainly in India; the standard bank, had established a thriving business in south Africa as had the national bank of south Africa.

After half a century of banking by the three banks, a fresh influx of banks came into the country. In 1951, the Nederland's Handel-Maats Chappij, a Dutch bank incorporated in the Netherlands and later renamed Algemene bank Nederland, N.V. (General bank of Nederland), opened a branch; in 1953 two Indian banks, the bank of India and the bank of Baroda, followed, and in 1956 Habib bank (overseas) Ltd, a Pakistan bank established an office. The Ottoman bank, a Turkish bank, opened up a branch in 1958 and the commercial bank of Africa, registered in Tanzania (with 20% equity holding by Tanzania Co-operative movement) in 1962 opened a branch in the same year.

After independence in 1963, many developments have taken place in the banking sector including the central bank of Kenya which was established in on 23rd may, 1966. The first locally owned bank, the co-operative bank of Kenya Ltd, was registered under the co-operative societies act on 19th June 1968. In 1971 the government registered Kenya commercial bank by acquiring 40% shares of Grindlays bank. According to Kathanje (2000), by 1970's there were few non-bank financial institution operating consequently the regulatory framework favoured the establishment of NBFIs with lenient entry requirements. With these developments, the number of both banks and NBFIs increased to over 80 in 1993 but due to problems associated with instability of the system and encouragement of universal banking and mergers by the central bank of Kenya, the number of commercial banks and NBFIs reduced to 58 by the year 2000.

1.1.4 Kenya Commercial Bank Ltd (KCB)

The Kenya Commercial Bank Group is leading institution in Kenya's banking and financial sector with an asset base of over Kshs.74 billion (US 1 Billion). Today, the KCB Group has the widest network of outlets in the country comprising 95 full time branches and 35 satellite branches. This represents over 55% of the total banking outlets in Kenya (Marketing Intelligence, April/May 2002). As a player in the global financial market, the group maintains working arrangements with over 400 correspondent banks throughout the world. The history of commercial bank dates back to 1896 when its predecessor, the National Bank of India, opened a small branch in the coastal town, Mombasa. In 1958 Grindlays Bank of Britain merged with the National Bank of India to form the National and Grindlays Bank.

In 1970, the Government of Kenya acquired 60% shareholding in National and Grindlays Bank and renamed it the Kenya Commercial Bank (Internet: http://www.kcb.ke). In 1976, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. The Government has over the years reduced its shareholding in the Bank to the current 35% with the public owning the remaining 65%. Since incorporation, KCB has achieved tremendous growth to emerge as a leader in Kenya's banking and financial sector. In 1970, the bank had 32 full- time branches, of which 25 were located in rural areas, five in Nairobi and two in Mombasa. Today, the KCB Group has the widest network of outlets in the country, comprising 95 full- time branches and 35 satellite branches all of which represent over 55% of the total banking outlets in Kenya. Of the total outlets, 80% are located in the rural areas, with representation in all administrative districts.

Kenya commercial bank Ltd embarked on an ambitious, phased change programme in 1998. The key objective of this change effort was to become a learner, more efficient and customer oriented bank. In 1999, the bank posted a loss of KSh. 2.2 Billion compared to a profit of KSh. 1.4 Billion in 1998 and KSh 4.1 Billion profits in 1997. The second phase of change kicked off in the year 2000 with, among other things, the creation of the position of a managing director as opposed to that of an executive chairman. The vision was then "to be the best bank in Kenya and the region in the eyes of its customers, shareholders, KCB team and other stakeholders '. The objective of the second phase was business turnaround through leaving certain values namely putting the customer first, working together as a team, being professional, a willingness to change and caring for the community in the year ending 2002, the bank registered a staggering lose of 3 Billion shillings, the biggest in Kenya's cooperate history. In January of 2003 the bank replaced its CEO.

Are the process models that KCB is applying consistent with the vision and strategies objectives relative to theoretical change models? How are factors such as cultures, stakeholder, team play, leadership, reward and recognition affection reform performance?

1.2 Statement of the Problem

In the last ten years, the banking sector has been faced by various challenges, which have threatened the banks especially the small locally established ones. The liberalization of the economy between 1992 and 1994 meant that the Kenyan economy was opened to foreign banks. Competition for customers became a cutthroat affair. There was reduced government control of the sector with the removal of many restrictions. However the many local banks were not ready for this change. As Kathanje (2000) noted, liberalization of the economy resulted in massive bank failures with 14 banks failing in 1993 alone and another 14 for the rest of the study period. All these financial institutions that failed were locally established except for Meridian BIAO, a Zambian bank having a branch in Kenya, which failed in 1996.

Generally Kenya has been faced with poor economic conditions over the period of study. According to Oloo (2000), the Nairobi stock exchange index fell from a high 4559 in 1994 to a low of 1363 in 2002. The per capita income and hence the residual income of the citizens has been falling. In order to survive in business, banks have had to design new means of retaining their market share or attracting new markets. Banks have realized that to stay ahead of their competitors they have to improve their existing products or come up with complete innovations (Oloo, 2004). However, for new products to succeed in the target markets, the new product development processes (NDP) must be strictly followed. These innovations have significantly been directed towards looking for new markets in the international scene.

Studies on Financial Institutions by Ndegwa (1996), Kathanje (2000), Gathoga (2001), Mbogo (2003), and Musyoka (2003) focused on customer service, financial performance, Competitive strategies, strategic change management and the relationship between quality improvement and financial performance respectively. None of the above studies focused on the challenges faced by Commercial Banks in Kenya in selecting foreign markets. It is on this premise that the study seeks to carry out a research on the challenges faced by Commercial Banks in Kenya in selecting markets with specific attention on Kenya Commercial Bank Ltd. This study therefore sought to fill the gap by seeking answers to the following research question:

i. What are the challenges that Kenya Commercial Bank Ltd face in selection of the foreign markets?

1.3 Objective of the Study

The objective of the study was to determine the challenges Kenya Commercial Bank Ltd face in selection of the foreign markets.

1.4 Importance of the Study

Findings of this study may be useful to the following groups:

Kenya Commercial Bank (KCB) Ltd: they may be able to understand challenges that are faced by KCB in selecting international markets as well as in selecting the mode of entry into these markets. They may also learn how to handle the challenges. The findings may also be used to grow and expand the KCB in Kenya.

The Government: It may help the government understand the challenges facing the banking industry and come up with policies that facilitate easy entry into international markets.

Researchers and academicians: The study may contribute to a body of knowledge on the banking industry in Kenya. It may also provide a basis upon which other related studies can be done.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focuses on the review of literature related to this research. This was done with a view to collecting views, perspectives and opinions on international marketing, selection, entry and challenges in servicing international business. The review depended on theoretical literature that was, books, research papers, magazines and information from internet.

2.2 Concept of international business

International business has been going through the most fundamental and far reaching process of change of the post war period. It is a change, which to a greater or lesser extent will ultimately affect companies of all sizes in virtually all markets, (Gilligan, 1989). Jeannet et al (1993), has also observed that the increase in globalization has also contributed to companies to re-examining the manner in which they do business internationally. They argue that clear globalization trends are evidenced at three levels; customers; markets; industry and competition. This therefore has forced companies to adopt global strategies for survival.

According to Albaum (1998), companies have had to respond by increasing penetration in the current markets i.e. get extra market share from existing consumer market base; develop new products for the existing markets; extend markets i.e. find new users for existing basic offerings or widen activities i.e. find new markets around core activities.

This therefore leads to businesses venturing into markets outside their home markets in a process called internationalization.

International marketing is the practice of all the marketing activities (market intelligence, product development, pricing, distribution and promotion) at home, plus the effort to export products to foreign countries (Terpestra, 1990). International marketing management includes the management of marketing activities that cross the political boundaries of sovereign states. It also includes marketing activities of firms that produce and sell within given foreign nation if the firm is a part of an organization or enterprise that operates in other countries; there is some degree of influence, guidance, direction, or control of such marketing activities from outside the country in which the international firm produces and sells the product (Albaum, 1998).

