

CHALLENGES OF INTERNATIONALIZATION EXPERIENCED

BY BARCLAYS BANK OF KENYA

BY

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DECLARATION

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

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DEDICATION

I dedicate this work to my dear husband and my daughter for their inspiration, encouragement and support in the course of undertaking this study.

ABSTRACT

Globalization has rendered international expanding activities increasingly important for the survival, growth and success of modern firms. Simultaneously, the banking industry has been undergoing major consolidation in recent years, with a number of global players emerging through successive mergers and acquisitions. Competition is generally considered a positive force in most industries; it is supposed to have a positive impact on an industry's efficiency, quality of provision, innovation and international competitiveness. However, this issue has always been controversial in banking, as the perceived benefits derived from increased competition have to be weighed against the risks of potential instability. In the process of internationalization banks face certain challenges in the process of internationalization. The study reviewed the entire literature related to internationalization of firms. It identified factors that are at play during the process of internationalization. Focus was given to major obstacles of internationalization experienced by firms as they make forays into the international markets outside their local indigenous countries. By using a case study of Barclays bank Kenya, the study targeted the senior-level managers since they are mainly involved in internationalization process and are likely to have the information on the challenges faced during the process. The data was obtained from the various management team members belonging to different departments, and it was compared against each other in order to get more revelation on challenges of internationalization experienced by Barclays bank of Kenya. The results indicate that the main challenges that affected the process were culture, political, legal and regional trading blocs. The Board and senior leadership, as custodians of Barclays' reputation, should promote and safeguard the trust in which it is held. They should state clearly Barclays' purpose and report regularly on how it is fulfilling that purpose. They should promote standards that support Barclays' ambition to be seen as a leader in business practices among its peer institutions and multi-national corporates generally. The study recommends a further research to be done on the role or impact of foreign banks in the development of Kenya.

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ACRONYMS AND ABBREVIATION

CBK	Central Bank of Kenya
COMESA	Common Market for East and Southern Africa
DFI	Direct Foreign Investment
EAC	East African community
ECOWAS	Economic Community of West Africa
KBA	Kenya Bankers Association
MNCs	Multinational Corporation's
MNEs	Multinational Enterprises
SADC	South African Development Community

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Internationalization of a company can be defined as the process of increasing involvement of a company in international market external to the traditional environment of the company. According to Thompson and Strickland (1993), internationalization refers to the integration of economies throughout the world by means of trade, financial and technological flows, exchange of technology and information and movement of people, goods and services. Bhagwati, (2004) internationalization as the integration of national economy into international economies through trade, Direct Foreign Investment (DFI), capital flows, migration and transfer of technology. Internationalization has stemmed from the general shift of world economies from a localized to a more global focus (Bhagwati, 2004). Johnson, and Scholes, (2002) also see internationalization as the strategy of approaching worldwide markets with standardized products.

Growth by international diversification is an important strategic option for both small and large firms. Due to internationalization of firms, globalization of markets and ongoing economic integration there has been growing interdependency of countries worldwide (Esther, 2011). According to Root (1994), the new global economy has created business environments that require firms to look past the traditional thinking of the domestic market and to start looking at business from an international global perspective.

The last decade has witnessed a dramatic increase of Kenyan Multinational Corporation's (MNCs) and Multinational Enterprises (MNEs) foreign participation in emerging markets. Firms like Barclays Bank, Kenya Commercial bank and Equity bank among others have successfully entered into the Rwanda, Uganda, and Tanzania markets. Barclays Bank has even expanded its horizon further into southern and central African regions. Entering foreign market is crucial for a global strategy while focusing on the necessity to overcome the liability of foreignness. However, the process is beset by many challenges (Emarilli, 1990).

1.1.1 Concept of Internationalization

According to Thompson and Strickland (1993), internationalization refers to the integration of economies throughout the world by means of trade, financial and technological flows, exchange of information and movement of people, goods and services. Still Masum, & Fernandez (2008), see internationalization as the process of availing goods and services to markets that are outside the country of origin of the producing company. Companies go international in a bid to compete for resources that are limited in the local environment and depend on the global economy to provide them with the necessary market for their products (Beamish, 1990). Beamish (1990), further observed that internationalization is a process where firms start by increasing their awareness of the direct and indirect influences of international transaction in the future, before moving on to establish and conduct transactions with other countries. This process is possible through the use of technology and effective communication channels which

are advanced today allowing labour and other factors of production to be flexible and stretch across countries (Bell, Crick, 2004).

Internationalization of firms has been a key debate in international business in the past two decades. As the global economies become more and more integrated, it becomes even more important for individual firms to keep up with the emerging trends (Emarilli, 1990). The way a company ventures from domestic market to new geographical market outside the country of origin is critical in determining success (Aharoni, 1993). Internationalization may take the form of global sourcing, exporting or investment in key markets abroad. According to Sullivan (1996), the more proactive firms seek simultaneous presence in all major trading regions. They concentrate their activities in those countries where they can achieve and sustain competitive advantages. Firms internationalize value-chain activities to reduce the cost of research and development & production, and to gain closer access to customers (Li, 1994).

The main challenge is how to broaden their cultural perspective, adapt new cultures and make decisions that reflect the needs and the desires of those cultures (A. Rugman and R. Hodgetts 2006). This can be achieved by understanding the elements of culture - i.e. language, religion, values, attitudes, customs & manners, material goods, aesthetics and education. Thompson and Strickland (2001) argue that for an organization to be successful, both in the domestic and international markets, there must be a fit between the organization's strategy, structure, systems, staff, skills, shared values and style. There are a variety of barriers that deter the free flow of international goods and services. These

include but not limited to: Price based barriers which are tariffs added to the prices of imported goods and services and are based on the value of goods. They generate revenue for the home government, discourage imports and make locally manufactured goods cheaper and attractive (Alan, Rugman, 2003). Financial limits in form of exchange controls that restrict the flow of currency are also used. Others are limit of currency that can be taken out of the country, use of fixed exchange rates that are favorable to local country among others. Quantity limits- oftenly referred to as 'quotas' are used to restrict the quantity of goods that can be imported or the market share that is permitted to be supplied from a foreign source. If the quota is set at zero it is known as an embargo and this prohibits any imports into the country.

1.1.2 Barriers to Entry into Foreign Markets

Entry barriers are present, in any market, to protect domestic industry or to ensure that companies entering from foreign markets conform to trade relations & arrangements with other countries (Johansson, 1997). These barriers may relate to entry, exit and the market place and can be both tariff and non-tariff in nature. Such barriers also include aspects that impinge on the form of international market entry such as regulations relating to local content and ownership. Exit barriers may relate to repatriation of profits, dividends & capital, taxation issues and technology transfer. Marketplace barriers can include access to skilled personnel, availability of warehouse space, transportation, allocation of critical inputs such as power, water and control over prices (De Burca, Fletcher, & Brown, 2004). According to Bradley (2005) firms pursue international strategies due to strategic or reactive reasons. These include the need to seek opportunity for growth

through market diversification because of the large market potential, the need to earn higher profit margins, intense competition in the domestic market, the need to follow and service their multinational clients as well as search for new business opportunities (Boddewyn, Halbrich, Perry, 2000).

According to Root (1990), the new global economy has created business environments that require firms to look past the traditional thinking of the domestic market and to start looking at business from an international global perspective. Instead, Friedman, (1999) noted that globalization brings tremendous opportunities and benefits. Increasing globalization, according to Bender, and Fish (2000) leads to an increase in international joint ventures, companies establishing subsidiaries and sales offices abroad. To be successful companies must manage their knowledge within the organization across the national borders.

In Kenya, the process of globalization has had catastrophic effects on many local companies. Most of these companies were unable to engage adaptive strategic responses to exploit business opportunities presented by globalization and they were forced to either scale down their operations or close down altogether (Mugo, 2008). The changed business environment presented challenges to both indigenous companies as well as some multinational companies which had accustomed themselves to the narrow local market. However, in the midst of all these challenges, Barclays Bank was able to grow its business volumes and transform itself into a multinational enterprise. The study therefore

sought to conduct a survey to identify challenges of internationalization experienced by Barclays bank of Kenya.

1.1.3 Banking Industry In Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2011 there were forty three banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The locally owned financial institutions comprise 3 banks with significant government shareholding and 28 privately owned commercial banks. The foreign owned financial institutions comprised 8 locally incorporated foreign banks and 4 branches of foreign incorporated banks. Of the 42 private banking institutions in the sector, 71% are locally owned and the remaining 29% are foreign owned (Central Bank of Kenya, 2011).

