

**PROBLEMS OF INTERNATIONALIZATION OF OPERATIONS BY  
KENYAN INSURANCE FIRMS**

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## DECLARATION

This research project is my original work and has not been presented for award of any degree in any other university or institution of higher learning.

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

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## **DEDICATION**

I dedicate this study to my family: My wife Mercy and to my two children; Nataly and James.

My dear children, I hope you shall draw inspiration from my efforts in the pursuit of knowledge.

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## ABSTRACT

There is a notable absence of empirical studies locally conducted to determine the problems of internationalization of operations by Kenyan insurance firms. Globally some scholars have also lamented on the paucity of research progress in general and a lack of theoretical and empirical rigor of exciting studies in internationalization of services. Internationalization of small firms especially from a developing country's perspective has received little attention in academic enquiry. A review of local literature shows that although there have been several research studies done on the insurance industry; none touch on the problems of internationalization. Even more numerous studies have looked at internationalization of operations in other service industries with a strong emphasis on Kenyan banks. The study established primarily that lack of knowledge and expertise to assess opportunities in foreign markets hinders the internalization of the operations of insurance firms. Study findings from chapter four indicate that 37.8% of the insurance firms have not internationalized their operations. The majority of those that have internationalized have operations in Tanzania followed by Uganda which validates the Upsalla model of internationalization on the aspect of psychic distance. The study also indicated that network of branches, joint ventures and merger and acquisitions do not form the current operations in the countries Kenyan insurance firms are operating. However, the study established subsidiaries was the preferred mode of entry for the majority of the insurance firms in foreign countries. The study findings indicated that firm's motives in setting up operations in another country are based on search for new markets, incentives offered by the regional integration, firm's strategy and financial and political risk diversification strategy. Client following, increasing shareholder wealth and bandwagon effect does not motivate Kenyan insurance firms to venture in other foreign markets. Host government laws, political instability, gaining client confidence and competition from local firms were also established to be major problems for the internalization of the operations in the foreign market for Kenyan insurance firms. In addition to lack of knowledge and expertise to assess opportunities in foreign markets, lack of capital to finance expansion, domestic market focus and lack of support from the Kenyan government impedes the internationalization of insurance firms. In effect the findings herein tended to support the Upsalla model of internationalization and the upper echelons theory in as far as respondents confirmed that a lack of knowledge and expertise hindered the internationalization of firms and further that so many of the firms were focusing on the local market alone to the exclusion of opportunities in the regional market.

The study recommends that host countries should enact laws that enable a fair competitive environment for the operations of the foreign insurance firms. Trade restrictions should be abolished for East African Region to enhance the internationalization of operations by Kenyan insurance firms. Political stability should be embraced within East Africa region to encourage internalization of Kenyan insurance firms. Peaceful nations attract foreign investors since security and protection of investments is assured. The government of Kenya should support insurance firms who are willing to expand their market base beyond Kenya. There is therefore urgent need to relook the regional integration strategy to come up with solutions uniquely Kenyan to facilitate internationalization process. This can only be attained through engagement and deeper consultations with the stakeholders.



# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

Kenya has, over the last two decades, participated actively in regional integration matters through various regional trading arrangements including the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the Inter-Governmental Authority on Development (IGAD). According to the Regional Integration Strategy 2014 prepared by the ministry of East African Affairs and Tourism, the country's exports to the regional market account for over 50 per cent of the total export value (about US\$ 5.3 billion as at 2011) with the EAC and COMESA markets combined representing 80 per cent of the total export share.

Regional integration among the parties in the various regional entities that Kenya belongs to, operate from agreed rules enforced by the relevant institutions. The benefits of regional integration include enhancing economies of scale by taking advantage of regional infrastructure to promote trade diversification and provide learning-by-exporting experiences linking into globalizing markets. In addition to improved regional economic and political stability, closer regional integration will further enhance incentives for both domestic and foreign investment, promote the growth of existing industries, and encourage business startups.