In a broad sense Ball et al (1993) notes that the existence of uncontrollable forces in the external environment is responsible for firms seeking foreign markets. This forces mainly to competition, distribution, economic, social economic, finance, legal physical, politics, socio cultural labour and technology. Giligan (1989) has pointed that firms go international because of various reasons that mainly relate to the need to seek for opportunities abroad increased international, government incentives among others.

Giligan et al (1989) have pointed to a wide variety of reasons why firms enter international markets. Among the reasons cited included the saturation of the domestic market whilst opportunities for further growth still exist overseas; foreign competition in the domestic market which leads firms either to seek other less competitive markets or take on the competitor in its home market, particularly in the developing world; government incentives to export; tax incentives offered by foreign governments to establishing manufacturing plants in their countries in order to create jobs; the availability of cheaper or more skilled labour, an attempt to minimize the risks of recession or political instability in one country; and a desire to achieve the greater economies of scale which were only possible by moving into foreign markets.

The development of money and banking services has been inextricably associated with the growth of trade and commerce. Internationalization is defined as "the process of adapting a firm's operations (strategy, structure, resource, etc.) to international environments" (Calof and Beamish 1995, p.116) and includes both forward internationalization, such as going from exporting to FDI (Johanson and Vahlne 1977, 1990); and backward internationalization, such as going from FDI to exporting (Calof and Beamish, 1995). Exporting and FDI represent two important entry modes, among others, in the internationalization process of firms preparing to serve a foreign market.

2.3 Foreign Market Selection Strategies

The design and outcomes of each market selection and entry mode selection depend greatly on the external and internal environment circumstances. Apparent logic of the process, or its absence, selection criteria, process dynamics, amounts and kinds of information used, environmental perceptions, employee participation levels are just a few examples of factors which could and would influence the market and market entry mode choices. Not all the market and entry mode selection practice could be regarded as found reliable or efficient. Take, for example, selecting overseas markets without considering the feasibility and sales potential impact of various market entry alternatives.

Figure 1- shows of the selection process as advocated by various authors mainly Cavusgil (1985); Johanson (1997); Kumar (1994) and Root (1994).

Fig. 1-Stages of market selection.

	Stage 1	**Stage 2**	**Stage 3**	**Stage 4**
Cavusgil (1985)	Screening	Identification	Selection	
Johansson (1997)	Country Identification	Preliminary screening	In-depth screening	Final selection
Kumar (1994)	Screening	Identification	Selection	
Root (1994)	Preliminary screening	In-depth screening	Final	

Source: Koch Adam (2001). Selecting Overseas Markets, MCB University Press

Every international market expansion and entry mode selection process begins with the recognition of the need to expand internationally. This recognition is based on analysis of company objectives. The circumstances in which the need to expand may be recognized differ from case to case, for example in terms of the particular motive of the international market expansion of the source of the international stimulus. This is usually the first stage that might not be included in the most models (Koch, 2001).

The main purpose of the preliminary screening of market is to bring about an efficient reduction in the number of the countries in need of an in-depth examination (Johanson 1997; Root 1994) this is achieved through eliminating all those that cannot be accessed by the company, or do not constitute commercially viable options. On the other hand the in-depth screening of markets has the ranking of the remaining markets against a number of accepted decision criteria as its prime purpose. Albaum (1998), notes that screening is important so as to avoid moving into international markets in a piece meal and unplanned manner.

Another often neglected aspect of the market and entry mode selection is the decision criteria used in this selection. In some situations their determination and application are results of a formal decision process undertaken by the company. In others it will be discretion of an individual or a small informal group that will decide their selection and implementation. In both cases choice of selection criteria will be influenced by the corporate culture, existing management systems and the collective and individual experience (Koch 2001).

Koch (2001) continues to explain that the next stage, country identification has to do with the examination of the available alternatives. Depending on the amount of information available, market dynamics, urgency of the move for the company and formalization of the process, this stage may take anything between a few weeks and several years (Koch 2001).

2.4 Market Entry Modes

Selecting an institutional arrangement - A mode for entering or expanding in a foreign market is one of the crucial strategic decisions that an international firm has to make (root 1994). A well chosen mode can enable a firm to gain competitive advǎntage. However inappropriate modal decisions are difficult to change when long-term contracts and or large resource commitments are made. Poor modal choices can lead to sinking the boat or missing the boat (Dickson and Giglierano, 1996) at the same time, some contractual modes of entry can prevent a company from taking full advantage of large market growth. A careful assessment of this trade- offs is essential in today's global economy. Root (1994) identifies 4 major alternatives of entering foreign markets. These are exporting licensing joint ventures, and wholly-owned subsidiaries.

Exporting differs from other modes in that company's final or intermediate product is manufactured outside the targeted country and subsequently transferred to it. Indirect exporting uses intermediaries who are located in the company's home country and who to take responsibility to ship and market the products. With direct exporting the producer firm does not use home country middlemen, although it may utilize target country intermediaries. Booing is one of the largest direct exporters of the world, manufacturing most of its aircraft within the USA, but selling the majority.

Smaller companies usually have fewer market servicing options (Benito and Welch, 1994), as their very limited own resources may not allow, or discourage from, some market entry modes. For example, establishing a fully owned subsidiary often involves very substantial investment and correspondingly high risk levels. Similarly, small companies may not have sufficient management potential and skills to enter foreign markets through establishing fully owned foreign – based subsidiaries or international joint ventures. The influence of company size on its freedom of choice in selecting market entry mode and their relevant preferences depends on industry – specific resources demands for individual market entry modes. In the chemical industry, for instance, this relationship will be much stronger than in the computer software industry.

Experience in using market entry modes is another challenge. How many times, how recently, in what circumstances (similar enough, dissimilar) the company (or its competitors) has used any particular market entry mode, their relevant success rates and degrees – all these factors obviously influence both market entry selection process and the choices themselves (Paliwoda and Thomas, 1998, Root, 1994). Companies that have gathered a considerable knowledge of a region prefer to invest resources into business ventures in that region rather than seek contractual modes there.

2.5 Challenges in Selection and Entering International Markets

A challenge can generally be defined to mean an issue that confronts, poses a hindrance, a limitation or problem that needs to be overcome. On the other hand a factor can generally be defined as a consideration, aspect, a reason or feature that needs to be taken into account when undertaking something. For the purposes and scope of this study, some of the factors that firms consider when entering into international markets and selecting mode of entry can also be a hindrance. These factors become a hindrance when they pose a limitation to the firm/airline when it enters into international markets or selects mode of entry and hence posing a challenge.

Globalization and liberalization effects have had an effect in the Banking industry too with most affected being the African Banks. The trend is that the richer and technologically superior banks are posing challenges to the African banks – resulting in the African banks adopting various strategies to survive. Banks play a key role in the growth of ant economy. In Africa, banks generate over 470,000 jobs and contribute $11.3 billion to the continents gross domestic product. Globally African banks contribution to the world's banks is very minimal. These may be attributed to a number of challenges that they face in selecting international markets and the mode of entry used in entering the same. The selection and entry into international markets has its own challenges that need to be well handled. This is because the design and outcomes of each market selection and entry mode selection depend greatly on the external and internal environment circumstances.

Albaum et al (1998) and Gilligan (1989) note that international marketing management is faced with three basic decisions. The first is whether to engage in international marketing activities at all. Second, if a company decides that it wants to do business international markets, then a decision has to be made concerning what specific individual markets are to be served. Finally, the company must determine how it is going to serve these markets i.e. what method or system should be used to get product (s) into the hands of consumers in foreign countries.

Gilligan (1989) observes that the question of how best to enter foreign markets is the first and in many ways the most fundamental to be faced by the marketer, since it is this choice that subsequently influences and shapes the whole of the international marketing programme. If for example the company opts for a distributor or a license, its ability to influence pricing and promotion is likely to be limited. In essence however, the market entry decision involves a balancing of costs, control and risk. In choosing a method of market entry, Albaum et al 1998 and Gilligan 1989 note that this has the obvious and significant implication for marketing strategy. At one level, this can be seen in terms of the degree of freedom that the company has in choosing its target markets and in the ways in which its subsequently goes about the process of matching market demand.