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. The Central bank of Kenya oversees the operations of all commercial banks. During the on-site inspections all risks are evaluated and necessary remedial actions are recommended. The banks have come together under the Kenya Bankers Association

(KBA), which serves as a lobby for the banking sector's interests. In the banking industry the subsidiaries quest for survival implies the development of its own strategy within the limits imposed by the Multinationals. If operational activities, such as agent banking, are subject to delocalization upheavals, subsidiaries that play a strategic role within the Multinationals may appear harder to be relocated, given their contribution to the overall Multinationals performance (Jarillo & Martínez, 2000).

1.1.4 Barclays Bank of Kenya

Barclays Bank PLC is an international bank and financial services company with its headquarters based in London. Through the parent company and various subsidiary companies it provides financial services covering retail banking, investment and corporate banking, wealth management and credit cards. It has more than forty eight million customers in over fifty countries. This global presence would have never been imagined by its early Quaker founders. The foundation of its activities can be traced back to April 1690 in the City of London. John Freame and Thomas Gould, both Quakers, started a partnership as goldsmiths. At this time goldsmiths acted as bankers giving loans to merchants and businessmen, for this was the very earliest stages of private banking in England.

Barclays has operated in Kenya for over 90 years. Financial Strength coupled with extensive local and international resources have positioned Barclays Bank of Kenya as a foremost provider of financial services. Barclays has established an extensive network of 117 outlets with over 230 ATMs spread across the country. The bank's financial

performance over the years has built confidence among the Bank's shareholders, with a reputation as one of the leading blue chip companies on the Nairobi Stock Exchange. As a commercial enterprise, Barclays must be profitable to survive. However it does not believe that profit should be made at any cost. The previously mentioned values, set out how it aims to undertake business in the interests of its employees and customers. Underpinning these values is a fundamental principle to maintain and protect customer confidentiality and to comply with the laws and regulations governing the industry.

Countries bend backwards to accommodate multinationals, socialists term them as agencies of capitalism while for others, they are a source of jobs and technology transfer. As the country seeks to attract foreign investment including Multinationals thus bringing impact on Small and Medium enterprises. The more one particular subsidiary participates in this process, the more embedded it will be in strategic terms. Consider for instance the effect that the Barclays bank in United Kingdom had on Headquarters through its involvement in the strategy of Europe. In different European meetings, Headquarters claimed the importance of serving African customers. However, none of the subsidiaries of the Multinationals felt confident to overcome problems derived from cultural, geographic distance and language differences.

1.2 Research Problem

Despite the various researches done on internationalization process, there is still insufficient knowledge about clear cut challenges which influence transformation of firms from local to multinational status (O'Farrell, 1998 as cited by Kimani, E. 2011).

Internationalization of business has taken on many facets in terms of trade, investment & ownership, manufacturing & sourcing, markets & customers, finance and technology. The abolition of distance, through improved technology, tended to generate a “uniform distance-less” called globalization in which fundamentally distinct objects became part of a homogeneous experiential mass (Heidegger, 1971). Multinational Enterprise must possess ownership specific advantages that are unique to the firm relative to other firms already doing business in the market (Dunning, 1995).

Barclays Bank specifically considered resources such as financial strength, management resource, technological resource, efficient and elaborate distribution channels, innovative products as well as their customer service strengths before making a decision to go multinational. Rarity of firm-specific assets encourages firms that possess them to leverage such assets in the foreign markets (Friedman, 1999). Patents, brands and trademarks legally protect the rarity of certain product features e.g Barclays Bank brand is a leading brand in the banking industry in east and central Africa.

A number of studies have been carried out challenges of internationalization. Doherty, (2011) identified external environmental factors that hinder foreign/regional market entry as: management inexperience, unavailability of resources, weak organizations strategy & goals, internal competition, political instability, non-transparent legal atmosphere and inaccessibility technological infrastructure. Esther, (2011) identified political, legal, availability of financial resources, competitions and product brand strengths as some of the major influencing factors. Musyoka, (2011) in his study of competitive strategies

adopted by Barclays Bank in developing sustainable competitive advantage focused mainly on success factors such as brand superiority, robust distribution channels, government support and available mass markets in the east African and COMESA regions but did not outline critical challenges facing internationalization of Barclays bank. Kimata, (2003) established that infrastructure, political stability and economic growth potential of a country were major considerations in general without isolating specific challenges. Makori (2006) in his study on the challenges African airlines face in selecting and entering international markets, attempted to established some challenge to internationalization as inability to predict profitability, general risk and profitability of the potential market. Consequently, there remains considerable debate surrounding factors that act as main challenges to internationalization of firms.

A study conducted by Koch (2001) in Australia found out that every international market expansion requires a detailed understanding of the foreign market in terms of economic, political, legal and cultural factors in general. All the aforementioned studies concentrated on the process of market selection, strategy, entry modes and success factor to be considered. No research has focused on the main challenges as experienced by firms undergoing internationalization. It is in this view that this study seeks to identify major challenges of internationalization in relation to cultural, legal, political and hurdles presented by regional economic blocs as an outstanding gap and answer the question on what are the challenges of internationalization experienced by Barclays bank of Kenya?

1.3 Research Objective

The main objective of the study was to identify challenges of internationalization experienced by Barclays bank of Kenya

1.4 Value of the Study

The findings from the study will particularly be useful in providing additional knowledge to existing and future organizations on challenges of internationalization experienced by Barclays bank of Kenya. This will expand their knowledge on strategy planning in banking sector and also identify areas of further study. The study will be a source of reference material for future researchers on other related topics; it will also help other academicians who undertake the same topic in their studies. The study will also highlight important relationships that require further research on challenges of internationalization experienced by Barclays bank of Kenya.

The findings of this study will be beneficial to all banking industry both large and small since they will enhance on challenges of internationalization experienced by Barclays bank of Kenya. The findings will also provide a useful reference document to stake holders in the banking industry and academic institutions in their endeavors to formulate work plan to meet the managing skills transfer.

Most importantly, it will help the policy makers within public and private sector to identify crucial areas in their organizations and make appropriate decisions to ensure that strategic planning is critically emphasized on. Also, through this study leaders and

managers in state corporations will learn and make responsible strategic plans and policy decisions that are meant to facilitate and sustain high organizational performance, and manage organizational and national resources so that corporations and societies can benefit from them in the future.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will review the entire literature related to internationalization of firms. It will identify factors that are at play during the process of internationalization. Focus will be given to major obstacles of internationalization experienced by firms as they make forays into the international markets outside their local indigenous countries. Key challenges related to culture, politics, legal and the role played by regional economic blocks will be discussed in details. The chapter will outline the impact of these highlighted challenges and their overall effects on the process of internationalization with a view of forming a body of knowledge necessary for this research.

2.2 Theoretical Framework

Internalisation theory analyses the choices that are made by the owners, managers or trustees of organisations (Hollensen, 2004).. The theory assumes that these choices are rational ones. In this context, rationality signifies that the decision-maker can identify a set of options, and has an objective by which these options can be ranked, and an ability to identify the top-ranked option and select it. The assumed form of rationality is instrumental, in the sense that it concerns not the rationality of the objective, but merely the process by which the best option is identified, irrespective of the nature of the objective.

Rationality does not imply complete information. When confronted with search costs, a rational decision-maker will collect only sufficient information to make the risks surrounding the decision acceptable, recognising that mistakes are always possible. In a similar vein, the theory does not assume that the decision-makers can identify all available options; indeed, in rational action models the number of options that decision-makers consider is often restricted, in order to simplify the model. In the context of market entry, for example, only a limited number of entry strategies are usually appraised, as explained above. However, the theory always makes the set of options considered fully explicit. Thus while rationality may be “bounded” in the sense that information is incomplete, behaviour is not irrational, in the sense that the information collected is a rational response to the information available.

Rational behaviour is not necessarily selfish, as is sometimes suggested; the decision-maker's objective may, in fact, be an altruistic one. In the context of firms, internalisation theorists normally assume that the firm's objective is to maximise profit. Profit maximisation reflects the view that the shareholders are the principal stakeholders in a firm, and that the interests of other members – in particular salaried employees – are subordinated to them, and Buckley and Casson (1976) adopted this view. It is not necessary, however, to assume that shareholders are selfish: for example, an altruistic shareholder might wish the firm to maximise profit so that his own personal benevolence can be as generous as possible.

2.3 Internationalization Variables

Internationalization, in its literal sense, refers to the process of transformation of indigenous or regional companies into global multinational enterprise (Sheila, 2004). Masum, & Fernandez (2008), define internationalization as the process of availing goods and services to markets that are outside the country of origin. Beamish (1990) defined internationalization as a process where firms start by increasing their awareness of the direct and indirect influences of international transaction in the future, before moving on to establish and conduct transaction with other countries. This process is possible through the use of technology and effective communication which are advanced today allowing labour and technology to be flexible and stretch across countries (Bell, Crick, 2004). Companies go international in a bid to compete for resources that are limited in the local environment and depend on the global economy to provide them with the necessary market for their products.