In terms of milestones, there is now in existence an established Free trade Area, customs union and a common market for member states in the East African Community and COMESA. Kenya's products to the regional markets include beverages, food and live animals, tobacco, metal containers, beer, paper and paper products, iron and steel products,

chemicals, pharmaceuticals, and cement. Currently three Kenyan supermarkets (Uchumi, Tuskys and Nakumatt) have opened around 28 branches in total in Uganda, Rwanda and Tanzania with estimated FDI inflows of around 22 million US dollars.

In addition to the above, around 8 banks (KCB, Equity, DTB, Fina Bank, NIC, CBA,I&M, and Co-op bank) have close to 200 branches in Tanzania, Uganda, Rwanda, Burundi and South Sudan. The above action by Kenyan firms in other sectors to take advantage of the opportunities that have been availed by regional integration serves to demonstrate that there is a viable market out there in the neighbouring countries.

Conversely only seven indigenously owned insurance firms, out of the forty seven registered firms, have ventured into other countries within the region and opened a cumulative total of eleven branches concentrated mainly in Uganda and Tanzania (Akwir 2012). It is clear that the insurance industry is lagging behind other sectors in taking up opportunities in the regional market. Insurance business in Kenya has become competitive due to an increase in the number of firms offering insurance services, low product innovation and poor market penetration. A majority of insurance firms may not be attempting to internationalize their operations due to perceived insurmountable problems associated with the factors that drive the internationalization process and therefore it is necessary to investigate problems of internationalization encountered by the Kenyan insurance firms that impact on their ability to internationalize their operations.

### **1.1.1 Concept of international business**

There is no universally accepted definition of the concept of international business.

According to Melin (1992), there seems to be a lack of consensus about the conceptual domain of international business owing to the fact that the theoretical focus is blurred by the

multi disciplinary nature of the field i.e. finance and banking, cross cultural aspects, international joint ventures, human resource, FDI, coordination and control in MNCs and host Government relationships.

Yabs (2007), states that the concept of international business is fairly recent and that it developed from international trade, (the latter being a concept as old as the civilization of man). He thereafter defines international business as referring to economic activities of firms crossing into one or two territories. International trade, according to Palgrave dictionary of economics, means trade between nations. It is therefore clear that international trade focuses on the activities of nations whereas international business focuses on the activities of firms in other countries. We can therefore adopt this definition of the concept of international business to mean the economic activities of firms crossing into one or more territories. To be called an international business, a firm needs to undertake transactions between two or more countries

### **1.1.2 Internationalization process**

In general service firms go international ‘to make money.’ However, as in most business activities, one stimulus alone rarely accounts for any given action. Usually, a combination of factors affects the internationalization decision. The internationalization process is the outcome of the interaction of both external and internal drivers of change. The combined effect of these factors shapes a company’s strategy. It is the process of increasing involvement in international operations across borders. Motivations for Internationalization include economies of scale, increasing market share, gaining knowledge enhancements leading to stronger capabilities and innovation and exploiting entrepreneurial opportunities (Vermeulen and Barkema, 2001).

A number of theories have attempted to explain why, when, where and how firms engage themselves in international business. They range from economic to behavioral theories.

Economic theories explain the economic logic of going international whereas behavioral theories focus on the managerial decision of the individual firm or the owner manager. In this regard theories such as product life cycle, transaction cost economies model, the eclectic model, internationalization process model, the theory on the need to export and import goods and services and Porter's theory of national competitive advantage come to mind. It was not the intention of this project to review all of them here; an outline of the Uppsalla model and the product life cycle suffices to explain the internationalization process.

In the product life cycle model Vernon (1966) indentified several stages in the life cycle of a product each of which has different implications for the internationalization of the innovative company and the product itself. The introduction stage is domestic, having its orientation in the country where the product was developed. Export to other industrial countries may support the emerging goal of achieving economies of scale in production. In the growth stage, export activities increase and foreign direct investments in manufacturing plants are made in countries with an expanding demand for the product. In the maturity stage when major markets are saturated and the product standardized, the manufacture is relocated to countries with low labor costs. Finally in the stage of decline, manufacturer and in some cases also the demand, definitely leaves the industrial country which was home to the original innovation.