At a rather deeper level, however, the choice of a method of entry has direct consequences for the firm's ability to develop an international image and reap benefits of the economics of large scale and standardized production and marketing programme. The benefits of a standardized approach across all or most of the worlds markets have long been recognized in a general way, although it is only in recent years that any more than a handful of companies such as Coca Cola, Caterpillar, BIC and IBM have actually pursued it.

Baker (1985), has indicated that many of the difficulties that companies typically experience in international markets are as a result of the fact that many companies do not have the resources to develop a sophisticated marketing process. That most companies a market for an existing product with which they have had considerable domestic experience i.e. the company is seeking to march needs with their products rather develop a product to satisfy identified but unfulfilled needs. Another reason is that few companies have a natural feel for a foreign market. As a result, their experience will be limited and takes time to develop, Baker (1985) also argues that few companies posses the wealth of published data available in domestic markets making the qualification and prediction of export markets more difficult.

In selecting a foreign market and the mode of entering the market, firms are faced by a number of challenges. Overall, in deciding between these alternatives, several issues need to be taken into account. These include the companies objectives and expectations of the volume of business to be generated; the size the company and its financial resources; patterns of involvement in other foreign markets; the nature and degree of competition within the market; the nature and degree of competition within the market; the nature of the product and whether it has any distinct competitive advantages either in terms of its technology, patent protection or trademarks; the markets political infrastructure and whether any tariff or non – tariff barriers exist or area like to be introduced. Gilligan (1989); Albaum, (1998); Ball, (1993); however it is important to note the challenges in selecting a market and/ or an entry mode may be similar or dissimilar at all.

2.5.1 Challenges in Selecting International Markets

Challenges faced by organizations in selecting international markets include the non-existence of a clear company strategic direction and objectives, previous international experience, stage in which the firm is, application of appropriate methods in determining the viability and potential of the market, resource capability, similarity/proximity of the overseas market, market portfolio congruity, how top anticipate the overseas market risks among others. Companies develop strategic orientations, which reflect their individual and group experience, values and attitudes of their employees (those currently employed and their predecessors), changes in their business environment and strategic objectives established for the company i.e. some degree of stretch required to achieved these, (Hamel and Prahalad, 1994) some of these may aim to establish/ reinforce perception of the company as a market leader, or reduce strategic risks associated with company survival or growth, e.t.c. strategic orientation may predispose companies to more, or less collaboration with their competitors; it is also likely to strongly influence the process of business internationalization. Unclear company strategic orientation especially in the values and attitudes of their employees towards international business poses a challenge to organizations doing international business.

Important too and related to the strategic orientation is the strategic planning horizon of an organization. Johanson (1997) propose that the longer the time horizon in company strategic planning, the more likely it is for the company to prefer countries that show greater long term prospects over those where only the immediate market prospects appear comparatively favourable. This would imply that companies with a relatively short planning horizon would in most instances deny themselves most chances to enhance the firms' competence capabilities and skills through global market participation and thus pose some challenge in the selection of the market to enter. Evaluation of company international business experience involves examining its integrity, recency, relevance, character (positive vs. negative) e.t.c. experience is a major factor shaping strategic directions, company corporate culture and collective knowledge, there tends to be a stronger sense of risk and uncertainty involved in the global marketing decisions, which in turn constrain at least the subjective, if not the objective, freedom of choice of market servicing modes.

Methods used in evaluating the viability of alternative markets pose a challenge too. First are the methods based on risk assessment versus methods based on degree of marketing control (Porter, 1980; Root, 1994). The relative popularity of these alternatives is the relevant business practices depends on the industry, and company, tradition which in turn is correlated with availability of information, legislation and the general characteristics of the country's business infrastructure. Country market potential is a common criterion used in market selection (Johanson, 1997; Root, 1994). Yet, the role of judgment, and the potential for political contamination of the relevant product statistics or country rankings are often underestimated. Reliability of the relevant information, and of the methods used in obtaining it, has attracted considerable attention (Cavusgil, 1985). Product market specific variables used in market potential estimation need further intensification in various industries.

Companies that have more of their own resources, and or have secured better access to resources of other companies through various forms of alliances, are less restricted, other things being equal, in their international market selection. In larger, multidivisional companies with many product categories, multiple perspectives may need to be adopted to cater to the different strategy requirements of each individual product/ product line. The underlying analysis may be conducted on a largely static or, alternatively, a dynamic platform. The strategic options of various forms of strategic alliance or the more temporary measure of piggybacking are increasing popularity as markets become more global, competitiveness becomes more intense and the response time to market must continue to decrease. Through networking measures such as participation in international trade fairs, exhibitions, sharing the same suppliers, buyers, through strategic alliances, joint ventures and ad hoc consortia (tendering process), companies develop their networks and increase their internationalization (Johanson and Mattson, 1988). Certain ethnic groups (e.g. Chinese) have been found more likely to develop their business networks on the basis of shared ethnicity. Contemporary requirements of globalization, in particular implications of the rapid growth of electronic commerce, may affect these tendencies and forms they take.

Similarity/proximity of overseas market is another challenge. Psychic distance has been found to often influence overseas market selection. Length and strength of cultural and business links between one's own and some foreign countries, stereotypes or dominant perceptions of these countries, company employees' familiarity with these countries and individual perceptions of decision makers or influencers excise a considerable influence on the choice of markets and on the order in which they get selected. The role of relevant experience and that of expatriates in forming perceptions of foreign markets are difficult to underestimate in this respect.

The extent to which a firm can optimize from the market selected is a challenge. Many companies expand globally in a cascade manner, starting from either: markets considered least demanding and then entering more, and more challenging foreign markets, as their experience, competencies, capabilities and skills grow; or markets where demand for some new products has already reached the level which makes an entry a commercially viable proposition for them, and then moving to markets that follow the pioneers. Selecting a market that will establish the best sequence of market expansion to be sought for the company to use its resources efficiently and sustain its global growth is a great challenge (Koech, 2001).

Related to this is establishing if the market selected contributes to the importance of lead markets as cues used in assessing company current performance and predicting its changes, Leading (or lead) markets (usually large, strong at high- end of the product line, free from government regulation and protective measures, with strong competitors and demanding customers) are of considerable strategic significance in global marketing (Elliott and Cameron, 1994). Managing to get into these markets and staying there provide the company with an excellent opportunity to bring up its capabilities and skills to the highest levels required globally.

2.5.2 Challenges in Selecting Mode of Entry

After identifying and selecting the market to enter, the next challenge is to determine which mode of entry to use in entering the identified market. Some of the challenges that the firms face entail the size of resources the firm owns and it wants to devote, the extent of control that the company wants to exercise in the market, the company's past experience in the use of the mode of entry, the attitude of management towards risk, the market share and profit targets that the company is seeking, competencies, skills required for the mode of entry, characteristics of the overseas country business environment including market barriers, feasibility/viability of the entry mode, popularity of the individual market entry method in the overseas market.

Various market entry modes produce different levels of profit and market share; equally importantly, the dynamics of profits generation of various modes (take, for example, indirect export and investment in a new manufacturing and marketing overseas operation) are very dissimilar. The former will show some profits almost immediately and then may soon level off, the latter may mean no profits for three or four years (construction cycle, time needed to establish all necessary market contacts, acquire/build all necessary assets, train the sales force as required, develop customer base, e.t.c.). A long decision horizon may prefer the latter; a short one will prefer the former. The suitability of the method used in estimating and comparing anticipated profits between various entry modes and reliability of inputs are two other important concerns. Johanson (1997) suggests that the lower the target rates of returns, the more likely it is for the company to select countries that show greater long –term prospects and promise to enhance the firm's capabilities and hence chose entry methods that will guarantee the same.

