

**FACTORS AFFECTING KENYA COMMERCIAL BANK AS
AN OUTWARD FOREIGN DIRECT INVESTMENT**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION,
SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER 2012

DECLARATION

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

Signed:  Date: 08/11/2012.....

DAISY WANJIE

D61/60400/2010

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

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ACKNOWLEDGEMENTS

This Management research project could not have been successful without the invaluable contributions and support of people who I owe gratitude. I would therefore like to thank the following people for their contribution.

I benefited a lot from the unequivocal support, guidance and wisdom of my supervisor Dr John Yabs who was of invaluable help during the entire preparation and completion of the project.

I would further wish to extend my gratitude to all my lecturers on the MBA programme, the support of my fellow students, staff of University of Nairobi, banking industries and my former colleagues Joseph Torku, Susan Gicheru and Joseph Mugi. Finally I thank my family for their support and encouragement during the entire period of the program.

DEDICATION

This project is dedicated to my mother Eunice Kamau, my fiance Muniu Mucheru, my sister Bilha Wanjie and my brother Kamondo Wanjie for the prayers and encouragement.

May the Lord, God Almighty bless you abundantly.

ABSTRACT

The purpose of this study was to establish the factors affecting KCB Bank Ltd as an outward FDI. This study sought to answer the question of why the bank has been successful as a regional bank and what challenges the bank has faced in its regionalization strategy. This study is of significance to other banks that may have interest in expanding regionally since they can learn from KCB.

This research adopted a descriptive case study approach to determine the factors affecting KCB as an outward FDI in the eastern African region. The study used primary data which was collected through interviews. The Kenya Commercial Bank Ltd officials interviewed included the head of marketing, head of operations, head of human resource and head of finance. Content analysis was used to analyze the data collected.

The study findings indicated that KCB is a successful outward FDI due to many factors including being a first mover, leading-edge management practices, adapting to local market conditions and incorporating experienced local managers in subsidiary operations.

Following the findings, companies seeking to invest in other countries other than their home country should use strategies which aim at tailoring existing products to better fit the needs of market they seek to target. Secondly, FDIs should give some form of autonomy to their subsidiaries such that they can be able to make some crucial decisions mostly in marketing and product development. Finally, host countries should make their countries attractive such that many FDIs should invest in them to bring advantages that are associated by such investments.

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ABBREVIATIONS

KCB	Kenya Commercial Bank
FDI	Foreign Direct Investment
e.g.	For Example
i.e.	That is
E.A	East Africa
MNC	Multi National Corporations
Kshs.	Kenya Shillings
IB	International Business
MNE	Multi National Enterprise
R&D	Research and Development
SOE	State Owned Enterprises
CBK	Central Bank of Kenya
TZ	Tanzania

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

According to Terpestra (2000), international business is the practice of all the marketing activities; market intelligence, product development, pricing distribution and promotion at home, plus the effort to export products to foreign countries. The same firm becomes more of an international operator as it increases its direct involvement in these markets by participating in pricing, promotion, after sales service and ultimately manufacturing. International business activities result from various forces that force companies to seek international markets in a process called internationalization. Albaum et al (2009) defines internationalization as a step-by-step process of international business development whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets.

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Internationalization of organizations has left a lasting imprint on the business community (Cullen and Parboteeah, 2010). Multinational enterprises (MNEs) provide highly efficient

organizations that are characterized by a high degree of managerial efficiency arising from training, higher standards of recruitment, effective communication with the parent company and other subsidiaries, and a more global outlook. By virtue of these characteristics, they are able to think strategically on a global scale and to organize complex integrated production networks.

Every international organization starts its operations in one country (usually home country) and spreads to other countries after gain some competitive bases. The climax of their worldwide expansion was reached during the 1950s and '60s, as trade and investment barriers gradually fell around the world (Chandler, 1990). This relatively straightforward state of affairs is changing rapidly. Since the 1990s, the global competitive landscape is becoming increasingly populated by MNEs originating in countries that are not among the most advanced in the world.

1.1.1 Outward Foreign Direct Investment

Foreign Direct Investment is an efficient mode of further resource utilization due to internalization advantages. The latter become more potent as the technology and information content of the firm competitive advantages increases (Dunning, 1993). In general, the FDI propensity tends to be higher in technology and R&D-intensive sectors and in sectors where information-intensive inputs, e.g. management, organization, marketing know-how, are required for the efficient run of production. In most cases intangible resources as well as the ability to generate technological inputs, in other words the ability to undertake R&D, are linked to human capital that has the skills to perform the relevant tasks. In that respect FDI tends to increase as human capital becomes abundant.

FDI is one out of three options for servicing foreign markets (the other two are exports and licensing or other contractual non-equity forms of firms' alliance) (Hill, 2002). The prerequisite for a firm to consider cross-border transactions is to have acquired resources and capabilities that permit them to meet international demand. Firms operating behind tariffs and other domestic market protection measures are less likely to develop an international business perspective because of their privileged access to the home market. They also have a lesser tendency to build skills and proprietary assets that would increase their efficiency than if they had to operate in a highly competitive liberalized business environment. An initial export orientation allows firms to acquire information about foreign markets, e.g. demand and supply conditions, the legal system, their institutions, business practices, etc. as well as skills in organizing foreign operations and marketing products in foreign environments. These may form the necessary conditions for opting to FDI as the mode of their foreign involvement. In addition, a liberal regime of foreign economic transactions with no capital controls allows the unrestricted funding of investments abroad.

1.1.2 Factors Affecting Outward Foreign Direct Investments

A firm's foreign involvement is a function of mainly its ability to create exclusively owned advantages. In turn, this ability is subject to two sets of factors: first, factors that pertain to individual countries, are available to all firms, and facilitate their operations, i.e. external economies of scale. Such factors range from natural endowments to skilled labor and technological inputs, and at a point in time their mix characterizes the level and type of development a country has attained. Second, factors that are internal and particular to each firm, they refer mainly to the organization and management know-how the firm is able to

apply in order to acquire, train and coordinate resources towards the development of methods, technologies and products, which effectively form the basis of its ability to supply markets (Dunning, 1993).