A location specific advantage refers to the comparative advantages that exist in individual foreign countries. Each country possesses unique advantages from which companies can derive specific benefits (Hollensen, 2004). Examples of location specific advantages include natural resources, skilled labour, low cost labour and inexpensive capital. Aggressive multinational executives seek to benefit from the host country's advantages. A location specific advantage must exist for a foreign direct investment to succeed (Hollensen, 2004). It must be profitable for the firm to locate abroad and must utilize ownership specific advantages in conjunction with location specific advantages in the target host country. According to Albaum, Duerr, & Strandkov (2005), some of the

advantages of internationalization include ability to control how the firm's products are produced, control dissemination of firm's proprietary knowledge and ability to reduce buyer uncertainty about the value of the product the firm offers.

Internationalization may take the form of global sourcing, exporting or investment in key markets abroad. According to Sullivan, (1996), the more proactive firms seek simultaneous presence in all major trading regions. They concentrate their activities in those countries where they can achieve and sustain competitive advantages. Firms internationalize value-chain activities to reduce the cost of research and development & production, and to gain closer access to customers (Li, 1994). Bradley (2005) observes that firms enter international markets mainly to source components more efficiently than at home and to enter emerging product markets that hold more prospects than the domestic market. Internationalizing organizations must therefore be in a position to deal with the rules and regulations that have been put in place in foreign countries that they operate in addition to conflicting policies (Bell, Crick, 2004).

According to Koch (2001) Internationalization process requires information assessment based on five forces that determine industry competitiveness namely: buyers, suppliers, potential new entrants to the industry, availability of substitute goods & services and rivalry among the competitors. Knowledge of the bargaining power of buyers assists in maintaining customers while Knowledge of bargaining power of suppliers assists the internationalizing enterprise to gain competitive edge over them to ensure guaranteed source of inputs (Sheila, 2004). Attempts must be made to reduce the threat of new

entrants e.g. by keeping costs low & consumer loyalty high and encouraging governments to limit foreign business activity through regulations such as duties, tariffs, quotas and other protective measures (Thompson, and Strickland, 2000).

2.4 Challenges to Internationalization

Generally, business firms do not follow any unique pattern to internationalize their operations because they face different environmental settings (Asgari et al 2010). They may enter a particular target market through different entry strategies based on their specific resources, capabilities and strategies. Asgari et al (2010) identified two types of factors which influence international strategy as market selection and the choice of entry mode, i.e. internal and external factors. Internal factors include firm-specific resources and strategic considerations that can be managed by the firm. External factors such as country factors and industry factors are usually beyond the firms' control.

Koch (2001) suggested that market selection and entry mode choices are determined by several internal factors such as firm resources, the strategic concerns, foreign business experience and networking, and external factors including target market potential and risk, and similarity between home and host markets. In the study of Malaysian multinational companies (MNCs), Ahmad and Kitchen (2008) suggest that international expansion of these firms is affected by ownership advantage factors such as technological capability and business networks. Presence in the market has been the driving traditional reason although other reasons such as resource seeking, market seeking, establishment of

greater presence in the market has also been identified as critical stimuli factors (Gregoriou, 2009).

Arbaugh, Camp, and Cox (2006) gave two possible explanations for lack of internationalization as domestic success and entry barriers. The domestic success argument, inherently assumed in the Uppsala model of firm internationalization (Johanson & Vahlne, 1997), suggests that firms will pursue international activities only when their domestic markets have matured. Conversely, the barriers argument suggests firms do not internationalize because of significant differences between the headquarters country and other countries.

There are a variety of barriers that deter the free flow of international goods and services. These include but not limited to: Price based barriers which are tariffs added to the prices of imported goods and services and are based on the value of goods. They generate revenue for the home government, discourage imports and make locally manufactured goods cheaper and attractive (Alan, Rugman, 2003). Financial limits in form of exchange controls that restrict the flow of currency are also used. Others are limit of currency that can be taken out of the country, use of fixed exchange rates that are favorable to local country among others.

2.4.1 Cultural Challenges

Cultural environment include values, beliefs, customs, languages and religions. Unlike in the domestic markets where cultural tastes are shared, in the international markets,

cultural differences require serious considerations as they affect taste and consumption trends. There is a general agreement among researchers that firms prefer to invest in markets exhibiting near and similar cultures to the home country (Johnson and Vahlne, 1977). However, some firms will successively enter markets at an increasingly cultural distance from the home country due to specific competitive advantages (Eramilli, 1990).

According to Thompson (2003), when a company is operating in the international markets where various cultural issues are at play certain specific organization cultures, if not checked, may act as bottlenecks. Cultural similarities encourage confidence and enhance universality of tastes that make products more appealing to the target foreign market. When planning the transformation to multinational status, it is important to identify such cultures and attempt to change them (Thompson, 2003). But Burnes (2000) differs. He argues that changing routines and cultures can be difficult; instead he says that an organization should be restructured and people placed in new roles and relationships from which new cultures will develop to match cultures prevailing in the international arena. Some of the most important organizational cultural beliefs are: belief in supremacy of customers, superior quality of products, being the best and importance of details among others (Thompson, 2003).

Johnson and Scholes (2002) also refer to culture as routines which give an organization or society a competitive advantage over other organizations or societies. Pearce and Robinson (2003) define culture as the set of important assumptions, often unstated, that members of an organization or community share in common. It is an intangible, yet ever

present, theme that provides meaning, direction and the basis of action. Culture can be looked at as the culture of the organization and the culture of the target foreign market.

To be successful in international business, managers must understand the cultures of target host country and learn how to adapt to them (Pearce and Robinson, 2003). The main challenge is how to broaden their cultural perspective, adapt new cultures and make decisions that reflect the needs and the desires of those cultures (Rugman and Hodgetts 2006). This can be achieved by understanding the elements of culture - i.e. language, religion, values, attitudes, customs & manners, material goods, aesthetics and education. Thompson and Strickland (2001) argue that for an organization to be successful, both in the domestic and international markets, there must be a fit between the organization's strategy, structure, systems, staff, skills, shared values and style. This wholesome unity he refers to as organization structure. Thompson (2003) argues that organization culture and values held by managers and other employees within the organization are key influences on strategies of internationalization and are thus central driving considerations to strategy creation for internationalization process.

Thompson, (2003) note that an appropriate and cohesive culture can be a source of competitive advantage for an organization as it promotes consistency, co-ordination & controls and reduces uncertainty while enhancing motivation and organizational effectiveness. On the other hand an incoherent organization culture can be a great bottleneck to the implementation of organizational strategies. The culture of an organization will need to be changed to match operating environments (Thompson,

2003). Kotter (1996) noted that truly adaptive firms, with adaptive cultures, are awesome competitive machines. They produce superb products and services faster and better even when they have fewer resources. The rate of organizational learning is dependent on culture while the content of organizational learning fundamentally influences culture. Traditional organization structures, particularly in local enterprises like KenolKobil, were mainly hierarchical (Musyoka, 2011). In these kinds of structures, decision making is bureaucratic and slow. Any meaningful transformation process will almost often lead to the change of organization structure from hierarchical to somehow flat structures with several constructive interrelationships between roles (Johnson and Scholes, 2002). Various elements of culture significantly affect how business is conducted in various parts of the world. Geert Hofstede and Fons Trompenaars as quoted in Alan Rugman (2003) undertook various studies to evaluate the linkages of elements of culture. They concluded that due to cultural influences businesses are conducted differently in different parts of the world.

2.4.2 Political Challenges

Politics as the art of governing is also important in promoting business and ensuring that local firms gain or maintain dominance in certain market areas (Moore, 2003). Erramilli, (1990) notes that business is conducted in societies governed by political ideologies which are, almost always, intertwined with economic philosophy Political systems dictate fundamental economic themes under their control. There are two main political systems namely democracy (rule by majority) and totalitarianism (rule by minority). According to Alan Rugman, (2003), political systems typically create the infrastructure within which

the economic system functions through policies and regulations. Certain import regulations such as high tariffs or low quota limits can encourage investment. Also governments may enact laws that ban certain types of investment outright e.g Japan is contemplating discontinuation of nuclear energy.

Political systems thus create the necessary environments that can promote or inhibit business and ensure sustained economic growth. Political leadership sets policies, regulations, concessions and ensures stability & security that impact directly on business performance (Hill and Jones, 2003). Political leadership normally ensures that local firms gain or maintain dominance in the domestic market while simultaneously propping them up against opposing barriers in the foreign markets (Moore 2003). Quinn (1991) observed that broadening political support is a critical, essential and conscious proactive step in major strategy implementation. According to Moore (1992) implementation of strategic decisions like internationalization looks up to politics for three reasons: It is in the realm that managers must search to discover what purpose are deemed publicly valuable; second, political institutions grant managers resources they need to accomplish their operational functions and third, it is politics and law that public managers are both theoretically and practically accountable.