Characteristics of the overseas country business environment also pose a challenge to companies in the selection of an entry mode. While the general characteristics of overseas country business environments are usually very easy to obtain these days, industry and company – specific information is usually more difficult to acquire. Whilst the former category of information is not always free from bias, complete and up to date, the latter is considered quite sensitive and usually not provided free of charge; indeed, it may be quite costly to obtain, a concern for small beginners, in particular. Similarly and volatility of general business regulations/ practices, business infrastructure and supporting industries levels of development, forms, scope and intensity of competition, customer sophistication and customer protection legislation are amongst those characteristics which would normally attract the attention of potential entrants into a foreign market (Cavusgil 1985). Market barriers can make access to foreign markets more difficult. The following categories are considered of major importance as indicated by Cavusgil, (1985) and Johanson, (1997). They are tariff barriers; governmental regulations; distribution access; natural barriers (market success and customer allegiances); advanced verses developing countries; and exit barriers.

Some entry modes (fully owned foreign subsidiary, international joint ventures) have been excluded by lay in some countries. Some of these exclusions may relate to select industries considered to be of strategic significance for the state. Some entry modes (licensing) may involve excessive know – how dissemination risk, particularly if the foreign country is not a signatory to the appropriate international conventions. Other hindrances (e.g. restrictive labour regulations and practices, cost of labour, insufficient level of skill) may discourage from establishing a subsidiary, or joint venture operation in a foreign market.

Investing in a foreign subsidiary may secure a favourable taxation treatment (for instance, tax holidays) and save the company a lot of money on avoiding paying custom duties. Owing to specific risks and costs involved in individual market entry modes, and varying associated sales potentials over a period of time, some market entry modes may turn out less viable than others in a given situation context. Some country markets may show high popularity level for some modes of market entry with the industry in question (Sea bright, 1996). Selection of entry mode by new potential entrants will be influenced by the experience degree of success of the former entrants and the anticipated product market situation.

In selecting international markets and entry modes, firms face a number of challenges, Broadly the challenges can be market, competition, organization, regulatory, product and customer related.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter summarizes the mode of the study. It provides an outline of the research design and explains how data collection will be done. Lastly, the researcher gives an account of how the data will be analysed.

3.2 Research Design

This research adopted a case study approach to determine the challenges that Kenya Commercial Banks Ltd face in selecting and entering international markets. A case study is appropriate as it involved a careful and complete observation of a social unit-a person, institution, family, cultural group, or an entire community-and emphasizes depth rather than the breadth of study (Kothari, 1990). The design is valuable for an in-depth contextual analysis. This method was successfully used by Mwangi, (2003), Mcharo (2003), Kioi (2003) and Madger (1989). The pertinent primary and secondary data was collected to meet the objectives of the study. The researcher personally interviewed the interviewees using the pre-prepared interview guide.

3.3 The Data Collection

The study used both Primary and Secondary data. Structured interview guide and personal interviews consisting of open ended questions was used to avoid subjectivity resulting from limiting the respondent's answers to questions. Pertinent data was collected from the top and middle level management of the Kenya Commercial Bank Ltd at the headquarters. The Kenya Commercial Bank Ltd officials targeted for interviewing were the head of marketing, head of operations, head of human resource, head of finance and head of administration.

The open-ended interview guide enabled the interviewees to give as much information as possible without any form of limitation. The researcher designed the interview guide on the basis of the objective of the research and the study's literature review. The primary data was supplemented by secondary data from the existing records of Ministry of Finance, Central Bank of Kenya (CBK), Journals and organization's internal circulars.

3.4 Data Analysis

Content analysis was used to analyze the data collected. This was a systematic qualitative description of the composition of objects or materials of study. It involved observation and detailed description of objects, items or things that comprise the study (Mugenda and Mugenda, 1999). The interview guide was edited for completeness and consistency.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

The study purpose was to assess the challenges encountered by KCB bank Ltd in its internationalization endeavors. This chapter considers the results and findings from the interviews. The findings of the study are presented according to the research questions. There were five interviews conducted with the selected KCB senior employees who included the head of marketing, head of operations, head of human resource, head of finance and head of administration. However, in some instances the department heads were not accessible and the interview was conducted with another senior employee in the Bank. The study used both Primary (collected from interviews) and Secondary data (collected from literature materials). Semi-structured interview guide and personal interviews consisting of open ended questions was used to avoid subjectivity and non-uniform questions.

4.2 Response Return Rate

All the five interviews were successful. Data collected from these interviews is analyzed according to the objectives of the study. According to Mugenda and Mugenda (2003), high response rates reduce the risk of bias in the responses. This high response rate was achieved by the great cooperation between the researcher and the interviewees. All the interviews provided important information for the study. Most of the information provided in the study by the various interviewees concurred which served the purpose of the study. The five interviews were conducted to eliminate bias and to check on validity and reliability of responses. Information provided passed that test since most responses concurred.

4.3 General Information

The researcher interviewed the head of marketing, head of operations, head of human resource, head of finance and head of administration at KCB Bank Ltd Headquarters in Nairobi. The interviewees consisted of two female and three male managers. The interviewees were all post graduates with Masters Degrees in administration, economics and post graduation diplomas in different fields. The interviewees were also graduates from the KCB Leadership centre. All the interviewees were working at KCB headquarters at Kencom House in Nairobi. All the interviewees were long serving employees of KCB Bank with all of them having served the bank for over seven years each. The bank was reported to have 220 branches in Eastern Africa as of July 2011. These included 173 branches in Kenya, 14 branches in Uganda, 11 branches in Tanzania, 11 branches in South Sudan and 11 branches in Rwanda. The bank was reported by the interviewees to have a total employee number of 6100 across the eastern African region. This is the biggest employee numbers for any commercial bank in Kenya.

The interviewees reported that KCB bank Ltd was motivated to enter into foreign markets by three major factors. One was cutthroat competition from other local and foreign owned bank in Kenya which saturated the market making it hard to improve market share. The other reason was the government of Kenya's policy of improving international relations which made relationship between Kenya and its neighbours cordial. This made it easy for KCB to forge a path into these markets. The other factor that was mentioned was the normal expansion brought about by IT potential. Integration of IT in operations and customer service enabled KCB Bank Ltd to be able to serve a wider network of customers. Responses from the officials interviewed indicate that generally, the motivations behind KCB's internationalization include economies of scale and scope, increasing market power, gaining knowledge enhancements leading to stronger capabilities and innovation, and exploiting entrepreneurial opportunities.

4.4 Challenges of Internalization

4.4.1 Bank's Strategy to International Environments

The researcher inquired from the interviewees whether the bank was involved in the process of adapting a firm's operations strategy to international environments that it was expanding to. KCB was reported to take advantage of the emerging regional investment opportunities to support inter-regional trade in the East African region. The interviewees pointed out that establishment of regional branches was in line with the Bank's regional expansion strategy, which was reported to be underpinned by its vision to be the "Best Bank in the region". As part of the expansion strategy, the interviewees indicated that KCB is exploring the prospects of establishing other subsidiaries in Burundi and other further countries to the central African region.

4.4.2 Governmental or Societal Challenges

When interviewees were required to comment on whether there were any governmental and societal actions or policies that challenged their regionalization strategy, bureaucracy in government administration and corruption was mentioned as a big challenge. Government licensing and interference was reported as a serious problem for KCB in its internationalization process. Lack of openness by host government and its people was another key challenge in some foreign markets. The term openness according to the marketing head at KCB refers to the lack of regulatory and other obstacles to entry of foreign firms. Openness, the marketing head further indicated, could either increase or decrease entry success. On the one hand, openness could increase success for three reasons. First, responses from one of the interviewees indicated that it stimulates demand by increasing the variety of products offered for sale in the market.

The interviewer was also informed that openness increases competition on quality and thus improves the level of quality supplied. Thirdly, one interviewee indicated that, as the economy opens up, competition increases efficiency and lowers prices, resulting in further increases in demand. Openness in Ugandan and Tanzanian markets was low according to the responses and it made KCB takeoff in those markets to take more time than projected.