Yabs (2007) argues that Multi National Corporations no longer transfer production and assembly plants lines to developing countries due to shortened life span of a product. He gives an example of computers. Owing to the fact that computers age quickly, by the time the assembly line is changed and commissioned the product lines are obsolete because of new developments in computer technology.

With regard to the Uppsalla model (Johanson and Vahlne 1977), the process where a firm gradually increases its international involvement is described as being sequential from the

initial export activities to the setting up of foreign production units. Each firm goes through a number of logical steps of international behavior, based on its gradual acquisition, integration and use of knowledge about foreign market and operations and its successively increasing commitment to foreign markets. The focus is on market knowledge and market commitment (through engaged resources). The learning through development of experiential knowledge about foreign markets is necessary in order to overcome the “psychic distance” to these markets i.e. differences between any two countries in terms of language, culture, education level, business practice and legislation. The firm enters new markets with successively greater psychic distance. This perceived distance is expected to disturb the flow of information between the firm and the foreign market. Therefore firms start their internationalization on markets that they can rather easily understand; often in neighboring countries.

It has been argued by Melin (1992), that the Product life cycle model and the Uppsala model (internationalization process model) have a longitudinal character which satisfies one criterion; that internationalization is a process. The product life cycle focuses on the country whereas the Uppsalla model focuses on the firm and explains internationalization as one distinct pattern of growth with assumptions about lack of information and the importance of perceived risk and uncertainty. In relation to the current research problem and further bearing in mind the researcher’s contention that very few indigenous insurance firms have internationalized; then the Uppsalla model, in spite of its shortcomings aptly explains the internationalization process in our context.

### **1.1.3 Internationalization related problems**

These are problems that are encountered by firms the world over as they seek to internationalize their operations. They are factors impacting negatively on the internationalization of operations of firms. According to Winstead and Patterson (1998), they encompass all attitudinal, structural, operational and other constraints that hinder the firm’s

ability to initiate, develop or sustain international operations. Firms that are seeking to expand operations beyond their national borders face significant difficulties that could potentially hinder their attempts to internationalize if they are not overcome.

Factors such as political uncertainty and inconsistent economic policies are a hindrance to internationalization. Governments that object to foreign firms may severely hinder such firms from entering their market with their services and compete with local firms. This may be done through imposition of an unfavorable and oppressive regime of legal and tax requirements rendering the country as an unfavorable destination to the firm. Import restriction policies frequently hamper expansion plans. Non tariff barriers are also a big hindrance to internationalizing. Some of the common non tariff barriers that influence operations of firms in East Africa include administrative and regulatory requirements, standards and technical requirements, trade facilitation measures, issuance of permits etc. Firms would like to invest in countries where economic policies are consistent and usually predictable.

Management characteristics such as global mindset and attitudes towards internationalization can pose a problem to internationalization of operations of firms. Managers with a global mindset acknowledge the interdependence of their firm with the global economy. A global mindset is one that is open minded viewing the world from a broad perspective. The inverse is also true for managers with a local mindset. They may look inward and shut out the firm from opportunities that may have been availed through internationalization of its operations. A local mindset could therefore be a problem to a firm that wants to internationalize its operations. Closely related to the management mindset would be the choice of strategy of the firm. A firm that adopts a strategy that primarily focuses on the local market will not be able to internationalize its operations owing to the limits of its strategy. Attitudes and perceptions

towards internationalizing usually comprise constructs such as perceived attractiveness, benefits and risks in international business.

Cost aspects have a bearing on the profit generated by the firm, on a firm's inclination to enter foreign markets and on the selection or changing of foreign market entry mode. The perceived cost may concern not only direct cost of starting up business abroad in the form of travelling costs, salaries, collecting foreign markets information, purchase as rent of office space etc but also the costs due to the organizational set up of the firm such as training and retraining of staff, changes in routines, reporting systems and procedures. In addition, opportunity cost for seeking and evaluating local partners may also be included in case of joint ventures.