At the organization level, stakeholder support is critical for transformation programs such as internationalization process. However, because of many stakeholders with varied interests and power, it is difficult to achieve universal support, leading to internal organization politics. Hill and Jones (2001) see organization politics as tactics that

strategic managers and stakeholders engage in to obtain and use power to influence organization goals and transformation strategy and structure to further their own interests. In this political view of decision making, obstacles to change are overcome and conflicts over goals are settled by compromise, bargain and negotiation between managers and coalition of managers and by outright use of power. Quinn (1991) recommended broadening political support for emerging new trusts as an essential and conscious proactive step in internationalization. Specifically, stakeholders who wield political power must support internationalization program if it is to succeed.

2.4.3 Legal challenges

A market will be less receptive to international players if there is laxity, by the ruling political class, in enforcement of regulations. This may injure proprietary knowledge and ownership rights (Emarrilli, 1990). Political stability represents the risk level a company will be exposed to in the foreign market. Stable political systems, even if they are frequently changed like in Japan and India, tend to encourage direct foreign investment. Unstable political system discourages direct investment (Makori, 2006). Similarity and volatility of general business regulation or practices, customer protection legislations are some of the other deterrent legal factors in internationalization (Koch, 2001). Koch, (2001) further notes that political leadership, of either form, and their entrenched policies present one of the greatest challenges to internationalization of firms.

2.4.4 Role of Regional Economic Trading Blocs

Regional integration refers to the growing economic interdependence that results when two or more countries within a geographic region come together to form an alliance aimed at reducing barriers to trade and investment (Boddewyn, Halbrich, Perry, 2000 as cited by Kimani, 2011). According to Mugo, (2008), regional economic trading blocs play very critical roles in harnessing regional markets through policies and common markets. The economic trading blocs formulate economic guideline policies, offer professional advice to multinational enterprises, form favourable trade agreements, common tariffs, facilitate capital flow and transfer. There are four major economic blocs that have impacted on the internationalization of KenolKobil limited. These are: East African community (EAC), Common Market for East and Southern Africa (COMESA), South African Development Community (SADC) and Economic Community of West Africa (ECOWAS).

Regional economic integration led to the creation of regional markets which have influenced entry into regional & international markets. These foster regional economic competitiveness through open markets and harmonize fiscal policies which enhance internationalization (Boddewyn, 2000). By co-operating, nations within a common geographic region connected by cultural, historical, linguistic, economic or political factors can gain mutual advantages. Through integration countries expand markets size, achieve scale economies, enhanced productivity and attract Direct Foreign Investment (Boddewyn, 2000). However, greater competition in the domestic market drives companies into more direct confrontation reducing their effectiveness in the international

market (Mugo, 2008). A strong presence overseas can be seen as a strong entry barrier (Friedman, 1999). By tapping into wider and bigger markets, international sales can increase scale economies and deter entry into the same market. Substitute products or services emanating from the trading bloc easily access the international market further compounding competition. Some regulations in the trading blocs offering quotas and proportionate tariffs act as barriers to internationalization. For example Kenyan goods entering the Tanzania market attracts 15% duty while Tanzanian goods attract only 10% (Musyoka, Esther, 2011).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the outline of the research methodology that will be used in this study. It focuses on the research design, data collection methods and comes to a conclusion with the data analysis and data presentation methods that will be used in this study.

3.2 Research Paradigm

According to Taylor, Kermode, and Roberts (2007, p. 5), a paradigm is “a broad view or perspective of something”. Additionally, Weaver and Olson’s (2006, p. 460) definition of paradigm reveals how research could be affected and guided by a certain paradigm by stating, “paradigms are patterns of beliefs and practices that regulate inquiry within a discipline by providing lenses, frames and processes through which investigation is accomplished”. Therefore, to clarify the researcher’s structure of inquiry and methodological choices, an exploration of the paradigm adopted for this study will be discussed prior to any discussion about the specific methodologies utilized in this study.

3.3 Data measurement

The qualitative methodology shares its philosophical foundation with the interpretive paradigm which supports the view that there are many truths and multiple realities. This

type of paradigm focuses the holistic perspective of the person and environment which is more congruent with the international business.

In order for the researcher to gain different perspectives and draw attention to different identify challenges of internationalization experienced by Barclays bank of Kenya, descriptive research methods were employed in this study.

3.4 Research Design

This was case study investigating the challenges of internationalization experienced by Barclays bank of Kenya. This design is most appropriate for a single unit of study because it will offer a detailed in depth analysis that gived valuable insights to phenomena.

This study was conducted through a case study and it is considered suitable as it allows an in-depth study of the subject on challenges of internationalization experienced by Barclays bank of Kenya. According to Mugenda and Mugenda (2003), a case study involves a careful and complete examination of a social unit, institution, family, cultural group or an entire community and embraces depth rather than breath of the study.

3.5 Data Collection

Primary data was used this study. To achieve this, an interview guide was used to collect primary data (see appendix 1). The interview was conducted by the researcher on senior employees from Barclays bank in Nairobi on challenges of internationalization

experienced by Barclays bank of Kenya. The study be involved top level management, who mainly consist of human resource, finance, marketing, ICT respectfully.

The interview guide has unstructured questions which was used so as to encourage the respondent to give an in-depth response without feeling held back in revealing of any information. With unstructured questions, a respondent's response may give an insight to his feelings, background, hidden motivation, interests and decisions and give as much information as possible without holding back.

3.6 Data Analysis

The study used content analysis for data presentation. Mugenda and Mugenda (2003) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends.

The data was obtained from the various members of management belonging to different departments, it was compared against each other in order to get more revelation on challenges of internationalization experienced by Barclays bank of Kenya. Analysis of data collected was compared with the theoretical approaches and documentations cited in the literature review.

3.7 Reliability and validity

Instrument validity is the degree to which research results obtained from the analysis of the data actually represent the phenomenon under study (Mugenda Mugenda, 1999). To ensure instrument validity content validity was tested. Content validity refers to a measure of a degree to which data collected using a particular instrument represent a specific domain of indicators or content a particular concept. Instrument reliability of measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials (Orodho, 2008).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter entails data analysis and interpretations of the study findings. The main objective of the study was to investigate the challenges of internationalization experienced by Barclays bank of Kenya. The main objective of the study was achieved through examining Cultural Challenges, Political Challenges, Legal challenges and the role of Regional Economic Trading Blocs.

Data was collected using interview guides administered to senior-level managers who included the human resource, finance, marketing and ICT directors. The directors were chosen because of they are the main people involved in the process of internationalization and therefore they are the most appropriate respondents to sample.

4.2 Personal and Company Information

The section covers length of service in the present capacity, role in the process of internationalization, staff involved in the internationalization process, support from the top and company's performance

4.2.1 Length of Service in the Present Capacity

The human resource manger indicated that she had work for Barclays bank Kenya for 12 years within the human resource functions. Majority of the interviewees indicated they had worked for Barclays bank for 10-20 years.

4.2.2 Role in the Process of Internationalization

The human resource manager played the role as the key function in human resource where she has to ensure that their policies in Kenya are in line with the policy as well as ensuring that Barclays Bank achieves their objectives as a bank through employees. She looked at issues of employee welfare (wellness), labour relations, compensation, development of staff, and other issues related to employees (in a nutshell management of human resources).

All other executives interviewed indicated that they were involved in their areas of conducting business. Example the finance director was involved in finance issues, the credit director was involved in strategic management of credit issues.

4.2.3 Staff Involved in the Internationalization Process

The human resource manager indicated that all employees were involved in the process, because first and foremost, they are employees of an international bank, and have to comply with policies of the group at the same time adapting to the local market demands and requirements.

4.2.4 Support from the Top

The process of internationalization was supported by the top management since Group Chief Executive have an important role to play in building strong relationships with the regulators. They are key contacts for the most senior regulators and set the tone for the rest of the organization

4.2.5 Company's Performance

Barclays is in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The company primarily operates in the UK, the US, Europe, Africa and has a growing presence in Asia. Barclays is a financial services organization which lends, invests and protects money for more than 30 million customers across 50 different countries.

Barclays' primary objective is to maximise shareholders' wealth. But Barclays acknowledges that they can, and should, in ways logical with that objective, contribute to the well-being of society by conducting their business responsibly and by performing well, on behalf of their clients, Barclays' essential functions of payments and money transmission, safe storage of deposits, maturity transformation and lending, and the provision of consultation and execution in underwriting and trading.

Over the past few years, Barclays remained focused on cost optimization and was able to contain its operating costs. The company's productivity as measured by its cost to income ratio improved from 62.1% in 2005 to 58% in 2009. As a result, the company was able to increase its operating income and net income by high double digit margins in 2009. Focused control over costs enables the company to continually post reasonably higher profits relative to its peers even in difficult global financial conditions. At the end of 2009 Barclays' balance sheet was reduced to one third of its size at the end of 2008. The majority of this came from a decrease in derivative assets. The reduction in loans and advances was largely in Barclays Capital, especially in relation to financial institutions.