On the issue of corruption, the interviewer enquired how KCB dealt with corruption in its foreign entry strategies. Interviewees indicated that the mode-of-entry decision is a critical element of international expansion. It substantially influences bank's resource commitment, investment risk, degree of control, and profits from international operations.

The interviewees further indicated that entry-mode decisions are costly to reverse, and thus have significant implications for long-term performance, even for large MNEs. Interviewees indicated that corruption and creeping expropriation by government officials was high in Southern Sudan which increased costs and complications in doing business. The interviewees also mentioned Uganda as the best in terms of regulation and corruption. There were minimal expropriation in Uganda which made it less costly in terms of compliance costs and operations. Other government actions were mentioned to affect KCB in its entry into foreign markets of Tanzania. These included the requirement by Tanzanian authorities that 80% of branch employees be Tanzanians made it more costly in terms of recruitment and selection costs. Even during starting, KCB was required to first hire 80% locals which made entry challenging. The interviewees indicated that the cost of transfer of staff, hiring new staff and training the newly hired staff were material which pushed up the initial outlay required to invest in the foreign markets. The costs of staff were amplified by the expatriate status the transferred staff had in the foreign markets. For KCB, entry into a foreign market requires not only a major resource commitment, but also ongoing direct management of the subsidiary and long-term interaction with various local government agencies in the foreign markets. According to the finance director, subsidiaries require local registration, permits, and various other government services, all involving opportunities for extortion. The more pervasive corruption is, the more likely KCB subsidiaries are to encounter such pressures to engage in corruption. When corruption is widespread, i.e., highly pervasive, local firms, as well as KCB subsidiaries, are more likely to comply with corrupt practices. This brings other challenges such as ethics and corporate governance.

The entry stage was mentioned by the interviewees as the most critical stage in the bank's internationalization strategy. This stage was mentioned by the interviewees to have challenging activities which attracted huge costs. These were mentioned to include cost of license, process before license is issued, interference by government regulatory agencies, cost of setting up, and poor infrastructure in some of the target foreign markets. The challenge of poor infrastructure was faced mostly in Southern Sudan. Another significant challenge which was established from the interviews was language. KCB's official language is English and in some of the countries it has targeted, the official language is different. The language problem was encountered in mostly Southern Sudan and Tanzania where common languages are Arabic and Kiswahili respectively. Xenophobia or fear of foreigners and their practices was another major challenge in Southern Sudan market where not many employees liked working there due to the negative perception they received in that country from the hosts. However, this was dissipated when more foreign companies opened in Southern Sudan and the good relationship between Kenyan and Southern Sudan authorities which have warmed relations between peoples of the two countries.

Another major consideration in the entry stage was mentioned by interviewees to be the return on investment expected from the selected foreign investment destination. This is another key consideration before a decision to enter any foreign market is arrived at, at KCB Bank. The interviewees indicated that the bank set a minimum return on investment

(ROI) which every foreign investment target had to satisfy to qualify. The bank was reported to have a long term ROI for about 5 years which had to be achieved.

4.4.3 Political and Regulatory Risk

The finance director indicated that there were specific country risks that challenged KCB entry in various regional markets. The finance director defined country risk as 'the uncertainty about the environment, which has three sources: political, financial, and economic. Political risk according to the finance head is the risk that laws and regulations in the host country will be changed adversely against a foreign firm. These could be of a regulatory nature, such as the imposition of tariffs, or of a political nature, such as unrest caused by pressure groups. At its severest, political risks may cause confiscation of assets without adequate compensation. These according to responses from interviewees are considered before KCB makes a decision to venture into any foreign market. Political and regulatory issues brought other challenges and attractions. A case in pint is on the decision to invest in Southern Sudan. The finance and strategy heads of KCB Bank Ltd indicated that they were formally invited and requested to invest in Southern Sudan by the government in that country. They therefore engaged in evaluation of the opportunity and though challenging, decided to take the advantage of a new upcoming nation. The challenge however in Southern Sudan investment was massive and this totaled an initial investment of Kshs 2 billion. This was due to bureaucracy, expropriation and poor structures of government in Southern Sudan market. The Bank was however welcomed well in Southern Sudan mainly because there were no established banks in the region.

The case however was very different in other countries as reported by the interviewees. The bank had to contend with many hostile receptions in specifically Uganda and Tanzania. This was because of the image of a foreign regional bank 'stealing' business from the local banks. The hostile reception according to responses was mainly by government administration units, regulators, other established banks and in some few instances the public. KCB when entering a foreign market for the first time is usually at a disadvantage compared to companies that are already operating in the focal market. This disadvantage cording to the administration head is because the bank faces liabilities of foreignness resulting from differences in legal, political, cultural, linguistic, and economic conditions between the bank's domestic market and its international market. Due to the liabilities of foreignness, KCB is at entry to a foreign market unable to transfer the knowledge it has gained from their operations in the domestic market to the international market.

4.4.4 Market Related Risks

On the question of whether market size was a consideration in selecting the investment destination, all interviewees indicated that this was a very highly important issue in every foreign investment decision by KCB Bank Ltd. In the evaluation stage, interviewees indicated that the number of banks in the targeted market, unbanked population and the general population were major determining factors. Other factors which played on the decision were deposits and revenue projects in the country targeted and revenue projections for the country in question.

In the decision on whether to enter into foreign markets, the interviewees clearly indicated that competitive forces in the host country were a major consideration. The activities going on in the target country were a major factor on whether to enter that market in question. KCB Bank Ltd was however on an advantage since it was the pioneer Kenyan bank and its roots in the country were firm. This according to the interviewees gave it an opportunity to focus on foreign markets. The decision to invest in foreign markets was further strengthened by the lack of any banks in the target countries investing in Kenya. This according to the head of operations was that banks in those countries were not strong enough and were not a formidable force to contend with.

4.4.5 Organizational Related Challenges

The interviewee sought to establish whether there were any organizational factors that challenged it in its foreign entry decisions. One of the factors that was mentioned was the bank's name which was localized. One interviewee clearly indicated that 'having a bank named Kenya Commercial Bank (Tanzania) Ltd' was a challenge when KCB first entered a foreign market, back in 1997. This challenge seemed to be managed by good service that the bank was offering customers. However, the challenge cropped up again. Other major challenges mentioned to emanate from organizational system include challenge in sourcing start-up capital, challenge in integrating the IT platform to coordination the whole branch network, approval of foreign market investment by the bank's board. Other factors included resistance by management and staff. The fear of management and staff came from the fear of new places and the competing investments which made resource allocation between local and foreign business challenging. Some parts of management also were mostly of the opinion that foreign investment should be suspended e.g. in case of Southern Sudan where the condition is thought to be still volatile. The interviewees indicated that in most foreign entry decisions, some quarters of management are of the thought that an early foray into foreign emerging market exposes the bank to particular challenges.

When venturing into foreign markets for the very first time, the bank was unfamiliar with the foreign market environment and faced "*liabilities of foreignness*" which could have endangered their growth ambitions in the foreign markets and even locally. Thus, to handle the liabilities of being foreign, KCB according to the operations head always initiates a process to learn about foreign market particularities before venturing abroad for the first time. According to the administration head, entry learning describes the mechanisms a firm uses to acquire the necessary foreign market knowledge before entering the foreign market.

4.5 Discussion of Findings

KCB is involved in the process of adapting a firm's operations strategy to international environments that it is expanding to. KCB is reported to take advantage of the emerging regional investment opportunities to support inter-regional trade in the East African region. The interviewees also pointed out that establishment of regional branches were in line with the Bank's regional expansion strategy, which was reported to be underpinned by its vision to be the "Best Bank in the region". As part of the expansion strategy, the interviewees indicated that KCB is exploring the prospects of establishing other subsidiaries in Burundi and other further countries to the central African region. Though researchers have not yet developed a single coherent theory of the drivers of success or failure of entry in emerging markets, the study agrees with findings from a study by Madhok (1997) firms find it easy to deal with host countries that are close in economic distance from their home country for several reasons. First, countries close in economic development have similar market segments that can afford to consume similar types of goods and services. Thus, knowledge about market demand transfers easily from home to host country. Second, countries close in economic development have similar physical infrastructure, such as airports, roadways, railways, and seaports. Thus, firms serving a host country with an infrastructure similar to the home country will enjoy efficiencies in its operations, thus lowering costs. Third, firms develop competencies or knowledge-based resources that are related to the markets they serve. These resources can be best leveraged in countries that are similar in economic development because the skills learned in one market can be replicated in or adapted to the new markets. Firms entering countries that are widely different economically from their home country need to adjust to the new market conditions, thus reducing their likelihood of success. This explains why KCB's focus is only on neighboring countries and those that are not far off . this reduces the challenges which increases the risk of failure.