Hymer (1960) found that foreign direct investment was mainly concentrated in a few industries and monopolized by several companies. Multinational companies (FDI's) were the product of imperfect markets and monopoly advantages where the companies had the advantage with regards to choosing where to invest. A number of conclusions can be drawn from Hymer's analysis that helps frame up this study. First, foreign direct investment tends to flow into differentiated markets where a multinational believes they will have an advantage competitively. Second, companies that are able to make investments over the border all have certain advantages, such as economies of scale, differentiated products, special skills, and low-cost production. These companies will make investments in regions that do not have these advantages. Third, there are many ways in which multinational can invest over the border in such as exporting, and licensing, in addition to direct investment (Hill, 2002). Multinational without local partners always prefer to choose foreign direct investment. Lastly, Hymer found that about half of the over the border operating capital of firms came from host countries; thus foreign direct investment tends to flow into the countries or regions that have developed financial systems and capital markets.

Other factors may also contribute to the emergence of a country as a leading host for foreign direct investment. Rugman (1981) put forward the concept of internalization. Internalization means the process of establishing a market inside the company and substituting the internal

market for an external market. The transfer price inside the company enables the internal market to operate as effectively as the external market. The theory holds the opinion that the imperfection of external markets compels the company to exchange certain products inside the company. When this happens across national boundaries, it acts as foreign direct investment of a multinational. Countries that bring about the imperfections in the external markets (such as high tariff or non-tariff barriers) are where foreign direct investment tends to flow.

Various studies have highlighted the factors that investors care about including: labor cost, market size and market potential, trade barriers and country risks (Lv and Lightfoot, 2006). Those host countries with lower labor cost, lower transport cost, greater market potential, trade protectionism, smaller country risk, better infrastructure and better educated and skilled populations are typically the focus of foreign direct investment.

According to traditional location theory, investment incentives can be mainly divided into two types: First, those targeted at cost savings, which pursue a production cost edge in host countries where foreign direct investment is mainly focused on producing locally and then exporting; and second, for those companies who aim to expand their market presence through increasing their penetration in “local” markets (Lu, 2004).

1.1.3 Banking industry and Kenya Commercial Bank

Banks expand their operations internationally by establishing subsidiaries and branches or by taking over established foreign banks. This internationalization of banking systems has been encouraged by the liberalization of international financial markets. Commercial banks are the

foundation of the payment system in many economies by playing an intermediary role between savers and borrowers. They further enhance the financial system by ensuring that financial institutions are stable and are able to effectively facilitate financial transactions.

In Kenya, commercial banks play an important role in mobilizing financial resources for investment by extending credit to various businesses and investors. Lending represents the heart of the banking industry and loans are the dominant assets as they generate the largest share of operating income. There are 44 licensed commercial banks in Kenya, one mortgage finance company and one credit reference bureau. Of the 45 financial institutions, 32 are locally owned and 13 are foreign owned. Foreign banks in Kenya control 40.3% of the market share in terms of assets, with Barclays and Stanchart controlling 30%.

Throughout the years, the banking industry has continued to increase its presence and further improve its delivery channels. In line with the technology advancement and increased consumer sophistication, a growing number of banks have started to offer internet banking services.

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda. The next major change in the Bank's history came in 1958. Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank. Upon independence, the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort

to bring banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank.

In 1972, Savings & Loan (S&L) (K) Ltd was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) Limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross-border trading. Since then, three branches, namely, Dar es Salaam, Arusha and Mwanza, have been opened. In pursuit of its Vision: To be the best bank in the region, in May 2006 KCB extended its operations to Southern Sudan following licensing of its youngest subsidiary, KCB Sudan, to provide conventional banking services. The subsidiary has branches in Juba and Rumbek. The latest addition into the KCB Family came in November, 2007 with the opening of KCB Bank Uganda Limited. The Government has over the years reduced its shareholding to 35% and more recently to 26.2% following the rights issue exercise in 2004, which raised KShs 2.45 billion in additional capital for the bank. In the second Rights Issue exercise held in the year 2008, the Government further reduced its shareholding to 23.1% after raising additional capital for kshs 5.5billion (kcb.co.ke).

KCB's turnaround started in 1997 which was necessitated by KCB's huge non performing debt portfolio occasioned by imprudence banking and perennial loss making. The bank started significant management restructuring, customer service initiatives and proper identification of risk in the lending portfolio and clear strategies and tactics were employed to reduce risk. KCB hit rock bottom between 2000 and 2002 and posted a loss of Ksh 4.1bn (\$53.7m) in the

2002/2003 financial year. However, since then, government has gradually reduced its shareholding to 26%, and the institution has made an increasingly vigorous recovery.

The Current management took the leadership of the bank in 2007 and began a programme to change the organizational culture - at that time very dysfunctional, with tense relations between board and management as well as management and staff - and started to define and instill a set of core values, customer service, professionalism, teamwork, embracing change, and community involvement, that would provide focus for the employees. The bank is now a leading institution in Kenya's banking and financial sector with an asset base of over Kshs.74 billion (US 1 Billion). Today, the KCB Group has the widest network of outlets in the country comprising 95 full time branches and 35 satellite branches. This represents over 55% of the total banking outlets in Kenya (Marketing Intelligence, 2010). As a player in the global financial market, the group maintains working arrangements with over 400 correspondent banks throughout the world. The bank has of late opened branches in Uganda, Tanzania, Southern Sudan and other areas of the Eastern Africa region.

1.2 Research Problem

Organizations operate within a certain environment where there are factors that affect their operations and determine whether those organizations will be successful or not. In adopting international business, organizations have moved into different countries and regions and expanded their operations. Successful FDIs have adapted modes of expansion used globally to fit the unique characteristics of the countries in which they operate. In pursuit of new markets and customers, more companies than ever before are reaching across borders to forge partnerships and open new operations. An impetus for this expansion has been a gradual

reduction of the state's role in many economies – as regulator, investor and operator of key businesses. Relaxation of the public sector's influence has coincided with democratization, rising education and skill levels and the growth of an increasingly professional middle class. In entering new markets, multinational corporations are entering into different environments and are faced with circumstances which are different from their home country environment.

KCB is open to be affected by various factors in its involvement as an outward foreign direct investment. These include the bank's strategy, human resource and strengths and weaknesses, governmental or societal factors, political and regulatory factors and market related factors.

Studies on internationalization have been conducted in Kenya including a study by Guracha (2008), Ogot (2008) and Mulwa (2008) who researched on internationalization of horticultural firms, motor vehicle sector and Equity bank. No known study has been done to establish the factors influencing success of KCB in its internationalization. It is on this premise that the study seeks to carry out a research on the factors influencing success of KCB Bank Ltd as an outward foreign direct investment. This was done by answering research question: What are the factors influencing success of KCB as an outward foreign direct investment?