Adjusted gross leverage improved from 28 times in 2008 to 20 times in 2009. Despite reduction in the size of the balance sheet, Barclays was still able to extend £35 billion of new loans in the UK during 2009. The company's ability to lend amidst resource constraints helps it to maintain a profitable business run-rate.

Barclays is considered to be a global bank and it provided wide ranging services such as inflation-risk hedging for different governments and organizations, current accounts for personal clients, etc. it has considerable amount of activities in several countries. However, the modifications in the business and the general economy may influence Barclay's profitability at all levels; whether it works as a Group or works individually in different countries, where it operates.

The bank is in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The company primarily operates in the UK, the US, Europe, Africa and has a growing presence in Asia. Barclays is a financial services organization which lends, invests and protects money for more than 30 million customers across 50 different countries

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transmission, safe storage of deposits, maturity transformation and lending, and the provision of consultation and execution in underwriting and trading.

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Parent and the number of basic weighted average number of shares excluding own shares held in employee benefits trusts and shares held for trading. Earnings per Share for Barclays rose from 59.3p in 2008 to 86.2p in 2009. This was due to Barclays managed to boost their net profit to £ 10,288. Barclays' Total income net of insurance claims grew 34% to £30,986m, and income from continuing operations grew 37% to £29,123 m, with particularly strong growth in Barclays Capital. Barclays has paid 2.5p of dividend per share in 2009 this means that Barclays paid 29% of earnings as a dividend where as in 2008 dividend pay out ratio was 19.39% of earnings.

Barclays can be seen as risk averse company as only 4.24% of total equity is financed by debt equity. Though over the three years Barclays' solvency ratio is constantly increasing which alarming. According to the new legislation structure Banks are require to hold more capital and more liquidity. There will be a new focus on top down supervision to ensure that regulators have the tools to manage collective risk (in particular, the amount of debt) in the system. In 2009 Barclays' capital requirement has increased to £38,850m from £32,900m.

4.3 Challenges to Internationalization of Barclays Bank of Kenya

Obstacles to international trade in banking services arise for the most part because of the special nature of banking services and the importance that all nations place on the regulation of banking operations. In every country, banking operations are subject to special regulations and restrictions. These regulations and restrictions are almost always intended to ensure the stability of national banking systems, to provide national authorities with effective instruments for economic management, or generally to encourage thrift and other social virtues. That these policies sometimes hinder the establishment of foreign banking operations or restrict the scope of such operations once they have been established is usually an unintended (although not always deeply regretted by domestic banking institutions) side effect.

The human resource manager indicated that Compensation was the main challenge in human resource functions. With size and demand for outstanding performance come people complexity-more things accomplished through employees, more delegation to key employees and more reliance on employees. All this to attain a competitive advantage over key competitors. Compensation is used to differentiate an organization from its competitors, to drive consistency and performance. Variations in compensation are certainly a challenge. These variations are brought about by institutional factors (i.e. size of operation) and the market uniqueness. Others include individual factors such as level of knowledge and skills, attitudes and preference of a particular country.

4.4 Culture

This section covers how culture affected internationalization of Barclays bank of Kenya and overcoming cultural challenges to internationalization.

4.4.1 How Culture Affected Internationalization of Barclays bank of Kenya

Banks in particular are built on trust. After all, they look after peoples money. Banking requires that they have trust and confidence that their bank is not taking undue risk. Building an organisation's reputation for trustworthiness takes time and is founded on a robust ethical culture supported by leaders, systems and policies designed to foster and reinforce employee trustworthiness. In industries that are associated with risk and risk-taking, the work that must be done to establish and sustain trust is greater. Barclays' work on culture and values comes at a time when trust in banking and bankers is at an all-time low. Trust comes from an expectation that what is said will be delivered. Trust is also strongly related to fairness. Studies show that the experience of unfairness quickly erodes trust

The culture of the Group central functions was described by many from the business units as highly expert but typically slow to respond and overly internally focused. Our interviewees both from within Group and outside told us that sometimes the Group functions lacked collective influence and were kept at arms-length by the businesses, particularly by the investment bank. We concluded that this insularity was likely caused, in part, by the decentralised structure. Our interviewees told us that understanding the reporting lines was difficult and exacerbated these tendencies. Some functions worked more closely with the businesses than others – for example Credit Risk.

There is a significant challenge to instilling shared values in a universal bank like Barclays. Cultural compatibility is difficult to achieve across businesses which may attract very different employee profiles, and where the business model and objectives are different. It takes a great deal of finesse to translate the same common values into credible expectations of a trading floor and of a retail branch network. This task is made harder when, as at Barclays, rapid growth (which propelled it from a family bank to a leading universal bank), multiple reorganisations and extensive external hiring (particularly in the investment bank) create a less stable cultural base.

In cross-border business, we step into different cultural environments characterized by unfamiliar languages and unique value systems, beliefs, and behaviors. We encounter customers and business partners who display differing lifestyles, norms, and consumption behaviors. These differences influence all dimensions of international business. Often, they get in the way of straightforward communication, representing one of the four risks associated with international business that is Cross-cultural risk which is defined as a situation or event where a cultural miscommunication puts some human value at stake. Cross-cultural risk arises routinely in international business because of the diverse cultural heritage of the participants. Culture refers to the learned, shared, and enduring orientation patterns in a society. People demonstrate their culture through values, ideas, attitudes, behaviors, and symbols.

Culture influences a range of interpersonal exchange as well as value-chain operations such as product and service design, marketing, and sales. Managers must design products and packaging with culture in mind, even regarding color. Most companies want their employees to learn about other cultures and acquire a degree of cross-cultural proficiency.

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Barclays has not always been as open and clear as it could have been. Openness is a value which goes directly to the heart of relationships with all stakeholders, for example: providing clarity about product suitability and pricing for customers; resisting ambiguity and applying high standards of disclosure to shareholder communication; promoting cooperative and straightforward discourse with regulators; and encouraging staff to raise concerns with no need to fear the consequences.

Some of these cultural characteristics combined in an attitude which came to represent Barclays in the eyes of the external audience. This attitude may have been reinforced by the challenges of navigating the financial crisis. This may have caused Barclays to focus internally, and somewhat defensively, rather than listen fully to legitimate external views and respond to them.

The culture in Barclays Capital was influenced from its inception by its need to hire people to build the business. And Barclays did build, almost from scratch, a world-class investment bank – which no other UK bank had achieved in the same period of time. The mantra was to hire the best people – and as a challenger, Barclays Capital often had to pay a premium. This reinforced a tendency to apply disproportionate value to personal commercial performance as well as to assume that simply increasing compensation would resolve issues at senior levels. While compensation overall was broadly in line with peers, compensation for the ‘group of 70’ most highly-paid executives¹⁵⁴ was consistently and significantly above the peer group median

Changing culture in a large, diverse organisation is a significant task. We were cautioned repeatedly in our interviews with business leaders who have undertaken such transformations that embedding a resilient and values-led culture in a complex organisation takes time and is not easy. Our own survey identified high levels of scepticism among employees. Nearly 70% of those polled said that they did not believe that their leadership lived and breathed Barclays’ values – although 70% also believed that their leaders were committed to change. Part of the cultural challenge to the industry

might be addressed by coordinated efforts to reinforce the professional standards in the banking industry

4.4.2 Overcoming Cultural Challenges to Internationalization

One mechanism a bank could employ to promote appropriate standards or encourage desired behaviors has been well aired: the establishment of an organization to encourage ethical requirements, professional qualifications and continuing professional development among staff. Barclays itself made a similar proposal in its August 2012 submission to the Parliamentary Commission on Banking Standards, including the suggestion for a code of conduct for bankers. Such a code could then be reinforced through a bank's own HR practices.

The Board and senior leadership, as custodians of Barclays' reputation, should promote and safeguard the trust in which it is held. They should state clearly Barclays' purpose and report regularly on how it is fulfilling that purpose. They should promote standards that support Barclays' ambition to be seen as a leader in business practices among its peer institutions and multi-national corporates generally. The senior leadership team should be responsible for demonstrating and promoting these high standards. This should be reflected in their annual evaluations and variable compensation.

In communicating internally and externally, Barclays should be as open and transparent as possible, aspiring to provide relevant, clear and meaningful information. Restoring external trust requires Barclays to change behaviors. For this to happen, the bank needs to

address its deep-rooted cultural challenges. As part of the Transform Program me, Barclays bank has launched an initiative to re-define Barclays' purpose and values in order to implement its goal of becoming the 'Go-To' bank. Believing that a distinctive culture must be underpinned by a common purpose and a clearly articulated set of values, Barclays' senior management has defined the common purpose as "helping people achieve their ambitions – in the right way". And it has developed a set of Group-wide values which it says are essential in delivering strong, sustainable returns.