On challenges emanating from governmental and societal actions or policies that challenge KCB's regionalization strategy, bureaucracy in government administration and corruption was mentioned as a big challenge. Government was reported as a serious problem for KCB in its internationalization process. These findings concurred with findings from a study by Rodriguez et al. (2005). The interviewees further indicated that as KCB sought markets, its encounter with corruption increased. The interviewees also indicated that corruption is particularly widespread in transition and less-developed economies of eastern Africa. This finding agrees with the findings from a study by Hellman et al. (2000) which found that international firms seeking to enter emerging economies in Africa and Latin America encountered massive corruption which put them off from otherwise promising investments.

On the issue of corruption, the interviewee enquired how KCB dealt with corruption in its foreign entry strategies. Interviewees indicated that the mode-of-entry decision is a critical element of international expansion. It substantially influences bank's resource commitment, investment risk, degree of control, and profits from international operations. The interviewees further indicated that entry-mode decisions are costly to reverse, and thus have significant implications for long-term performance, even for large MNEs. Interviewees indicated that corruption and creeping expropriation by government officials was high in Southern Sudan which increased costs and complications in doing business. The interviewees also mentioned Uganda as the best in terms of regulation and corruption. There were minimal expropriation in Uganda which made it less costly in terms of compliance costs and operations. Other government actions were mentioned to affect KCB in its entry into foreign markets of Tanzania. These included the requirement by Tanzanian authorities that 80% of branch employees be Tanzanians made it more costly in terms of recruitment and selection costs. Even during starting, KCB was required to first hire 80% locals which made entry challenging. The interviewees indicated that the cost of transfer of staff, hiring new staff and training the newly hired staff were material which pushed up the initial outlay required to invest in the foreign markets. The costs of staff were amplified by the expatriate status the transferred staff had in the foreign markets.

The entry stage was mentioned by the interviewees as the most critical stage in the bank's internationalization strategy. This stage was mentioned by the interviewees to have challenging activities which attracted huge costs. These were mentioned to include cost of license, process before license is issued, interference by government regulatory agencies, cost of setting up, and poor infrastructure in some of the target foreign markets. The challenge of poor infrastructure was faced mostly in Southern Sudan. Another significant challenge which was established from the interviews was language. KCB's official language is English and in some of the countries it has targeted, the official language is different. The language problem was encountered in mostly Southern Sudan and Tanzania where common languages are Arabic and Kiswahili respectively. Xenophobia or fear of foreigners and their practices was another major challenge in Southern Sudan market where not many employees liked working there due to the negative perception they received in that country from the hosts. However, this was dissipated when more foreign companies opened in Southern Sudan and the good relationship between Kenyan and Southern Sudan authorities which have warmed relations between peoples of the two countries. Consumers are not driven by economic considerations alone. These findings agree with those from as study by De Mooij (2004) which established that the underlying cultural dimensions of a society affect its consumption pattern beyond what economic laws predict. Culture is usually defined as shared values and meanings of the members of a society. It affects not only the underlying behavior of customers in a market but also the execution and implementation of marketing and management strategies.

Another major consideration in the entry stage was mentioned by interviewees to be the return on investment expected from the selected foreign investment destination. This is another key consideration before a decision to enter any foreign market is arrived at, at KCB Bank. The interviewees indicated that the bank set a minimum return on investment (ROI) which every foreign investment target had to satisfy to qualify. The bank was reported to have a long term ROI for about 5 years which had to be achieved. The challenge of foreign markets not achieving required returns on investment was mentioned by the finance director. A study by Erb, Harvey, and Viskanta (1995) determined that firms in their internationalization were faced with the risk of financial and economic uncertainty about the environment. Financial and economic risks manifest in several ways. They could take the form of recessions or market downturns, currency crises, or sudden bursts of inflation. Most of these factors arise from imbalances in the underlying economic fundamentals of the host country, such as a balance of payment crisis. Recessions result from business cycles inherent in any economy. These challenges are said to manifest more in developing countries.

Political and regulatory issues brought other challenges and attractions. A case in pint is on the decision to invest in Southern Sudan. The finance and strategy head of KCB Bank Ltd indicated that they were formally invited and requested to invest in Southern Sudan by the government in that country. They therefore engaged in evaluation of the opportunity and though challenging, decided to take the advantage of a new upcoming nation. The challenge however in Southern Sudan investment was massive and this totaled an initial investment of Kshs 2 billion. This was due to bureaucracy, expropriation and poor structures of government in Southern Sudan market. The Bank was however welcomed well in Southern Sudan mainly because there were no established banks in the region. The case however was very different in other countries as reported by the interviewees. The bank had to contend with many hostile receptions in specifically Uganda and Tanzania. This was because of the image of a foreign regional bank 'stealing' business from the local banks. The hostile reception according to responses was mainly by government administration units, regulators, other established banks and in some few instances the public. This study agrees with Porac, & Wade's (2004) study in Latin America. The study observed that market entry not only increases competition for customers within an industry, but also forces incumbent firms to decide whether or not to collaborate with the entering firms in strategic alliances, industry associations, underwriting syndicates, and other forms of relationships. The decision to collaborate or not is particularly important when entering firms threaten to destabilize and replace the established logics—or social rules, norms, and structures—that shape competition and collaboration within an industry with new logics that favor the entering firms. Another study by Fligstein (2001) also had similar findings where entering forms are locked out or excluded from deal, alliances and partnerships by incumbent firms. The incumbent firms must therefore use collaborative relationships discriminatingly to manage threats from market entry by selectively providing and withholding entering firms' opportunities to collaborate with incumbent firms. This however is determined by what strategy or model the entering firm adopts. A combative entry may create resentment in incumbent firms and increase the risk of exclusion.

Market size was an important consideration in selecting the investment destination by KCB Bank Ltd. In the evaluation stage, interviewees indicated that the number of banks in the targeted market, unbanked population and the general population were major determining factors. Other factors which played on the decision were deposits and revenue projects in the country targeted and revenue projections for the country in question. In the decision on whether to enter into foreign markets, the interviewees clearly indicated that competitive forces in the host country were a major consideration. The activities going on in the target country were a major factor on whether to enter that market in question. KCB Bank Ltd was however on an advantage since it was the pioneer Kenyan bank and its roots in the country were firm. This according to the interviewees gave it an opportunity to focus on foreign markets. The decision to invest in foreign markets was further strengthened by the lack of any banks in the target countries investing in Kenya. This according to the head of operations was that banks in those countries were not strong enough and were not a formidable force to contend with.

The interviewee sought to establish whether there were any organizational factors that challenged it in its foreign entry decisions. One of the factors that was mentioned was the bank's name which was localized. One interviewee clearly indicated that 'having a bank named Kenya Commercial Bank (Tanzania) Ltd' was a challenge when KCB first entered a foreign market, back in 1997. This challenge seemed to be managed by good service that the bank was offering customers. However, the challenge cropped up again. Other major challenges mentioned to emanate from organizational system include challenge in sourcing start-up capital, challenge in integrating the IT platform to coordination the whole branch network, approval of foreign market investment by the bank's board. Other factors included resistance by management and staff. The fear of management and staff came from the fear of new places and the competing investments which made resource allocation between local and foreign business challenging. Some parts of management also were mostly of the opinion that foreign investment should be suspended e.g. in case of Southern Sudan where the condition is thought to be still volatile. These findings concur with management literature which has identified numerous firm-level factors that affect entry mode. Examples include a study by Davis et al. (2000), Delios and Beamish (1999) and Shrader (2001).