1.3 Research Objective

The objective of the study was to determine the factors that influence success of KCB Bank Ltd as an outward foreign direct investment.

1.4 Value of the Study

Findings of this study can be useful to KCB Bank Ltd, policy makers and the academic community. Kenya Commercial Bank (KCB) Ltd may be able to understand those important

factors that influence their performance in the foreign markets it has ventured into. They may also learn how to handle the challenges that emanate from their venture into these international markets. The findings may also be used to put in place measures to grow and expand the KCB in Kenya.

The policy makers which include the ministry of finance, Central Bank and Government at large may use the results from this study to understand the important environmental variables that affect performance of Kenyan organizations abroad. This study can also shed light on challenges facing the banking industry in operating in foreign markets and come up with policies that facilitate easy entry into international markets.

The study contributes to a body of knowledge on the banking industry in Kenya. This can be of use by scholars and academicians. It may also provide a basis upon which other related studies can be done.

This study also is of value to other companies seeking internationalization. Companies operating in Africa can learn from this study about how to expand effectively and maximize their impact on development. FDIs in Africa that proactively integrate local development into their core business operations will reap significant benefits and find support from this study for their future business expansion.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

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

2.2 Internalization of business

Daniels and Radebaugh (2001) define international business (IB) as all commercial transactions, private and governmental, between two or more countries. Griffin and Pustay (2005) similarly define IB as consisting of business transactions between parties from more than one country. Cullen and Parboteeah (2010) provide a definition in terms of activity: IB activities are those a company engages in when it conducts any business functions beyond its domestic borders. Others define IB in terms of the entity that conducts it, as any firm that engages in international trade or investment (Hill 2007). Czinkota, Ronkainen, and Moffett (2003) provide a more detailed definition of IB as consisting of interrelated transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations. From these definitions, it is evident that international business environment is a combination of many local environments into one big arena. These definitions therefore see IB environment as first of all concerned with firm-level business activity that crosses national boundaries or is conducted in a location other than the firm's home country. Second, IB is construed as dealing in some way with the interrelationships

between the operations of the business firm and international or foreign environments in which the firm operates (Wright and Ricks 1994).

Every international organization starts its operations in one country (usually home country) and spreads to other countries after gain some competitive bases. The modern multinational enterprise (MNE) as we know it today has its origins in the second industrial revolution of the late 19th century. British, North American, and continental European firms expanded around the world on the basis of intangible assets such as technology, brands, and managerial expertise. The climax of their worldwide expansion was reached during the 1950s and '60s, as trade and investment barriers gradually fell around the world (Chandler, 1990). This relatively straightforward state of affairs is changing rapidly. Since the 1990s, the global competitive landscape is becoming increasingly populated by MNEs originating in countries that are not among the most advanced in the world.

2.3 Outward Foreign Direct Investment

Foreign Direct Investment involves the transfer to a subsidiary firm abroad of a package of equity capital and of intermediate resources, the nature of which is both tangible, e.g. machinery, and intangible, e.g. management and organization know-how (Hollenstein, 2005). The transfer is carried out under common ownership and control. In terms of the neoclassical economic theory the export of equity capital may be partially explained by inter-country differences in the return to capital due to differentials of capital endowments, labor costs and productivity. In the line of this approach FDI should flow out of countries with relatively low marginal productivity of capital and into countries with relatively high marginal productivity of capital (Bartlett et al, 2003). This is true provided that labor productivity in the latter is

comparable to the one in the former. In fact, a subsidiary abroad, because it takes advantage of technology and know-how transferred as part of the FDI package, is able to achieve productivity levels similar to the ones at home (Hill, 2002). In general marginal productivity of capital is associated with the level of interest rate, meaning that low interest rates declare low marginal productivity of capital and the opposite.

Foreign direct investment is an efficient mode of further resource utilization due to internalization advantages. The latter become more potent as the technology and information content of the firm competitive advantages increases (Dunning, 1993). In general, the foreign direct investment propensity tends to be higher in technology and R&D-intensive sectors and in sectors where information-intensive inputs, e.g. management, organization, marketing know-how, are required for the efficient run of production. In most cases intangible resources as well as the ability to generate technological inputs, in other words the ability to undertake R&D, are linked to human capital that has the skills to perform the relevant tasks. In that respect foreign direct investment tends to increase as human capital becomes abundant.

Outward Foreign direct investment is one out of three options for servicing foreign markets (the other two are exports and licensing or other contractual non-equity forms of firms' alliance) (Hill, 2002). The prerequisite for a firm to consider cross-border transactions is to have acquired resources and capabilities that permit them to meet international demand. Firms operating behind tariffs and other domestic market protection measures are less likely to develop an international business perspective because of their privileged access to the home market. They also have a lesser tendency to build skills and proprietary assets that would

increase their efficiency than if they had to operate in a highly competitive liberalized business environment. An initial export orientation allows firms to acquire information about foreign markets, e.g. demand and supply conditions, the legal system, their institutions, business practices, etc. as well as skills in organizing foreign operations and marketing products in foreign environments. These may form the necessary conditions for opting to foreign direct investment as the mode of their foreign involvement. In addition, a liberal regime of foreign economic transactions with no capital controls allows the unrestricted funding of investments abroad.

It may be assumed that a corporation selects from the sum of potential projects available, ones that offer an expected return higher than its cost of capital. As the latter becomes lower an increasing number of projects prove to be economic viable. Therefore, given the leverage exposure the firm may sustain, that will increase the rate of investments the same firm may wish to undertake (Shapiro, 1998). Furthermore, the lower the cost of borrowing the higher the leverage exposure a firm may consider as acceptable, and consequently the greater the investment rate the firm may pursue. If the same reasoning is applied to FDI, the rate of the latter may increase as the cost of borrowing at the source market decreases. In general, as the opportunity cost of capital becomes lower at home the equity or debt financing of a foreign investment becomes easier, partly because it offsets the higher risk associated with such an investment, and partly because it lowers the profit margin necessary to make the investment eligible.

The propensity of a firm to invest abroad is a function of its ability to acquire and exclusively own income-yielding assets (firm-specific advantages), which, once they are developed, take the character of a public good, i.e. their supply is not diminished by any consequent use and its marginal cost of further using it is zero or almost zero (Hill, 2002). The expectation of a positive future income stream is an incentive for the possessing firm to continuously find modes of utilizing this pool of resources. As the degree of resource utilization increases the expected future income increases too. Conventional markets are imperfect instruments of exploiting firm-specific advantages, especially in cases where the information component in the form of know-how and/or technology is very significant. An arm's length transaction is not able to capture the full economic rent for the seller. Markets are efficient when prices reflect the marginal cost, which, given the public good character of the asset, is near to zero. Still, the production cost is positive and very high in some instances.