Creating a distinctive culture requires a process which is disciplined, thoughtful and persistent – one in which actions will speak louder than words. A detailed road map is needed to ensure that the values set by management are reflected in the organization's business practices. It is their day-to-day experiences that enable people to orient themselves and their attitudes and behaviors around the cultural norms, through informal dialogue, and observing how leaders behave, as well as more formally through training, development, recognition and reward and disciplinary procedures.

Barclays should institute learning programs which actively encourage frequent discussion of its chosen values among all staff, focusing on understanding potential conflicts and how to address them. These discussions should be tailored so as to be relevant to the work of individual staff members. To make Barclays' commitment tangible to staff, senior management should lead and attend as many of these sessions as is practical.

Barclays should set clear targets against which to assess progress on embedding the values necessary to build a strong ethical culture. Progress against these targets should be measured through employee, customer and other stakeholder surveys and should be reported regularly to the Group ExCo and Board for discussion. Barclays should also communicate its progress more broadly as part of its commitment to greater openness and to support its efforts to rebuild public trust.

Effective handling of the cross-cultural interface is a critical source of a firm's competitive advantage. Managers need to develop not only empathy and tolerance toward cultural differences, but also acquire a sufficient degree of factual knowledge about the beliefs and values of foreign counterparts. Cross-cultural proficiency is paramount in many managerial tasks

Cross-cultural management issues arise in a range of business contexts. *Within* individual firms, for example, managers from a foreign parent company need to understand that local employees from the host country may require different organization structures and HRM procedures. In cross-border mergers and acquisitions (M&As), realizing the expected synergies very often depends on establishing structures and procedures that encompass both cultures in a balanced way. Cross-border joint ventures, alliances, or buyer-supplier relationships *between* two or more firms also require a cultural compromise. Finally, for firms to sell successfully to foreign customers requires culturally sensitive adaptations to products, services, marketing, and advertising.

Culture influences the behavior and preferences of clients and customers. To sell successfully in a foreign market, a manager needs to adapt his or her product or service to meet the different needs of that particular group of customers. Any alteration in advertising, marketing, product or service features, after-sales support, technical back-up, documentation, etc., will be partly guided by cultural differences. Failure to do this ends in the kinds of marketing mistakes and communication blunders that become marketing folklore.

Today, Barclay bank is seen within the Group as having a distinct culture which is more dynamic, innovative and collaborative, and which is supported by a management which is clear on expected behaviors. These expectations have led to customer satisfaction scores and employee behavior playing a greater role in the Barclay bank performance appraisal process and remuneration than in the past.

4.5 Political Factors

4.5.1 How Political Factors Have Affected Internationalization

The human resource manager indicated that requirements in the host country in areas such as compensation (we have unions representing bankers-local labour laws, health and welfare requirements. Taxation policy defer in the local market Strength of union in Kenya is different from that of other countries.

The main political objective has probably been enhanced security. International trade reduces the risks of military conflict between countries and so there might appear to be a reasonable case for preferentially promoting trade relations between neighbors.

Unfortunately, whereas international trade is normally mutually beneficial, preferentially induced trade can sometimes create powerful transfers so that one partner gains at the expense of another.

The creation of regional arrangements as largely unstoppable and have focused on choices of design. For example, only if regional schemes adopt common external tariffs, such as in the EU, can they bargain collectively in world trade rounds. Yet a common tariff precludes unilateral liberalization, and also prevents individual developing countries from joining their appropriate product-based groupings in global negotiations.

4.5.2 Overcoming Political Challenges to Internationalization

An international bank is able to adopt for its presence in a country various forms. More specifically the Creation of representative office is the simplest form of extension, as it formed for an initial investigation of the foreigner banking market. The bank's branches of this form do not handle any funds neither they execute financier transactions, while the bank that they represent, is not considered present in the foreigner country, either legally or for tax reasons.

The interviewees indicated that the most common form of direct extension constitutes the company's branch. Even if it maintains, for internal reasons, its own accountant books, however, from a legal side its sizes are added and included in those of the 'mother' bank. A branch carries out all the banking works, and the control of 'mother' bank is direct. The branch presents in his operation some disadvantages, as: the height of investment, both in

constant equipment and in personnel, is very high. Particularly if it wants to extend his work in retail banking, depending on the legislation of the country where it is located, the entire bank-mother can be considered responsible. This is also the main reason that a lot of banking groups they create subsidiary companies and no branches.

4.6 Legal Challenges

4.6.1 Legal Challenges to Internationalization of Barclays Bank of Kenya

The legal director indicated that banking regulation was considered to be the exclusive preserve of national policy makers. However, the growth of international lending and the emergence of multinational banks servicing this business from offices spread across the globe made regulators aware of the need to coordinate their activities. First, the interpenetration of national banking markets by foreign banking establishments called for a clear understanding as to which authority was responsible for regulating which banks. Second, the close linkages between national banking systems through the interbank market meant that financial stability in one jurisdiction could be adversely affected by problems originating in another jurisdiction. And, finally, the fact that banks from different countries were competing for business within a global market raised the possibility of competitive distortions arising from uneven national regulatory arrangements. It was against this background that regulators from the leading industrial countries felt it necessary to establish a forum to coordinate their policies.

The finance director indicated that having grown up in response to particular national circumstances, policies toward banking operations vary widely from one nation to another. There is no international consensus about what are and are not legitimate

activities for banks, about the mechanisms required for adequate supervision of banks, or about the roles that banks are supposed to play in the larger economy. Under the circumstances, it is not surprising that there is no consensus about the rules under which banks from different countries should be allowed to compete with each other within national markets.

The interviewees indicated that the requirement for a local presence brings a foreign bank face to face with the domestic banking policies of the host country, and this is where the trouble begins. In the past, national policies have explicitly prohibited the establishment of foreign-controlled banking institutions.

The interviewees indicated that the “right of establishment” (to use the current jargon) remains a thorny issue in negotiations between industrialized and developing countries. The latter sometimes see (probably quite correctly) financial services as a growth industry. Further, they see a network of financial institutions as an important part of the infrastructure necessary for economic development. As a result, some developing nations have adopted classic infant industry strategies with respect to financial services, excluding foreign banks from their domestic markets in hopes of encouraging the development of the local industry. Among industrialized and financially sophisticated countries, though, the simple right of establishment is usually not a major problem.

The interviewees indicated that the real problems in relations among the industrialized countries arise from policies that have the effect-intentionally or otherwise of

discriminating against operations of foreign-controlled banking institutions. This discrimination can take many forms. Foreign-controlled banks may, for example, be prohibited from engaging in certain lines of business or serving particular customers. The most common restrictions of this sort are regulations preventing foreign banks from underwriting bond issues or managing or participating in securities issues and measures that deny foreign banks access to government deposits

The interviewees indicated that foreign banks are sometimes limited to a specified share of the national banking market. Branches of foreign banks must in some instances meet special capital-adequacy criteria. Foreign-controlled banking entities are also faced with a variety of “nuisance” obstacles to efficient operations. Sometimes these take the form of immigration policies that hinder the use of homecountry nationals or requirements that host-country nationals be included in the institution’s management or on its board. Sometimes foreign banks do not enjoy the same access to government-controlled communications and information transfer services as do domestic banks.

The interviewees indicated that the subsidiary company has legal and accountant independence and follows the laws and the rules of the banking system of the country where it is located. It constitutes the unique solution for extension, when the legal frame of the country prohibits the foundation of branches. Among the advantages of a subsidiary company is the autonomous legal and accountant presence that exempts the maternal bank from potential entanglements and responsibilities and bigger independence

in the decision-making. The disadvantage is the loss of the complete control of the 'mother' bank in the decisions of the subsidiary company.

4.6.2 Addressing Legal Challenges to Internationalization

The interviewees indicated that banks play a vital role in modern economies and in the well-being of individuals and businesses. The biggest banks are of great importance to society as employers and taxpayers. They also carry significant risk such that politicians, central banks and regulators have developed a series of legal and regulatory requirements for them. Complying with these requirements and engaging with the regulators and other public bodies are essential responsibilities for banks and their managements. Failure to do so can inflict reputational damage on a bank and undermine public trust in it.

The Barclays Board and senior management have rightly emphasized the importance they put on compliance with regulations and in regulatory relationships. However, various regulators have expressed concerns about the bank's historical engagement with them. Likewise, Barclays says that it goes to great lengths to comply with tax legislation, and to maintain an open relationship with Revenue and Customs. However, some of the tax avoidance schemes that Barclays has promoted are now seen as aggressive and not in accordance with the spirit of the relevant tax legislation.