KCB has learnt many lessons from the many foreign markets it has entered according to the views of the operations director. The challenges has given the bank experience in entering foreign markets and today it is more prepared in entering foreign markets than it was in its first trial in 1997. The bank has leaped good returns from its foreign operations and it is planning to enter more regional markets such as Burundi and Democratic Republic of Congo, in line with its vision 'to be the best bank in the region.' These are views which were from the finance director who indicated confidence that expansion was on course and was bearing fruits amid many challenges. One of the key pillars of internationalization is resources.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the outcome of the study. It provides a summary of findings and their interpretation and then lays down the conclusions drawn from the findings. The researcher then provides recommendations on the gaps identified in the study. Lastly, the researcher gives recommendations for further research studies to be carried out in this area.

5.2 Summary of Findings

The researcher inquired from the interviewees whether the bank was involved in the process of adapting a firm's operations strategy to international environments that it was expanding to. KCB was reported to take advantage of the emerging regional investment opportunities to support inter-regional trade in the East African region. The interviewees pointed out that establishment of regional branches was in line with the Bank's regional expansion strategy, which was reported to be underpinned by its vision to be the "Best Bank in the region". As part of the expansion strategy, the interviewees indicated that KCB is exploring the prospects of establishing other subsidiaries in Burundi and other further countries to the central African region.

When interviewees were required to comment on whether there were any governmental and societal actions or policies that challenged their regionalization strategy, bureaucracy in government administration and corruption was mentioned as a big challenge.

Government was reported as a serious problem for KCB in its internationalization process. These findings concurred with findings from a study by Rodriguez et al. (2005).

The interviewees further indicated that as KCB sought markets, its encounter with corruption increased. The interviewees also indicated that corruption is particularly widespread in transition and less-developed economies of eastern Africa. This finding agrees with the findings from a study by Hellman et al. (2000) which found that international firms seeking to enter emerging economies in Africa and Latin America encountered massive corruption which put them off from otherwise promising investments. The researcher enquired how KCB dealt with corruption in its foreign entry strategies. Interviewees indicated that the mode-of-entry decision is a critical element of international expansion. It substantially influences bank's resource commitment, investment risk, degree of control, and profits from international operations.

The interviewees further indicated that entry-mode decisions are costly to reverse, and thus have significant implications for long-term performance, even for large MNEs.

Interviewees indicated that corruption and creeping expropriation by government officials was high in Southern Sudan, which increased costs and complications in doing business. The interviewees also mentioned Uganda as the best in terms of regulation and corruption. There were minimal expropriation in Uganda that made it less costly in terms of compliance costs and operations.

Other government actions were mentioned to affect KCB in its entry into foreign markets of Tanzania. These included the requirement by Tanzanian authorities that 80% of branch employees be Tanzanians made it more costly in terms of recruitment and selection costs. Even during starting, KCB was required to first hire 80% locals which made entry challenging. The interviewees indicated that the cost of transfer of staff, hiring new staff and training the newly hired staff were material which pushed up the initial outlay required to invest in the foreign markets. The costs of staff were amplified by the expatriate status the transferred staff had in the foreign markets.

The entry stage is stage was mentioned by the interviewees to have challenging activities that attracted huge costs. These were mentioned to include cost of license, process before license is issued, interference by government regulatory agencies, cost of setting up, and poor infrastructure in some of the target foreign markets. The challenge of poor infrastructure was faced mostly in Southern Sudan. Another significant challenge which was established from the interviews was language: KCB's official language is English and in some of the countries it has targeted, the official language is different. The language problem was encountered in mostly Southern Sudan and Tanzania where common languages are Arabic and Kiswahili respectively. Xenophobia or fear of foreigners and their practices was another major challenge in Southern Sudan market where not many employees liked working there due to the negative perception they received in that country from the hosts. However, this was dissipated when more foreign companies opened in Southern Sudan and the good relationship between Kenyan and

Southern Sudan authorities which have warmed relations between peoples of the two countries.

Political and regulatory issues brought other challenges and attractions. A case in pint is on the decision to invest in Southern Sudan. The finance and strategy head of KCB Bank Ltd indicated that they were formally invited and requested to invest in Southern Sudan by the government in that country. They therefore engaged in evaluation of the opportunity and though challenging, decided to take the advantage of a new upcoming nation. The challenge however in Southern Sudan investment was massive and this totaled an initial investment of Kshs 2 billion. This was due to bureaucracy, expropriation and poor structures of government in Southern Sudan market. The Bank was however welcomed well in Southern Sudan mainly because there were no established banks in the region. The case however was very different in other countries as reported by the interviewees. The bank had to contend with many hostile receptions in specifically Uganda and Tanzania. This was because of the image of a foreign regional bank 'stealing' business from the local banks. The hostile reception according to responses was mainly by government administration units, regulators, other established banks and in some few instances the public.

In the evaluation stage, interviewees indicated that the number of banks in the targeted market, unbanked population and the general population were major determining factors. Other factors which played on the decision were deposits and revenue projects in the country targeted and revenue projections for the country in question. In the decision on whether to enter into foreign markets, the interviewees clearly indicated that competitive forces in the host country were a major consideration. The activities going on in the target country were a major factor on whether to enter that market in question. KCB Bank Ltd was however on an advantage since it was the pioneer Kenyan bank and its roots in the country were firm. This according to the interviewees gave it an opportunity to focus on foreign markets. The decision to invest in foreign markets was further strengthened by the lack of any banks in the target countries investing in Kenya. This according to the head of operations was that banks in those countries were not strong enough and were not a formidable force to contend with.

One of the factors that was mentioned was the bank's name which was localized. One interviewee clearly indicated that 'having a bank named Kenya Commercial Bank (Tanzania) Ltd' was a challenge when KCB first entered a foreign market, back in 1997. This challenge seemed to be managed by good service that the bank was offering customers. However, the challenge cropped up again.

Other major challenges mentioned to emanate from organizational system include challenge in sourcing start-up capital, challenge in integrating the IT platform to coordination the whole branch network, approval of foreign market investment by the bank's board. Other factors included resistance by management and staff. The fear of management and staff came from the fear of new places and the competing investments, which made resource allocation between local and foreign business challenging. Some parts of management also were mostly of the opinion that foreign investment should be suspended e.g. in case of Southern Sudan where the condition is thought to be still volatile.

The challenges have given the bank experience in entering foreign markets and today it is more prepared in entering foreign markets than it was in its first trial in 1997. The bank has reaped good returns from its foreign operations and it is planning to enter more regional markets such as Burundi and Democratic Republic Of Congo, in line with its vision 'to be the best bank in the region.' These are views which were from the finance director who indicated confidence that expansion was on course and was bearing fruits amid many challenges.

5.3 Conclusions

Foreign market entry is a process fraught with difficulty for firms, given the unknowns of operating in settings that can be very different from their home countries. KCB has faced many challenges in its endeavor in spreading throughout the eastern Africa region. The bank has encountered challenges which are unlike the ones in Kenya. KCB Bank Ltd derives its competitive advantage by serving the needs of customers in the eastern Africa region often focusing on geographically close countries through the use of cheap resources, such as IT. KCB differs from other types of internationalizing firms in that it restricts itself to the markets of developing countries in the eastern Africa region ,since they are generally less expensive and less risky to enter due to lower competition than in markets that are already developed and geographically farther away.

In this study, the major challenges of internationalization faced by KCB were political and regulatory, resource availability, alignment of resources to the foreign market and some societal factors inherent in cultures of host country's people. There was also the challenge of host country firms ganging up against the entering bank. The rapid integration of eastern African economies into the global trading and investment system increasingly exposes MNEs and other local firms expanding to regional markets. Emerging markets of eastern Africa are in their early development stages and severe corruption abounds both in government and the private sector. Moreover, our findings indicate that corrupt governments create informal restrictions to foreign ownership in addition to deterring FDI via legal restrictions to foreign ownership and operation. The different institutional environments faced by an MNE's subsidiaries create institutional pressures between local adaptation requirements and internal norms which creates firm-internal institutional conflict in some instances.