The above analysis establishes the possession of ownership-specific advantages and market imperfections as the cornerstone of a firm's involvement in FDI. The rate of FDI increases as the rate of acquisition of ownership-specific advantages increases (Akinlo, 2004). The latter is the outcome of innovations, R&D in particular. Innovations are either demand-driven or they occur as a response to competitive pressures. In the first case the innovative firm tries to meet new demand structures and characteristics by creating new products and differentiating existing ones. Demand structures tend to differentiate as the purchasing power of consumers increases. That means that the higher the per capita income of a country the higher the degree of demand differentiation. Hence, the propensity of product innovation and differentiation increases. That, in turn, increases the FDI propensity because the latter improves the firm's

access to the foreign market demand characteristics and information, which combined with the already existing expertise in product differentiation enable firms to adapt their products to the host country demand peculiarities. At the same time, it utilizes locally, the marketing and advertising skills that have been developed at home.

Another model that can explain FDI is where the firm tries to cope with competition by developing new competitive advantages, which may take the form of new or differentiated products, a new business line, a new cost-saving technique or an organization method that improves efficiency. Success in the innovation activity results to the growth of the firm at the expense of its rivals and the transformation of market structures towards higher concentration, i.e. oligopoly. Competitive advantages generated in that process are underutilized resources if used only once. Further use will create a revenue flow stream at zero marginal cost, so firms have an incentive to consider various modes of exploiting them (Hymer, 1960). FDI is an efficient mode of utilizing a pool of existing resources.

2.5 Factors affecting outward foreign direct Investments

Pantelis and Kyrkilis (2005) established that proximity, history, culture, and language all play a significant role in affecting outward foreign direct investment. Others have found a wide range of other significant determinants that affect foreign direct investment. The first determinant is the market size (GDP). It directly affects the expected revenue of the investment. In fact, one major motivation for foreign direct investment is to look for new markets (Shapiro, 1998). The larger the market size of a particular region, the more foreign direct investment the region should attract given other things remains constant. Nunnenkamp

and Spatz. (2002) and Andersen, and Buvik (2002) and others have identified market size as having a positive impact on foreign direct investment.

The second determinant is agglomeration which refers to the concentration of economic activities that leads to positive externalities and the economies of scale. Braunerhjelm and Svensson (1996) and Pantelis and Kyrkilis (2005) amongst others found that the level of agglomeration was positively related to the foreign direct investment in a particular country. This study uses infrastructure quality to capture the agglomeration benefits. The highway and railway mileage per square kilometer is proxy for the quality of infrastructure.

The third determinant is labor quality. This study used the total number of the primary, and secondary schools, as well as universities as a proxy for education and further for labor quality. Miller and Eden (2006), Akinlo (2004) and Chang. (2007) all found that labor quality has a positive impact on foreign direct investment.

The fourth determinant is labor cost, as measured by wage. Blomstrom and Lipsey (1991), Contractor et al (2007) and Luo and Tung (2007) all found a relationship between wage or labor cost, and success of foreign direct investment. However, labor cost may have a negative correlation. Multinational firms in Latin America tend to hire quality workers who earn higher wages as a possible reflection of this higher labor quality. Hence, wages in those regions that attract more foreign direct investment may be higher.

The fifth determinant is the degree of openness and progress of reform. Andresson (2004) found that a significant relationship between the degree of openness – as defined by the percentage of states owned enterprises (SOE's) and foreign direct investment. On the one hand, a more open economy means that foreign investors are more familiar with the host economy and may therefore be more willing to invest in the country. On the other hand, openness can have a negative impact on foreign direct investment as it may attract more competition, lessening any competitive advantage a firm may have hoped to realize.

In selecting a foreign market and the mode of entering the market, firms are faced by a number of factors that affect the success of such ventures (Clegg, 1987). Overall, in deciding between these alternatives, several issues need to be taken into account. These include the companies objectives and expectations of the volume of business to be generated; the size the company and its financial resources; patterns of involvement in other foreign markets; the nature and degree of competition within the market; the nature of the product and whether it has any distinct competitive advantages either in terms of its technology, patent protection or trademarks; the markets political infrastructure and whether any tariff or non – tariff barriers exist or area like to be introduced (Miller and Eden, 2006). However it is important to note the factors determining success of foreign direct investment may be similar or dissimilar at all.

Challenges faced by organizations in selecting international markets include the non-existence of a clear company strategic direction and objectives, previous international experience, stage in which the firm is, application of appropriate methods in determining the viability and potential of the market, resource capability, similarity/proximity of the overseas

market, market portfolio congruity, how top anticipate the overseas market risks among others (Hollenstein, 2005). Companies develop strategic orientations, which reflect their individual and group experience, values and attitudes of their employees (those currently employed and their predecessors), changes in their business environment and strategic objectives established for the company i.e. some degree of stretch required to achieved these, some of these may aim to establish/ reinforce perception of the company as a market leader, or reduce strategic risks associated with company survival or growth, e.t.c. strategic orientation may predispose companies to more, or less collaboration with their competitors; it is also likely to strongly influence the process of business internationalization. Unclear company strategic orientation especially in the values and attitudes of their employees towards international business poses a challenge to organizations doing international business.

In selecting international markets and entry modes, firms face a number of factors which determine the success in those markets. Broadly the factors can be market, competition, organizational, regulatory, product and customer related (Hill, 2002).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the methodology that was used by the researcher in the study. It states the research design, data collection techniques and processes as well as data analysis that was used to determine the validity and consistency of the discovery.

3.2 Research Design

This research adopted a case study approach to determine the factors influencing KCB as an outward foreign direct investment in the eastern African region. The study was qualitative in nature. A case study was appropriate as it involves a careful and complete observation of a social unit-a person, institution, family, cultural group, or an entire community-and emphasizes depth rather than the breadth of study (Kothari, 2004). The design is valuable for an in-depth contextual analysis. This method was successfully used by Mwangi, (2010), Mcharo (2009) and Kioi (2008). The pertinent primary and secondary data was collected to meet the objectives of the study. The researcher personally interviewed the respondents using an interview guide.