The interviewees indicated that to successfully managing various stakeholders and balancing their priorities is critical for all organizations. For banks, regulators are a vitally important stakeholder: they set the rules, supervise prudential financial strength

and business conduct, challenge, and ultimately approve a bank's license to operate. A poor regulatory relationship can result in onerous challenges for management including withdrawal of a banking licence, increased capital and liquidity requirements, financial penalties, mandatory remediation exercises, restrictions on activities and, as was the case for Barclays, the departure of senior executives and Board members.

An important element of fostering a positive and cooperative relationship with regulators is therefore open communication and transparency. Some communications from regulators will always need interpretation and some of their approaches should rightly be challenged. But banks must listen carefully and not interpret regulatory requests and feedback too narrowly

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Another form of international banking is the agency. The agency constitutes an intermediate form of extension, between representative office and branch. It does not accept deposits from residents of the country where it is located, however, it develops a

big activity in the sector the commercial and industrial credits and in the financing of international transactions

4.6 Regional Economic Trading Blocs

4.7.1 Challenges of Regional Economic Trading Blocs in Internationalization Process

The interviewees indicated that at its most fundamental level, international banking and finance involves two things: cross-border financial transactions and associated payments, and the cross-border establishment of premises. In recent years there has been an explosion in both types of activity and, with it, the need for international agreements as to how the business of international banking and finance should be conducted.

The interviewees indicated that they range in scope from private cooperative agreements to international treaties signed by sovereign nations with identified courts of appeal and specified powers of enforcement. Nor is it possible to narrow the scope of the survey by focusing solely on formal treaties signed by sovereign nations. Not only are these few in number – indeed, the financial services provisions of the NAFTA set a precedent, of sorts – but such treaties are not responsible for all (or indeed even most) of the recent advances in this area.

Many of the most important agreements pertaining to international banking and finance have been reached only informally after discussions among a limited number of important nation states or market participants. These agreements have then been enforced

using domestic legislation or other means, and have been extended to a wider international community only by force of example.

The simple “soundbite” image of the benefits of a trade bloc is perhaps the scale benefits of having a single big factory serving the regional market. This will almost never be a good idea. Such a factory would be a protected monopoly, and such monopolies are usually inefficient and exploitative.

Competition is a vital discipline on private behavior, yet there is obviously a tradeoff between the number of competitors in a market and the average size of factory. More competition means smaller factories, and so within any given market there is a tradeoff between competition and scale. Regional integration enlarges the market and so enables both more competition and a larger average scale.

Competition and scale effects accrue to the region as a whole, but trade and location effects are predominantly about transfers between one part of the region and another. The key trade effect is that money, which prior to the trade bloc accrued to the government as tariff revenue, will now accrue to firms in the partner country. The government loses tariff revenue and the country as a whole loses income. This effect is known as trade diversion.

The formation of a trade bloc will cause economic activities to shift location. Potentially, this can create convergence or divergence between the members of the bloc. The most

problematic blocs are evidently those between two small, poor countries, one of which is significantly poorer than the other. There may still be some political gains: the bloc may find it easier to get noticed than the countries individually, and if the experience of trade cooperation builds up trust, it may facilitate cooperation on other issues. Regional trade blocs can contribute to transition countries' economic stabilization but they also carry risks of diverting trade from potentially more beneficial trade partnerships with other countries.

4.7.2 Addressing Challenges Arising from Existing Regional Economic Trading Blocs

For representatives of sovereign governments to reach international agreement in this area is not an easy task. Banking and finance, along with energy, telecommunications and agriculture, have long been considered by governments and citizens as being especially sensitive. Moreover, different governments have different priorities for change, different levels of concern about the seriousness of systemic problems, and different interests on the part of the domestic financial communities they must represent. Each country starts off with different traditions, accounting systems and domestic regulations, and the desire is always to minimise for domestic firms the extent and costs of any changes arising from the international agreement. The fact that significant progress has, nevertheless, been achieved, raises the question of the conditions which favour such agreements.

As for some shared recognition of how the financial system should function, and how public policy might help reduce systemic risks, significant progress has been made in recent years. Central banks and regulators have conducted extensive research over the years, as have universities and various international organisations; in particular, the BIS,

IMF and the OECD. Moreover, this research has been carried out in close cooperation with private sector participants in financial markets to ensure a shared data base of practical experiences.

4.8 Other Challenges to Internationalization of the Company

International expansion can affect the risk profile and resilience of individual banks through risk diversification, competition and efficiency gains. The geographic diversification of a bank's counterparties often translates into a diversification of its exposures, which reduces the riskiness of its aggregate portfolio. However, banks that enjoy diversification benefits tend to build riskier portfolios in order to realize higher returns.

As far as their impact on a bank's riskiness is concerned, competition and efficiency gains have been often analysed jointly. Competition in the financial sector induces banks to exploit the risk-return frontier along its international dimension. From the perspective of the global system, the internationalization of banking influences cross-border risk-sharing. Enhanced risk-sharing is generally beneficial for financial stability. By enhancing risk-sharing, the activities of foreign banks in a particular country reduce the probability of a financial crisis and lead to less pro-cyclical lending behavior.

The international dimension of banking is particularly burdened with issues related to the flow of information between financial institutions and prudential authorities, as well as among financial institutions themselves. Such issues add to the vulnerability of the financial system.

4.9 Discussion of the Study

The discussion of the study is divided into the following two sections

4.9.1 Link to Theory

Internalization theory analyses the choices that are made by the owners, managers or trustees of organizations (Hollensen, 2004).. The theory assumes that these choices are rational ones. In this context, rationality signifies that the decision-maker can identify a set of options, and has an objective by which these options can be ranked, and an ability to identify the top-ranked option and select it. The internationalization of Barclays bank holds a unique position in our society. Their smooth functioning is essential for people, businesses, governments and many other organizations. They play a vital role in modern economies, underpinning productive activity and encouraging growth and development. They move, lend, invest and protect money for customers and clients. And in any developed economy, they represent a substantial sector, employing large numbers of staff.

Rational behaviour is not necessarily selfish, as is sometimes suggested; the decision-maker's objective may, in fact, be an altruistic one. In the context of firms, internalisation theorists normally assume that the firm's objective is to maximise profit. Profit maximisation reflects the view that the shareholders are the principal stakeholders in a firm, and that the interests of other members – in particular salaried employees – are subordinated to them, and Buckley and Casson (1976) adopted this view. Barclays bank has adopted a Compensation scheme in which with size and demand for outstanding performance come people complexity-more things accomplished through employees, more delegation to key employees and more reliance on employees. Compensation is

used to differentiate an organization from its competitors, to drive consistency and performance.

4.9.2 Link to Other Studies

The financial crisis and the subsequent distrust of the existing banks have created an opportunity for new competitors to enter the market for financial services (Worthington and Welch, 2011). Barclays bank is able to adopt for its presence in a country various forms. More specifically the Creation of representative office is the simplest form of extension, as it formed for an initial investigation of the foreigner banking market. The bank's branches of this form do not handle any funds neither they execute financier transactions, while the bank that they represent, is not considered present in the foreigner country, either legally or for tax reasons.

Globalization is the universal trend in economic markets and the focal point in the twenty-first century (Tsai *et al.*, 2006;Gordon, 2011). Banking organizations shifted from highly centralized domestic organizations to dispersed global organizations (Krumm, 1998). The main profit of the internationalization of Barclays bank work is the increase of the surplus of consumers. For the banking services the surplus of consumer is increased when the interest rate of sponsoring is decreased, while the interest-rate of deposits increases. More specifically, for a healthy competition, the profit in question is maximized, after it increases the interest-rates of deposits by decreasing the interest-rates of sponsoring and the cost of supplies.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary, conclusion and recommendations from the study findings. The main objective of the study was achieved through determination of the challenges faced by Barclays bank of Kenya in internationalization which include culture, legal, political and existence of regional trade blocs.

5.2 Summary of the Study Findings

The study findings are summarized according to objectives of the study;

5.2.1 Cultural Challenges

Banking requires that they have trust and confidence that their bank is not taking undue risk. Building an organisation's reputation for trustworthiness takes time and is founded on a robust ethical culture supported by leaders, systems and policies designed to foster and reinforce employee trustworthiness. In industries that are associated with risk and risk-taking, the work that must be done to establish and sustain trust is greater. Barclays' work on culture and values comes at a time when trust in banking and bankers is at an all-time low. Trust comes from an expectation that what is said will be delivered. Trust is also strongly related to fairness. Studies show that the experience of unfairness quickly erodes trust.

The culture of the Group central functions was described by many from the business units as highly expert but typically slow to respond and overly internally focused. Our interviewees both from within Group and outside told us that sometimes the Group functions lacked collective influence and were kept at arms-length by the businesses,

particularly by the investment bank. We concluded that this insularity was likely caused, in part, by the decentralised structure. Our interviewees told us that understanding the reporting lines was difficult and exacerbated these tendencies. Some functions worked more closely with the businesses than others for example Credit Risk.