A firm's characteristic may also pose a problem in the context of internationalization especially with regard to resource limitation. Relevant assets of a firm include firm size, knowhow and the type of service on offer (e.g. financial services, legal services etc) This characteristic may lead to a lack of knowledge and expertise to assess international markets, lack of exporting expertise, lack of contacts in foreign markets and finally a lack of capital to finance expansion. Lack of knowledge and expertise can also hamper a firm in researching and developing strategies to penetrate foreign markets.

Other problems that could impede a firm's internationalization intentions include a lack of support from home government, uncertainties as to the suitability of services on offer to the target country especially with regard to the pricing of the product and different customer standards in foreign markets bearing in mind there is likely to be competition from local firms and the attendant danger of ethnocentricity in that the target populace may prefer services from indigenous firms.

#### **1.1.4 Insurance firms in Kenya**

Kenya's insurance industry is a major player in the financial services sector of Kenya's economy. Insurance firms are financial institutions that function in the economy as part of the financial services industry. According to the most recent survey by the Insurance Regulatory Authority, (2013) there are forty seven (47) insurance companies in Kenya as at 18<sup>th</sup> December 2013. Of the 47 firms, 21 were general insurers, 11 long term insurers and 15 composite. Insurers are currently required by law, to either provide general insurance or life assurance. In other words the days of the composite insurer are numbered. This can explain the recent trend of mergers of insurance companies for instance I.C.E.A Lion life Assurance and ICEA Lion General Insurance Company, and UAP General Insurance and UAP Life Assurance Company Limited. Section 2 of the Insurance Act (Cap 487 Laws of Kenya) defines insurance business as a business of undertaking liability by way of insurance (including reinsurance) in respect of any loss or damage including liability to pay damage or compensation, contingent upon happening of a specific event.

Awori (2002) points out that insurance is a tool by which individuals and corporations are able to guard against uncertainties facing them in their daily operations. It enables investors to undertake ventures that they would not ordinarily go into due to fear of risks. In addition, insurance is a means by which life policy holders can mobilize long term savings for financing investments. The principle of insurance is that losses of the few are paid by many (Wachira, 2013). Kamuru (2005) argues that we should take a broader view and appreciate that the broader purpose of the insurance industry within a nation is to protect and conserve the wealth of the nation whilst assisting in generating more wealth. These functions have an ultimate objective of ensuring the social and economic well being of the nation.



Services offered by insurance companies can be categorized as life insurance and non life insurance. Life insurance is a contract between the insurer and the policy holder where the insurer promises to pay a designated beneficiary upon the death of the insured person. Depending on the terms of the contract, terminal illness of the policy holder may also trigger payment. The core benefit of life insurance is that the financial interests of one's family remain protected from circumstances such as loss of income due to death or illness of the policy holder. It therefore gives the policy holder 'peace of mind'. Life policies include investment policies, protection policies, ordinary life policies and group life policies.

Non life insurance or general insurance is a contract where the insurer promises to compensate the insured in case there is a loss or damage to property or liability. Most general insurance are annual or short term contracts. General insurance can be further classified as personal insurance (e.g. motor insurance, domestic package, medical etc) or commercial insurance (fire, marine engineering, burglary, public liability, product liability etc).

The 2013 survey by Insurance Regulatory Authority revealed that there has been an upturn in fortunes with the industry recording an average business growth of 31%. The growth was primarily fuelled by general performance of the economy (investment income) and the reduction of fraud related risks through the establishment of specialized departments like actuarial, compliance and internal audit. The results therefore mask a longstanding trend where the market penetration of insurance products in this country remains abysmally low at 2.5 per cent of GDP. The survey also revealed that the firms are focusing more on growth strategies at the expense of expansion strategies. The growth strategies highlighted therein include market development strategies, product development strategies innovations and deepening of specialization. The only expansion strategies noted therein are those of opening branches into various counties which have been ranked according to attractiveness. It is clear

therefore that strategies that include joint ventures, mergers and acquisitions in the regional market are absent there from.