3.3 The Data Collection

The study used both Primary and Secondary data. Structured interview guide and personal interviews consisting of open ended questions were used to avoid subjectivity resulting from limiting the respondent's answers to questions. Pertinent data was collected from the top management of the Kenya Commercial Bank Ltd at the headquarters. The Kenya Commercial

Bank Ltd officials targeted for interviewing were the head of marketing, head of operations, head of human resource, head of finance and head of administration. The open-ended interview guide enabled the respondents to give as much information as possible without any form of limitation. The researcher designed the interview guide on the basis of the objective of the research and the study's literature review. The primary data was supplemented by secondary data from the existing records of KCB bank, prior studies, Central Bank of Kenya (CBK), Journals and KCB's internal circulars.

3.4 Data Analysis

Content analysis was used to analyze the data collected (Collis et al, 2003). This was a systematic qualitative description of the composition of objects or materials of study. It involved observation and detailed description of objects, items or things that comprise the study (Mugenda and Mugenda, 2003).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents results and findings from the questionnaire survey. The findings of the study are presented according to the research questions. There were 5 interviews arranged with senior employees at KCB Bank Ltd who include head of marketing, head of operations, head of human resource, head of finance and head of administration. However, one interview was not successful whereas four were successful. The information given by the four respondents was deemed enough and important in answering the research question and attaining the research objectives. Analysis was through content analysis.

4.2 General Information

The researcher interviewed the head of marketing, head of operations, head of human resource and head of finance at KCB Bank Ltd Headquarters in Nairobi. The interviewees consisted of one female and three male managers. The interviewees were all post graduates with Masters Degrees in administration, economics and post graduation diplomas in different fields. The interviewees were also graduates from the KCB Leadership centre. All the interviewees were working at KCB headquarters. All the interviewees were long serving employees of KCB Bank with all of them having served the bank for over five years each. The bank was reported to have 220 branches in Eastern Africa as of July 2012. These included 173 branches in Kenya, 14 branches in Uganda, 11 branches in Tanzania, 11 branches in South Sudan and 11

branches in Rwanda. The bank was reported by the interviewees to have a total employee number of 6100 across the eastern African region. This is the highest employee numbers for any commercial bank in Kenya.

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

4.3 Factors affecting KCB as an outward FDI

The study aimed at establishing the factors that have affected KCB Bank Ltd as an outward FDI. In their description of the main strategic choices KCB faces when operating in emerging markets, the respondents stated that by entering an emerging market early, KCB has enjoyed benefits of being a first mover, but the firm also exposes itself to high risk in an environment with unknown institutional voids like their case in Southern Sudan. KCB was reported to enter early since management perceived the bank as having the capability to survive in a high risk

environment, mostly due to the nearness of the markets it has invested in to its parent company in Kenya. In the case of Southern Sudan, all these factors were in place. The economic risk for KCB was relatively low, and they had a local partner that could help them manoeuvre through institutional voids. In addition there were large potential benefits of being a first mover in a market with virtually no competition.

The study revealed that KCB has many factors which have been instrumental in its success in east African region as a regional bank. KCB was reported to have validated, leading-edge management practices against which it measures its performance in all its subsidiaries. KCB was reported to use a business model designed to help it use an integrated systematic approach to organizational performance management that results in delivery of the improving value to customers and stakeholders, thereby contributing to organizational sustainability. The model applied also helps in improvement of overall organizational effectiveness and capabilities, and organizational and personal learning.

The study revealed that KCB regional strategy is built on a set of interrelated core values and concepts. This core values highly contributed on the strategy applied by the bank. KCB's business model also focuses on management by fact, social responsibility, focus on results and creating value, and systems perspective. Study results indicate that these values and concepts are embedded beliefs and behaviors at KCB regionally and has become the foundation for integrating key performance and operational requirements within a results-oriented framework that creates the basis for action and feedback. The table below shows the concentration of each of the core values.

One major factor that was revealed from the study was adapting to local market conditions. Study results revealed that KCB adapts its strategies and operations to fit to local conditions in every country they operate in. In its endeavour to reach the middle class, local, and business segments in the regional markets, respondents indicated that KCB adapts their business model, rather than replicate their home grown model. While KCB's business model was more or less replicated when they expanded into Uganda and Rwanda, they adapted their business model to a large degree in Tanzania and Southern Sudan. Based on the acute differences between Kenya and Tanzania and Southern Sudan, respondents indicated that the business model applied in Kenya could not be replicated in those markets and had to be fine-tuned to fit in those markets. This has made the bank to be successful even in the regional markets that are different from the Kenyan market to a great extent.

Having experienced local managers to work together with managers from the parent company in Nairobi was another important factor. The study revealed that having experienced local managers that understand the local market is an important success factor for KCB for all the foreign operations it has. Having local managers who understand the needs of the local marketplace was reported as a very important success factor in KCB's success in the regional markets in east Africa.

The results from the study also revealed that KCB was successful in east Africa as a regional bank due to its most effective means of assimilating cultural implications in regional markets by partnering with local companies and governments and hiring local management.

Effectively assimilating the cultural implications of regional markets that KCB has invested in into the business model of KCB is accomplished by hiring and developing local managers. Having managers from the parent company in Kenya and hiring local talent is a mixture which was reported to be very effective means of assimilating the cultural implications of a regional market. The risks associated with the markets that KCB invest in regionally are minimized by having strong local managers as revealed from the study.

Another major factor revealed from the study is developing products to fit local markets. The study results revealed that using local market knowledge to influence product features was another important success factor that KCB has used to succeed in the region. The respondents revealed that the development of an understanding of local laws, regulations, and tax implications as a means of promoting success as a regional bank was a major factor in KCB's success story. The respondents inferred that local knowledge is likely the easiest way to develop this understanding. The results also indicated that providing products that mirror the culture and values of the local market and achieving high levels of customer satisfaction are the keys to success in regional markets.

Another factor revealed from the study that has made KCB to succeed as a regional bank is innovation. Innovation as reported by the respondents has played a key role in the development of KCB as a regional bank and has been a fundamental characteristic of KCB subsidiaries in all the markets it has ventured into. Innovation, knowledge, and capabilities have been the hallmarks of KCB in all its regional endeavors in eastern African region. KCB

was reported to have enough financial, human, and tangible resources that leverage innovativeness, knowledge, and capabilities to achieve considerable regional market success.