Another major challenge to firms internationalizing is infrastructure. Success is substantially and significantly lower in countries with poor infrastructure. Infrastructure which is substantially superior makes operations much easier for new entrants. Control of resources and how they are deployed may lie at the heart of success in foreign markets. Lack or inadequate resources can spell doom to a firm's foreign operations. Volatility in foreign markets was another challenge because volatile markets are characterized by rapid environmental changes that require continuous adaptability and learning.

Openness of markets is another challenge where some governments have not fully integrated their economies with the other in the region. Openness suggests easier entry and, thus, easier success. However, what is often overlooked is that what is true for one entrant is also true for other entrants. Greater openness results in more firms from the same industries from multiple countries entering the fray. This competition puts downward pressure on margins, making it increasingly difficult for all firms to succeed. Thus, increasing openness increases competition and decreases success. Consistent with this result, the study establishes that where KCB entered early, it gained more success.

Economic and cultural proximity between the home and the host country favors successful entry into emerging markets. In terms of Uganda which has conditions and culture which are consistent with Kenya, there are fewer challenges. In countries where the culture materially differs from the home country, more challenges are encountered. My analysis of the challenges indicates that one of the most frequently cited reasons for success or failure in foreign markets is how well or poorly the entrant adapts the product to the local culture.

5.4 Limitations of the Study

This study aimed at carrying an investigation of the challenges faced by commercial banks during internationalization. The study focused on KCB Bank Ltd to establish the challenges it has encountered in its drive to expand to the entire Eastern African region. Banks by tradition are known to observe the highest secrecy in their operations for them to protect customer's confidentiality and bank information. For that reason, some of the queries were not answered to the satisfaction of the interviewer and some vital information may have been withheld. However that information was regarded as private by the banks and hence could not have impacted negatively on the findings.

Another limitation comes in generalization of the findings since this was a case study. A case study usually has this limitation though it was appropriate in this study since in-depth knowledge on the challenges was required.

5.5 Recommendations For Further Research

This study aimed at establishing the challenges faced by commercial banks in Kenya in their internationalization process. The study focused on Kenya Commercial Bank Ltd and studied the challenges the bank has faced over the years in its bid to enter regional markets. Though the study gave an insight on the challenges that typical banks can face in internationalization, some of the challenges faced by KCB bank Ltd are specific to the bank and therefore cannot be readily generalized to banks. Another study could therefore be carried out to establish the challenges that other banks like Equity Bank Kenya Ltd faces in entering foreign markets. Such a study could also focus on other foreign banks operating in Kenya to find out the challenges they have faced in entering the Kenyan market. This study would add more knowledge on this area which would add to the information provided in this study.

5.6 Recommendations For Policy and Practice

The plateauing of growth in the Kenyan banking market has resulted in a costly battle for market share. Driven by a growth imperative and faced with slackening demand in traditional markets, KCB has been compelled to increase promotional expenses and innovate for instance developing new products or product variants to maintain market position. As a result, KCB is continually looking for new growth opportunities outside Kenya. These include both large and small emerging markets, such as Rwanda, Uganda Burundi and Southern Sudan. In entering these markets, KCB like many other internationalizing companies have encountered various challenges which if not checked can result to failure of foreign operational strategy. Other banks should follow suit and spread their businesses across the east African region. This serves two purposes, diversification and improved market share. However this process is riddled by challenges which should be critically analyzed before any decision to enter a foreign market.

Most of the challenges that have been mentioned in this study include mostly those emanating from the political, legal and the organizations themselves. A recommendation therefore goes to regional governments to ensure that their market do away with market imperfections such as high cost of entry, poor infrastructure, poor regulation and corruption. This will go a long way in increasing competitiveness in such markets which is beneficial to customers.

The dramatic changes in the regional marketplace have important implications for the marketing strategies of MNCs from developed countries including KCB. Such companies need to reformulate their global or regional strategy, adopting a broader focus as indicated. On the one hand, this entails developing new initiatives to stimulate and capture demand in their traditional markets and at the same time they must formulate new strategies to target the wide range of growth opportunities in other countries throughout the region. For example, KCB bank Ltd has managed to increase its overall revenue, because it has moved aggressively into developing markets of eastern Africa. The study recommends to organizations specifically a bank like KCB to study carefully foreign markets such that entry to such markets will add value to the whole business.

Emerging markets of the region are an important avenue for growth. Literature on international management suggests that home country advantages allow firms to compensate for the difficulties associated with operating abroad. This stream of research has tended to emphasize the advantages associated with the possession of brands, technology, know-how, and general management skills. The study recommends to companies to stamp their competitiveness in their home country before heading to other foreign markets.

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APPENDIX 1: THE INTERVIEW GUIDE

Part 1

General information

1. Name of the interviewee (optional) ……………………………………………………

2. What is your job title in Kenya Commercial Bank (KCB)?

………………………………………………

3. What gender are you?

a) Male (…….)

b) Female (…….)

4) What is your level of Education?

a) Post Graduate (……….)

b) Under Graduate (………)

c) College (……..)

d) Others (……..)

5. How many years have you worked for Kenya Commercial Bank (KCB) up to now?

Please tick one

a) Below 5 years (……)

b) 5-10 years (……)

c) 11-15 years (……)

d) Over 15 years (......)

6. Where are you working currently? Please tick one

a) Branch (.......)

b) Head office (.......)

7. What is your department's main role in the Kenya Commercial Bank (KCB)?

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7. How many branches does the bank have?

Below 5 branches [ ]

5-------10 branches [ ]

10------20 branches [ ]

20-------30 branches [ ]

Above 30 branches [ ]

8. What is the total number of employees in the bank currently?

Below 50 People [ ]

51-------100 People [ ]

101------200 People [ ]

201------300 People [ ]

Above 300 People [ ]

Part II: Challenges for internationalization

1. Is your firm currently involved in the process of adapting a firm's operations (strategy, structure, resource, etc.) to international environments?

Yes [ ] No [ ]

2. How did your firm begin to internationalize its operations from the start up to overseas production?

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3. Has your firm been experiencing governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either you as a select group of, or the majority of, foreign business operations and investments?

Yes [ ] No [ ]

4. Do you treat political risk assessment as a very important aspect in your firm's international activities?

Yes [ ] No [ ]

5. What are your firm's key areas of focus in political risk assessment in your international involvement?

a) Focus on foreign direct investments (FDI) [ ]

b) Focus on exporting, outsourcing [ ]

c) Focus on licensing [ ]

d) Focus on franchising [ ]

e) Others

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6. What is the most critical stage in a firm's internationalization process?

a) During the pre-entry stage [ ]

b) During the entry stage [ ]

c) During the post entry stage [ ]

d) All of the above [ ]

7.How does your firm view political risk?

a) Political risk is viewed in terms of government interference with business operations [ ]

b) Events, such as creeping expropriation, devaluation and revaluation, foreign exchange controls, and foreign wars [ ]

c) the possibility of losses rather than creation of new opportunities [ ]

8. What are the market related challenges that KCB face in internationalization process……………………………………………………………………………………

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9. In the internationalization process, what competitive related challenges does KCB face……………………………………………………………………………………

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10. What Organizational related challenges does KCB experience in the internationalization procedure……………………………………………………………………………

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11. What are some of the Regulations that KCB view as a challenge to internationalization process...

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12. Does KCB view the Product offered as a challenge to their internationalization process? .... If yes, how is it a challenge?..

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13. Does KCB see the Customers as causing the challenge to internationalization procedure?.............................. If yes, what are these challenges..

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14. Is the Entry Mode to international market challenge to KCB? .... If yes, how is it a challenge...

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16. Does KCB view Competition as a challenge to its internationalization process? .... If yes, how……………………………………………………………………………………

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17. Are resources posing challenges to internationalization process?……………………………… If yes, which resources and how are they challenge……………………………………………………………………………

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18. Any other comments

Thank You