## **1.2 Research problem**

There is a notable absence of empirical studies conducted to determine the problems of internationalization of operations by Kenyan insurance firms. Globally, Javalgi and Martin (2007) have pointed out the paucity of research progress in general and a lack of theoretical and empirical rigor of exciting studies in internationalization of services. Rutashboya and Jaensen (2004) have argued that the internationalization of small firms especially from a developing country's perspective has received little attention in academic enquiry.

A review of local literature shows that there have been several research studies done on the insurance industry. For instance, Mbuuko (2013) researched on factors influencing choice of unrelated diversification strategies in the insurance industry in Kenya. Wachira (2013) investigated the key success factors in Kenya's insurance industry while Nyamemba (2013) has researched on the responses of Jubilee insurance company of Kenya to changing environmental conditions. Even more numerous studies have looked at internationalization of operations in other service industries with a strong emphasis on Kenyan banks. Asira (2013) researched on the internationalization of indigenous Kenya commercial banks within East Africa while Mulatya (2012) researched on the factors that determine the Internationalization process of commercial banks in Kenya.

With regard to the current research topic, Kiilu (2005) researched on the perception problem regarding internationalization capability of architectural consultancy firms in Kenya whereas Musau (2013) looked into the problem of the influence of non tariff barriers on the operations of selected Kenyan firms within East African Community. Both Kiilu and Musau researched on a single problem in the internationalization process; perception and Non Tariff Barriers

respectively. However, their research focused on other sectors and not the insurance industry in Kenya. Javalgi and Martin (2007) argue that services are heterogeneous. This aspect of heterogeneity means that one cannot necessarily rely on research carried out on a different service sector to arrive at conclusions on another sector. For instance the problems of internationalization of operations experienced by architectural firms or engineering firms might not necessarily be similar to those experienced by insurance firms. No research, that I am aware of, has been published locally that examines the problems of internationalization of operations of Kenyan insurance firms. As a suggestion for further research, Kiilu (2005) had proposed that research be carried out on other service sectors to determine problems of internationalization that may be impacting on their ability to exploit opportunities in other countries.

Despite diminishing opportunities in the local market and also in spite of the efforts made by the government towards regional integration, very few insurance firms have internationalized their operations into the regional block. If more firms took up the challenge it would be beneficial not only to the firm but the country's economy as a whole. This would increase the size of their market while the country would also make strides in development. Rustashobya and Jaesson (2004) have argued that there is a positive relationship between increased exporting and economic growth.

A majority of the insurance firms may not be attempting to internationalize due to insurmountable problems associated with the internationalization process. It was therefore necessary to investigate this aspect which would result in a better understanding of what needs to be done in order to encourage more insurance firms to set up and operate businesses in foreign countries. The fact that other business sectors are indeed taking advantage of regional integration whilst insurance firms are still lagging behind was a problem worth investigating. The research sought to identify and isolate those problems that feature prominently as a

hindrance to the firm's internationalization process. To this end this study addressed the following research question: What are the problems of internationalization of operations encountered by insurance firms in Kenya that impact on their ability to exploit international opportunities in the regional market?

### **1.3 Research Objectives**

The objective of the study was to determine the problems of internationalization of operations by Kenyan insurance firms.

### **1.4 Value of the study**

To the management of insurance companies in Kenya, it is hoped that the findings of this study will provide valuable information on the various factors that hinder the internationalization process of their firms and further whether the establishment of units in other countries is of any importance to their strategic ambitions. Through this study it is hoped that it will trigger a period of introspection to those firms that may nurturing ambitions to expand into foreign markets in the regional block. Appropriate strategies can thereafter be birthed that will overcome the problems identified.

The study is also useful to policy makers in government since it can provide valuable information on the obstacles that are being encountered by insurance companies to internationalize. From the responses received, it is very clear that a good number of insurance companies think that the government is not doing enough to facilitate the process of internationalization of insurance firms into the regional market. It is hoped that the government should come up with strategies that will facilitate this process of internationalization. The government can also expose the insurance firms to efforts that it has made to ensure companies in the country benefit from regional integration.

This should be done through consultations. To academicians and researchers, the findings of this study could be a source of reference material for further research on other related topics.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter looks at the literature review of the study. It covers the areas of theoretical foundations, internationalization of business operations and the problems of internationalization.