Autonomy was mentioned as a factor that has been another key element of success for KCB as an outward FDI in the region. Respondents indicated that greater autonomy has motivated local subsidiary managers to take initiatives that has resulted in marketing innovations that are either useful locally or are leveraged by KCB on a regional basis. Respondents indicated that decentralized and more independent subsidiaries in the region have generated higher levels of innovation in the region and brought much success to KCB.

Another factor revealed from the study that has made KCB to be a success as a regional bank is the continued good financial performance of the parent bank in Kenya. Respondents indicated that this has created competitive advantage since the company's profits exceed the average for its industry over its rivals in Kenya. Respondents indicated that KCB has expanded in the regional marketplace by leveraging their competitive advantage mostly through product differentiation. KCB was reported to use its resources and capabilities to formulate distinctive competencies, which reveal themselves in differentiation advantages that ultimately are the value-generating competencies of the bank. Respondents indicated that the superior performance of the bank has enabled the bank to be a respected and popular brand in eastern Africa which has helped its regional expansion strategy. The good reputation of KCB was revealed to be an important factor. Respondents revealed that a good reputation is viewed as an indicator of a firm's overall effectiveness in attracting investors, decreasing costs,

encouraging customers to purchase the company's products or services, and assisting in the recruitment of skilled manpower.

KCB was reported to very much focus on building corporate reputation strategies like the development, and enhancement of core competencies, image management, and the development of powerful strategic alliances. The study revealed that KCB is involved with various partners in the markets they venture into to increase their learning potential and to cushion themselves against risks of entering into unknown markets.

4.4 Challenges faced by KCB in its Foreign Operations

The study had the objective of finding out the challenges that KCB had faced in its FDI in the E African region. One major challenge was corruption in government and societal actions and policies. Government licensing and interference was reported as a serious problem for KCB in its internationalization process. Lack of openness by host government and its people was another key challenge in some foreign markets. The term openness according to the marketing head at KCB refers to the lack of regulatory and other obstacles to entry of foreign firms. Openness, the marketing head further indicated, could either increase or decrease entry success. Openness in Ugandan and Tanzanian markets was low according to the responses and it made KCB takeoff in those markets to take more time than projected.

On the issue of corruption, study results revealed that it substantially influences bank's resource commitment, investment risk, degree of control, and profits from international operations. The interviewees further indicated that entry-mode decisions are costly to reverse, and thus have significant implications for long-term performance, even for large MNEs.

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

Government actions were mentioned to affect KCB in its entry into foreign market of Tanzania. These included the requirement by TZ authorities that 80% of branch employees be Tanzanians which made it more costly in terms of recruitment and selection costs. Even during starting, KCB was required to first hire 80% locals which made entry challenging. The interviewees indicated that the cost of transfer of staff, hiring new staff and training the newly hired staff were material which pushed up the initial outlay required to invest in the foreign markets. The costs of staff were amplified by the expatriate status the transferred staff had in the foreign markets. For KCB, entry into a foreign market requires not only a major resource commitment, but also ongoing direct management of the subsidiary and long-term interaction with various local government agencies in the foreign markets. Respondents indicated that subsidiaries require local registration, permits, and various other government services, all involving opportunities for extortion. The more pervasive corruption is, the more likely KCB subsidiaries are to encounter such pressures to engage in corruption.

The challenge of poor infrastructure was faced mostly in Southern Sudan. Another significant challenge which was established from the interviews was language. KCB's official language is English and in some of the countries it has targeted, the official language is different. The

language problem was encountered in mostly Southern Sudan and TZ where common languages are Arabic and Kiswahili respectively. Xenophobia or fear of foreigners and their practices was another major challenge in Southern Sudan market where not many employees liked working there due to the negative perception they received in that country from the hosts. However, this was dissipated when more foreign companies opened in Southern Sudan and the good relationship between Kenyan and Southern Sudan authorities which have warmed relations between peoples of the two countries.

The study results indicate that there are specific country risks that challenge KCB operations in various regional markets. One respondent defined country risk as 'the uncertainty about the environment, which has three sources: political, financial, and economic. Political risk according to the respondents is the risk that laws and regulations in the host country will be changed adversely against a foreign firm. These could be of a regulatory nature, such as the imposition of tariffs, or of a political nature, such as unrest caused by pressure groups. At its severest, political risks may cause confiscation of assets without adequate compensation. These according to responses from interviewees are considered before KCB makes a decision to venture into any foreign market. Political and regulatory issues brought other challenges and attractions. A case in point is on the decision to invest in Southern Sudan. Respondents indicated that KCB Bank Ltd was formally invited and requested to invest in Southern Sudan by the government in that country. They therefore engaged in evaluation of the opportunity and though challenging, decided to take the advantage of a new upcoming nation. The challenge however, was that in Southern Sudan, investment was massive and this totalled an initial investment of Kshs 2 billion. This was due to bureaucracy, expropriation and poor

structures of government in Southern Sudan market. The Bank was however welcomed well in Southern Sudan mainly because there were no established banks in the region.

Another challenge faced by KCB was its name which had a Kenyan local connotation. Study results revealed that having a bank named Kenya Commercial Bank (TZ) Ltd' was a challenge when KCB first entered the foreign market, back in 1997. This challenge seemed to be managed by good service that the bank was offering customers. Other factors included resistance by management and staff. The fear of management and staff came from the fear of new places and the competing investments which made resource allocation between local and foreign business challenging. Some parts of management also were mostly of the opinion that foreign investment should be suspended e.g. in case of Southern Sudan where the condition is thought to be still volatile. The interviewees indicated that in most foreign entry decisions, some quarters of management are of the thought that an early foray into foreign emerging market exposes the bank to particular challenges.

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

4.5 Discussion

The study revealed that KCB has many success factors which have been instrumental in its success in east African region as a regional bank. KCB was reported to have validated, leading-edge management practices against which it measures its performance in all its subsidiaries. KCB was reported to use a business model designed to help it use an integrated systematic approach to organizational performance management that results in delivery of the improving value to customers and stakeholders, thereby contributing to organizational sustainability. The study revealed that KCB regional strategy is built on a set of interrelated core values and concepts which include visionary leadership, customer-driven excellence, valuing employees and partners, agility, focus on the future and managing for innovation. These findings agree with results from a study by Kanji (2002) who indicated that leadership was a core factor. Kanji (2002) indicated that successful FDI's develop five principles and eight core concepts that lead their operations. These include leadership (prime principle), delighting the customer, continuous improvement, management by facts, and people-based management. These core principles support eight core concepts which include all work is a process; people make quality, teamwork, and customer satisfaction.