There is a significant challenge to instilling shared values in a universal bank like Barclays. Cultural compatibility is difficult to achieve across businesses which may attract very different employee profiles, and where the business model and objectives are different. It takes a great deal of finesse to translate the same common values into credible expectations of a trading floor and of a retail branch network. This task is made harder when, as at Barclays, rapid growth (which propelled it from a family bank to a leading universal bank), multiple reorganizations and extensive external hiring (particularly in the investment bank) create a less stable cultural base.

5.2.2 Political Factors

The main political objective has probably been enhanced security. International trade reduces the risks of military conflict between countries and so there might appear to be a reasonable case for preferentially promoting trade relations between neighbors. Unfortunately, whereas international trade is normally mutually beneficial, preferentially induced trade can sometimes create powerful transfers so that one partner gains at the expense of another.

The creation of regional arrangements as largely unstoppable and have focused on choices of design. For example, only if regional schemes adopt common external tariffs, such as in the EU, can they bargain collectively in world trade rounds. Yet a common

tariff precludes unilateral liberalization, and also prevents individual developing countries from joining their appropriate product-based groupings in global negotiations.

5.2.3 Legal Challenges

Banking regulation was considered to be the exclusive preserve of national policy makers. However, the growth of international lending and the emergence of multinational banks servicing this business from offices spread across the globe made regulators aware of the need to coordinate their activities. First, the inter-penetration of national banking markets by foreign banking establishments called for a clear understanding as to which authority was responsible for regulating which banks. Second, the close linkages between national banking systems through the interbank market meant that financial stability in one jurisdiction could be adversely affected by problems originating in another jurisdiction. And, finally, the fact that banks from different countries were competing for business within a global market raised the possibility of competitive distortions arising from uneven national regulatory arrangements. It was against this background that regulators from the leading industrial countries felt it necessary to establish a forum to coordinate their policies.

Policies toward banking operations vary widely from one nation to another. There is no international consensus about what are and are not legitimate activities for banks, about the mechanisms required for adequate supervision of banks, or about the roles that banks are supposed to play in the larger economy. Under the circumstances, it is not surprising that there is no consensus about the rules under which banks from different countries should be allowed to compete with each other within national markets.

5.2.4 Regional Economic Trading Blocs

International banking and finance involves two things: cross-border financial transactions and associated payments, and the cross-border establishment of premises. In recent years there has been an explosion in both types of activity and, with it, the need for international agreements as to how the business of international banking and finance should be conducted.

Private cooperative agreements to international treaties signed by sovereign nations with identified courts of appeal and specified powers of enforcement. Nor is it possible to narrow the scope of the survey by focusing solely on formal treaties signed by sovereign nations. Not only are these few in number indeed, the financial services provisions of the NAFTA set a precedent, of sorts but such treaties are not responsible for all (or indeed even most) of the recent advances in this area.

Many of the most important agreements pertaining to international banking and finance have been reached only informally after discussions among a limited number of important nation states or market participants. These agreements have then been enforced using domestic legislation or other means, and have been extended to a wider international community only by force of example.

5.3 Conclusion

Transactions are increasingly conducted on an international playing field. Nowadays, there are no more easy profits and the risks are far more difficult to control. The

internationalization of the banking works constitutes a major subject in modern economy with a main profit the increase of the surplus of consumer. Despite the distinguished importance of the cross-border banking activities of internal control, sporadic (but worth mentioning) efforts have been done, which show the basic advantages and disadvantages of those activities.

The internationalization process is different in every individual company case. It may be a long process and demand a large amount of work and resources, or in other cases, it may be natural growth that just happens as the company is growing.

5.4 Recommendations of the Study

The Board and senior leadership, as custodians of Barclays' reputation, should promote and safeguard the trust in which it is held. They should state clearly Barclays' purpose and report regularly on how it is fulfilling that purpose. They should promote standards that support Barclays' ambition to be seen as a leader in business practices among its peer institutions and multi-national corporates generally. The senior leadership team should be responsible for demonstrating and promoting these high standards. This should be reflected in their annual evaluations and variable compensation.

An international bank is able to adopt for its presence in a country various forms. More specifically the Creation of representative office is the simplest form of extension, as it formed for an initial investigation of the foreigner banking market. The bank's branches of this form do not handle any funds neither they execute financier transactions, while the

bank that they represent, is not considered present in the foreigner country, either legally or for tax reasons.

Banks play a vital role in modern economies and in the well-being of individuals and businesses. The biggest banks are of great importance to society as employers and taxpayers. They also carry significant risk such that politicians, central banks and regulators have developed a series of legal and regulatory requirements for them. Complying with these requirements and engaging with the regulators and other public bodies are essential responsibilities for banks and their managements

5.5 Limitation of the Study

Due to tight schedules of the top management at Barclays bank of Kenya, the study encountered difficulties in gaining access to the respondents and the researcher had to keep rescheduling their time to align with the availability of the respondents.

Information relating to internationalization is always treated with sensitivity. This caused difficulties in convincing the respondents of the importance of giving sincere answers to the asked questions evidenced through reluctance of accepting invitation to participate in the study to counter the challenge, the research had to inform the respondents in advance the purpose for the research study being carried out, that it was meant for academic purpose only and not for other investigations.

5.6 Suggestion for Further Research

The study recommends a further research to be done on the role or impact of foreign banks in the development of Kenya.

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APPENDIX I: LETTER OF INTRODUCTION

Mbogo Floric Kananu

University of Nairobi,
School of Business
P.O Box 30197,
Nairobi.

Dear Sir/Madam,

I am a Masters student at the University of Nairobi, School of Business. In partial fulfillment of the requirement for Master of Business Administration, I am conducting a study on challenges of internationalization experienced by Barclays Bank of Kenya

I am glad to inform you that you have been selected to form part of the study. I would therefore kindly request you for assistance in responding to the interview which forms a major input of the research process. The information and data will be strictly be used for academic purposes only and strict confidence shall be observed on the same.

Your cooperation will go a long way in ensuring the success of this project.

I would like to thank you in advance for your time and consideration.

Yours Sincerely,

Mbogo Floric Kananu

University of Nairobi

APPENDIX II: INTERVIEW GUIDE

1. How long have you been working in your present capacity?
2. Based on your experience, how will you rate the company's performance?
3. What is your involved in the internationalization process of the company?
4. Are all staff in the company involved in the internationalization process?
5. Was the internationalization process supported from the top (by the CEO) and how did they support?
6. In your view what are other factors that act as challenges to internationalization of Barclays bank of Kenya?
7. Has culture affected internationalization of Barclays bank of Kenya?
8. How is religion a challenge to internationalization of the company?
9. How can the cultural challenges to internationalization be overcome by Barclays bank of Kenya?
10. Has culture affected internationalization of Barclays bank of Kenya?
11. How has political factors affected internationalization of your bank?
12. How were the political challenges to internationalization overcome?
13. What are the legal challenges to internationalization of Barclays bank of Kenya?
14. How were the legal challenges to internationalization overcome?
15. What are some of the challenges to internationalization arising from existing regional economic trading blocs by Barclays bank of Kenya?
16. How were the challenges arising from existing regional economic trading blocs overcome?
17. Other than cultural, political, legal and the role of regional economic trading blocs, what other challenges to internationalization of the company would you identify?

APPENDIX III: LIST OF COMMERCIAL BANKS IN KENYA

1. Barclays Bank
2. CFC Stanbic Holdings
3. Chase bank
4. Citi Bank
5. Commercial Bank of Africa
6. Consolidated Bank of Kenya
7. Co-operative Bank of Kenya
8. Diamond Trust Bank Kenya
9. Equatorial Commercial Bank
10. Equity Bank
11. Fina Bank
12. Guardian Bank
13. Kenya Commercial Bank
14. K-Rep Bank
15. National Bank of Kenya
16. NIC Bank Ltd
17. Oriental Commercial Bank
18. Standard Chartered Bank
19. Transnational Bank
20. African Banking Corporation Ltd
21. Bank of Africa Kenya Ltd.
22. Bank of Baroda (K) Ltd.
23. Bank of India
24. Charter House Bank Ltd
25. Credit Bank Ltd
26. Development Bank of Kenya Ltd
27. Dubai Bank of Kenya ltd
28. Eco Bank of Kenya Ltd
29. Family Bank of Kenya Ltd
30. Fidelity Commercial Bank ltd
31. First Community Bank Limited
32. Giro Commercial Bank Ltd

33. Gulf African Bank Ltd
34. Habib Bank A.G Zurich
35. Habib Bank Ltd
36. Imperial Bank Ltd
37. I & M Bank Ltd
38. Jamii Bora Bank Ltd
39. Middle East Bank (K) Ltd
40. Paramount Universal Bank Ltd
41. Prime Bank Ltd
42. Victoria Commercial Bank Ltd
43. UBA Kenya Bank Ltd