#### **2.2 Theoretical foundations**

From a review of the extant literature on international business theories, it appears that authors take the approach of addressing the problems of internationalization of business operations in a fragmented manner rather than taking a holistic approach. In other words when a theory identifies a problem, it focuses on the said problem to the exclusion of all others hence there are theories dealing with the problem of cost to the internationalization process while others deal with other problems such as knowledge gap and managerial perceptions.

This could be due to the fact that it would be almost impossible to come up with a single theory that captures or attempts to capture all the problems that are associated in the internationalization process. Most theories therefore focus on those problems that are internal in nature and therefore within the control of the firm. Furthermore Chitoor (2009) argues for the need for new theorizing to capture certain aspects of internationalization process adopted by firms from emerging economies. This research was based on the behavioral model of internationalization because I was seeking management views on those problems they deem significant to their firm in the internationalization process.

Drawing on the behavioral theory of the firm, the Upsalla model posits that the internationalization of the firm should be interpreted as an incremental learning process. International expansion is inhibited by the lack of knowledge about markets and such knowledge can mainly be acquired through experience from practical operations abroad. Hence according to this model the key problem in internationalization is defined as a lack of knowledge about markets. This lack of knowledge is related not only to costs and clients, but also to the options considered by the decision makers.

Experiential knowledge not only yields a reduction of risks involved in going abroad but also provides a vehicle for acquiring knowledge of internal and external resource and of opportunities for combining them (Erickson et al 1997). Knowledge is divided into objective knowledge and experiential knowledge. Objective knowledge is acquired through standardized methods of collecting and transmitting information i.e. market research and can be easily transferred to other countries and replicated by other firms. Experiential knowledge is country specific and cannot be transferred to other firms or business unit. According to this theory, gaining experiential knowledge is more valuable than objective knowledge as it is the key to the internationalization process. However, accumulating experiential knowledge is costly owing to the collection, interpretation and transmission of the same.

Another theory of particular relevance is the upper echelons theory which suggests that top managers' human boundaries or limitations such as limited vision, selective perception and interpretation bias influence the strategic choices that executives make. Hence under high environmental uncertainty (such as internationalizing) organizational choices and behavior are strongly influenced by the background characteristics and previous experiences of managers. In line with the Upsalla internationalization process theory and the upper echelons theory, the international backgrounds and experiences of top management can be expected to have a significant influence on a firm's decision-making pertaining to foreign market entry strategies

and ultimately on a firm's performance. Their perceptions can be a problem to the internationalization process. Yabs (2006) talks of the theory on the need to export or import goods or services. This is brought about by the personal characteristics of decision makers wanting to take advantage of prevailing opportunities in a particular country. According to him, this is typical of businessmen who have confidence and competence to venture into international business. The need to import and export is also brought about by company objectives and the availability of resources in other areas. Other firms have moved into international business because of availability of export facilities and government support.

According to the internationalization approach posited by Dunning(1980 and 1988) in his eclectic paradigm theory, three major sets of interdependent factors influence the extent, geography and composition of foreign production undertaken by a firm, these are ownership advantages(O)location advantages(L) and internalization advantages(I): the greater the relative competitive advantages of the investing firm in comparison to those of the host country the more they are likely to engage in foreign production. If a foreign location has appealing natural and created endowments that are needed by the firm then the more likely the firm will engage in internationalization. According to this approach a decision to enter a new market is made in a rational manner based on the analysis of the cost of the internationalization. However it must be pointed out that for such rational decision to be made there must be prior knowledge obtained. The preeminence of knowledge therefore in the internationalization process cannot be overemphasized.

### **2.3 Internationalization of business operations**

The extant definitions on internationalization lay emphasis on the process of establishment of cross border operations but they do not mention or include the motives behind the process. Internationalization refers to greater international presence by the dominant economic and political powers, usually guided by the principles of marketing and competition (Stromquist



2007). According to Tsang (1999), internationalization is a process of replicating a firm's technologies which can be divided into two types; physical and organizational sometimes labeled as soft and hard technologies respectively. Physical technologies are associated with machinery production processes and other technological matters whereas organizational technologies refers to knowledge of organizational structures and processes that do not involve physical technologies or involve them peripherally such as staff training.