Results also indicated that having local managers who are experienced in the local marketplace was another critical success factor. A study by Arino (2003) had similar findings that having local experienced staff in decision making makes it easier to deal with country risks, develop products that are market compliant and also assists in developing relationships and partnerships.

Study results indicate that having a good financial base in Kenya and the continued good performance of the bank in the whole region is another factor of success in the region. These study findings concur with results from Goldenberg, Cohen, and Feigenbaum (2003) who demonstrated that the market strength of corporations in foreign markets could be enhanced by having a positive reputation in the marketplace and in the home country. A good reputation according to Goldenberg, Cohen, and Feigenbaum (2003) is viewed as an indicator of a firm's overall effectiveness in attracting investors, encouraging customers to purchase the company's products or services and assisting in the recruitment of skilled manpower.

The results also indicated that financial performance and a good financial base were important success factors in foreign markets. Akinlo (2004) in a study of FDI in Nigeria had similar results which indicated that the most obvious and prominent success factor for a multinational is financial performance, which is most often expressed in terms of specific and measurable financial goals. These financial goals can be established as profitability, increased turnover, market share, or an array of other statistical measures designed to measure an organization's performance and compare performance required with that required in foreign markets.

The study established that strategic advantages of differentiation and innovation are widely applied success factors that KCB uses in its operations in the east African region. KCB's marketing strategy was posited as a key determinant of its regional market performance.

KCB is involved in the process of adapting a firm's operations strategy to international environments that it is expanding to. KCB is reported to take advantage of the emerging regional investment opportunities to support inter-regional trade in the East African region. The interviewees also pointed out that establishment of regional branches were in line with the Bank's regional expansion strategy, which was reported to be underpinned by its vision to be the "Best Bank in the region". As part of the expansion strategy, the interviewees indicated that KCB is exploring the prospects of establishing other subsidiaries in Burundi and other further countries to the central African region. The study findings agrees with findings from a study by Madhok (1997) which revealed that firms find it easy to deal with host countries that are close in economic distance from their home country for several reasons. First, countries close in economic development have similar market segments that can afford to consume similar types of goods and services. Thus, knowledge about market demand transfers easily from home to host country.

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

international firms seeking to enter emerging economies in Africa and Latin America encountered massive corruption which put them off from otherwise promising investments.

Political and regulatory issues brought other challenges for KCB. The bank had to contend with many hostile receptions in specifically Uganda and Tanzania. This was because of the image of a foreign regional bank 'stealing' business from the local banks. The hostile reception according to responses was mainly by government administration units, regulators, other established banks and in some few instances the public. Other challenges included discrimination by locals and cultural differences. This study agrees with Porac, & Wade's (2004) study in Latin America. The study observed that market entry not only increases competition for customers within an industry, but also forces incumbent firms to decide whether or not to collaborate with the entering firms in strategic alliances, industry associations, underwriting syndicates, and other forms of relationships. The decision to collaborate or not is particularly important when entering firms threaten to destabilize and replace the established logics—or social rules, norms, and structures—that shape competition and collaboration within an industry with new logics that favor the entering firms. Another study by Fligstein (2001) also had similar findings where entering forms are locked out or excluded from deal, alliances and partnerships by incumbent firms. The incumbent firms must therefore use collaborative relationships discriminately to manage threats from market entry by selectively providing and withholding entering firms' opportunities to collaborate with incumbent firms. This however is determined by what strategy or model the entering firm adopts. A combative entry may create resentment in incumbent firms and increase the risk of exclusion.

Another challenge faced by KCB in the region was its brand name. Its name sounded native to Kenya and acceptance of that name was not very good in some markets. Other organizational factors include the fear of management and staff which came from the fear of new places and the competing investments which made resource allocation between local and foreign business challenging. Some parts of management also were mostly of the opinion that foreign investment should be suspended e.g. in case of Southern Sudan where the condition is thought to be still volatile. These findings concur with management literature which has identified numerous firm-level factors that affect entry mode. Examples include a study by Davis et al. (2000), Delios and Beamish (1999) and Shrader (2001).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, the researcher presents the summary, conclusions and the recommendations made from the study findings. In section 5.2, summary of findings are presented. Section 5.3 presents conclusions made from the study findings while section 5.4 presents recommendations made after considering the study findings. Section 5.5 presents suggestions for any further studies that may be done in this area of FDI.

5.2 Summary of findings

This study had the objective of establishing the factors that have led to KCB Bank Ltd to be a success in its strategy to be a regional bank. The main success factors were mentioned among others early entry. Results indicated that by entering a market early, KCB has enjoyed benefits of being a first mover. KCB was also reported to have validated, leading-edge management practices against which it measures its performance in all its subsidiaries.

KCB was reported to use a business model designed to help it use an integrated systematic approach to organizational performance management that results in delivery of the improving value to customers and stakeholders, thereby contributing to organizational sustainability. The study revealed that KCB regional strategy is built on a set of interrelated core values and concepts which include visionary leadership, customer-driven excellence, valuing employees and partners, agility, focus on the future and managing for innovation. KCB's business model

also focuses on management by fact, social responsibility, focus on results and creating value, and systems perspective.

Adapting to local market conditions was another major success factor for KCB. Study results revealed that KCB adapts its strategies and operations to fit to local conditions in every country they operate in. KCB adapts their business model, rather than replicate their home grown model. While KCB's business model was more or less replicated when they expanded into Uganda and Rwanda, they adapted their business model to a large degree in Tanzania and Southern Sudan.

The study revealed that having experienced local managers that understand the local market is an important success factor for KCB for all the foreign operations it has. Having local managers who understand the needs of the local marketplace was reported as a very important success factor in KCB's success in the regional markets in east Africa. The results from the study also revealed that KCB was successful in east Africa as a regional bank due to its most effective means of assimilating cultural implications in regional markets by partnering with local companies and governments and hiring local management. Effectively assimilating the cultural implications of regional markets that KCB has invested in into the business model of KCB is accomplished by hiring and developing local managers.

Developing products to fit local markets was another success factor revealed to contribute to KCB's success in the region. The study results revealed that using local market knowledge to influence product features was another important success factor that KCB has used to succeed

in the region. Another major success factor revealed from the study that has made KCB to succeed as a regional bank is innovation. Innovation as reported by the respondents has played a key role in the development of KCB as a regional bank and has been a fundamental characteristic of KCB subsidiaries in all the markets it has ventured into.

Greater autonomy has motivated local subsidiary managers to take initiatives that has resulted in marketing innovations that are either useful locally or are leveraged by KCB on a regional basis. Through local management, the study revealed that KCB is involved with various partners in the markets they venture into to increase their learning potential and to cushion themselves against risks of entering into unknown markets.

Another success factor revealed from the study that has made KCB to be a success as a regional bank is the continued good financial performance of the parent bank in Kenya. Respondents indicated that this has created competitive advantage since the company's profits exceed the average for its industry over its rivals in Kenya. KCB was reported to very much focus on building corporate reputation strategies like the development, and enhancement of core competencies, image management, and the development of powerful strategic alliances.

The study had the objective of finding out the challenges that KCB had faced in its FDI in the eastern African region. Major challenges KCB faced included corruption, political risks and country risks. One major challenge was corruption in government and societal actions and policies. Government licensing and interference was reported as a serious problem for KCB in

its internationalization process. Lack of openness by host government and its people was another key challenge in some foreign markets.

Government policies and regulations were mentioned to affect KCB in its entry into foreign markets. Other factors included poor infrastructure, language problem, Xenophobia or fear of foreigners and uncertainty about the environment, which has three factors: political, financial, and economic risk.

Other challenges faced by KCB as revealed from the study include its brand name, which had a Kenyan local connotation and liabilities of newness in the regions they have ventured into.

5.3 Conclusions

The study makes the following conclusions. First, KCB has been a success as an outward FDI in the eastern African region due to many organizational competencies it has. These competencies form the success factors for KCB in all the regions it has ventured into. Factors which have led to KCB's success include being a first mover in regions such as Southern Sudan, leading-edge management practices, core values and concepts which include visionary leadership, customer-driven excellence, valuing employees and partners, agility, focus on the future and managing for innovation. Other success factors include adapting to local market conditions, incorporating experienced local managers to work together with managers from the parent company and assimilating cultural implications in regional markets by partnering with local companies and governments. Other critical success factors include developing products to fit local markets, innovation and having enough financial, human, and tangible

resources that leverage innovativeness, knowledge, and capabilities to achieve considerable regional market success. Continued good financial performance of the parent bank in Kenya has been another factor of success with other factors including good corporate reputation strategies like the development, and enhancement of core competencies, image management, and the development of powerful strategic alliances.

Challenges that KCB has faced in the region include corruption, governmental and societal actions and policies, lack of openness by some host governments, expropriation by government officials, rules and regulations and poor infrastructure in some regions. Other challenges include language in some countries like Tanzania and Sudan, and culture differences which have made some regions to be wary of foreigners like in Sudan. Other challenges include resistance by management where many managers do not like relocating to foreign countries.

5.4 Recommendations

Following the findings, the following recommendations are made. First, to seek growth, companies need to expand their operations regionally and internationally to improve their bottom-line. Companies seeking to invest in other countries other than their home country should use strategies which aim at tailoring existing products to better fit the needs of market they seek to target. However, a company should first be successful in its home country before it strategizes to venture into other markets.

Secondly, firms seeking to expand outside their home country should adopt localized adaptation of their products and strategies for penetrating international markets. Firms should respect differences in markets and develop products that seek to satisfy the different classes of markets and not trying to sell the same type of product in all markets. To do this, firms should seek the participation and partnership of local managers who understand the market to increase their market learning. Another way of learning about the market and reducing risk would be to have strategic alliances with government, other businesses and even being close to people through corporate social responsibility.

Third, multinational corporations should give some form of autonomy to their subsidiaries such that they can be able to make some crucial decisions mostly in marketing and product development. Autonomy also ensures that some critical decisions are made as quickly as possible to ensure that some opportunities are grabbed as soon as they are feasible. However, the dominant culture of the group should not be compromised and the basic tenets under which the whole company operates should be respected by all subsidiaries.

To host governments, it is recommended that they should make their countries attractive such that many FDIs should invest in them to bring advantages that are associated by such investments. This would be done by dealing with corruption, improving infrastructure, having incentives for multinationals through quick registration, tax incentives and such other practices.

5.5 Suggestions for Further Research

This study was aimed at establishing the factors that have led to success of KCB as a foreign direct investment in the eastern African region. For further in the area of FDI, a survey need to be done to establish the experiences of other Kenyan banks who have ventured outside the country. Such a study would give more insight into the factors that are important for success for those Kenyan banks that are investing in markets outside Kenya.

Another study which may be recommended in the area of FDI by commercial banks would be to investigate the challenges faced by banks seeking markets in foreign countries. Such a study should be a survey of all the Kenyan banks that have a branch or representative office outside Kenya.

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APPENDIX 1

DATA COLLECTION LETTER



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TO WHOM IT MAY CONCERN

The bearer of this letter DALY NJERI WANJIE

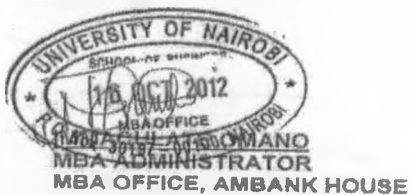
Registration No. D61/60400/2010

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



APPENDIX 11
INTERVIEW GUIDE

Part 1: General information

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

2. What is your level of Education?

a) Post Graduate (.....)

b) Under Graduate (.....)

c) College (.....)

d) Others (.....)

3. How many years have you worked for Kenya Commercial Bank (KCB) up to now? Please tick one

a) Below 5 years (.....)

b) 5-10 years (.....)

c) 11-15 years (.....)

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

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

.....

5. How many countries does KCB operate in?

PART II: FACTORS AFFECTING KCB SUCCESS IN FOREIGN OPERATIONS

1. Does KCB have a formal strategy on international operations?

Yes []

No []

Explain

2. Has KCB experienced any governmental or societal actions and policies, originating either within or outside the host country, and negatively affecting either you as a select group of, or the majority of, foreign business operations and investments?

Yes []

No []

Explain

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

Yes []

No []

Explain

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

5. What are the market related factors affecting KCB in its foreign operations?

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6. In the internationalization process, what competitive related factors affect KCB

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7. What Organizational related factors affect KCB that can affect its success in foreign operations?

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8. What are some of the Regulations that KCB view as affecting their international operations?

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9. Does KCB view the products they offer as an important factor affecting their success in the region?

If yes, how?

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10. How has culture in the foreign markets affected KCB's Success?

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11. How has competition in the region affected KCB's Success in the region?

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12. Does KCB have enough resources to serve the regional market?

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