Lommelen and Matthyssens (2005) identified both reactive and proactive motives in the case of internationalization of operations by service firms. Reactive motives are; following customers, unsolicited foreign orders, competitive pressures, formal and informal networks, small and saturated domestic markets, export market incentives/disincentives, proximity to international customers/psychological distance and over production or excess capacity. Proactive motives were identified as managerial initiative, formal and informal networks to spot foreign market opportunities, technological competence/ unique product and economies of scale.

Ogot (2007) identified five pertinent factors that influence internationalization. These are; trade liberalization, government policy, incentives, marketing, tariff framework, non tariff barriers and emergence of regional blocks. Steinmann, Kumar and Wasner (1980) suggested the "band wagon" effect as an additional motivator for internationalization in the sense that firms are liable to be susceptible to cues received about successful operations of other firms abroad. The firm's development base being narrow, such indications are likely to evoke interest and act as an initiating force to "follow the leader."

Groonros (1999) on the other hand, identified only three motivations to internationalize. He labeled them as client following mode, market seeking mode and electronic marketing mode. He then identified five main strategies for internationalizing: direct export, systems export,

direct entry, indirect entry and electronic marketing. Direct export of services basically takes place on industrial markets: no step by step learning can take place as the service has to be produced immediately hence the risk of making a mistake is substantial. Systems export is a joint export effort by two or more firms whose solutions complement each other. For instance a service firm may support goods exporting firm or another service firm. Direct entry means that the service firm establishes a service producing organization of its own in the foreign market. The local organization has to be able to cope with problems with production, human resource management and consumer behavior. In addition the local government may consider the new international service provider a threat to local firms and even national pride. He therefore suggests the option of a joint venture to limit the risk.

Indirect entry is desirable when the service firm wants to avoid establishing a local operation that is totally owned by it but nevertheless the firm wants to establish a permanent operation in the foreign market. The firm may opt for licensing or franchising agreements. In as far as the need for market knowledge is concerned indirect entry is probably the least risky of the internationalization strategies. With regard to electronic strategies, the firm extends its accessibility through the use of advanced electronic technology. A good illustration of this strategy is provided by the activities of the electronic bookstore amazon.com. Language barriers and electronic illiteracy may however hinder access to the electronic offer and hence affect sales.

Rutashboya and Jaenson (2004) suggest that small firms should rely on networks and relationships to overcome their size disadvantage as they internationalize and also to overcome their isolation in the current globalized environment. This is an important strategy for firms from developing economies. Hollensen (2001) identified external and internal factors that influence market selection. External factors included the political, economical and

demographical situation of the targeted countries and internal factors included factors such as product fit and the resources of the company.

## **2.4 Problems of internationalization**

In addition to a plethora of industry specific problems, there are several features of services that generally make internationalization of service firms potentially more problematic than internationalization of goods firms (Javalgi and Martin 2007). First services are intangible in the sense that they are performances or experiences which cannot be touched, seen or physically transported. Marketers must explain and promote services without being able to show them. This is a problem that is compounded in international markets by language barriers and illiteracy and where perceptions of risk and other cultural differences are involved. Second, services are inseparable from their users, this characteristic increases the necessity to establish and maintain a local presence in each market served. This inseparable nature also brings service providers and customers together. The importance of interpersonal skills is therefore evident but would be a problem in international settings where sharp differences may exist in terms of language, cultural background, experience with the service etc.

Thirdly services are perishable and cannot be inventoried like manufacturing goods. This poses a problem in terms of balancing supply and demand owing to cultural norms, demographics, competitive dynamics and other factors that may contribute to difficult to understand and harder to manage variations in demand and supply patterns abroad. Fourthly services are heterogeneous in the sense that services output may vary widely from location to location, service provider to service provider and from moment to moment. This variations can play havoc with customers expectations perceptions and ultimately with their satisfaction. Rutashboya and Jaenson (2004) classify the problems of internationalization as endogenous and exogenous. According to them, the biggest endogenous inhibitor is resource constraint,

both tangible and intangible. This include a lack of financial resources, management and marketing skills, previous export experience and export knowledge, poor knowledge of foreign market information and fear of foreign markets, lack of command of foreign language, cultural experience etc. Exogenous inhibitors include financing problems, technical barriers and cumbersome export procedures.

Samiee (1999) identifies four problems of internationalization that he classified as regulatory impediments, economic impediments, cultural impediments and standardization versus customization. Regulatory impediments are controlled by the government and in some nations are being removed through bilateral and multilateral negotiations (e.g. EAC, COMESA). With regard to economic impediments, the relatively low family income in most countries is likely to impede successful international market entry and growth for many service sectors. This aspect is of critical importance and relevance to firms in a developing economy like ours and those of our neighbours within the regional block.

On cultural impediments, he argues cultural imperatives will necessarily have a significant impact on acceptability and adoption patterns of services. Since services inherently involve some level of human resources the likelihood of cultural incompatibility is greater. On standardization he argues that it is important to know beforehand the extent to which each service might be standardized. Myriad host government regulations in numerous service sectors make standardization very difficult. Financial services markets are governed by very different rules around the world. For instance insurance business in Kenya is governed and regulated by a whole host of laws including the Insurance Act, Companies Act, Capital Markets Act, and Retirement Benefits Act among many others. It is safe to assume that other countries may be having different regulatory frameworks and laws governing their financial sectors

According to Winsted and Patterson (1998), problems of internationalization are barriers to exporting and are sometimes referred to as hindrances, impediments or obstacles. They encompass all attitudinal, structural, operational and other constraints that hinder the firm's ability to initiate, develop and sustain international operations. They proceeded to identify them as insufficient knowledge of marketing opportunities abroad, difficulties in understanding foreign business practices, different procedure and customer standards in foreign countries, prohibitive and restrictive foreign government regulations, intensity of foreign competitions and lack of foreign connections.

The reviewed literature above exposes a lacuna in that there is very little literature on the problems of internationalization of firms in emerging economies in the African continent. It may well be that there are certain problems which although not necessarily uniquely African, still could be more prominent than some of the problems highlighted above. For instance the problem of corruption is rampant in this continent. Some researchers see corruption as an impediment to development since it detracts and undermines the rational order of things and brings unacceptable behaviors into mechanisms (Raouf & Butt 1997). There is therefore need for more literature that will elucidate not only on the problems of internationalization of operations from an African perspective but on the whole internationalization process.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the research design, the target population, data collection instruments and the techniques used for data analysis.

#### **3.2 Research Design**

A cross sectional descriptive survey design was used in the research. A cross sectional study is the study of a particular phenomenon (phenomena) at a particular time. The object of descriptive research is ‘to portray an accurate profile of persons, events or situations’ (Saunders et al 2007). According to Cooper and Schindler (2000), a descriptive research design is concerned with finding out the who, what, where, when and how many questions.

According to Mugenda and Mugenda(2003) a survey research seeks to obtain information that describes existing phenomena by asking individuals about their attitudes, behavior and values. This type of research design is suitable for this study because it concerns itself with the measurement of the same variables across all respondents in the same industry at a particular point in time. Cooper and Emory (1995) have recommended this type of research design for studies carried out at one point in time and representing same variables at a particular point in time.

#### **3.3 Population of the Study**

Population in this context refers to an entire group of individuals having common observable characteristics. The population of the study was all the insurance companies operating in Kenya (Appendix 2). There are 47 insurance companies in Kenya. A census survey was used

because all insurance companies in Kenya are relatively few in number and all have their headquarters in Nairobi. Census survey involves the collection of data from a given population for purposes of analysis of a particular issue. It is the procedure of systematically acquiring and recording information about members of a given population and it enhances confidence as data is obtained from all units of the study.

### **3.4 Data Collection**

The research relied on primary data collected using a structured questionnaire. The questionnaire was divided into two parts. Section one sought to gather general information about the respondent (personal profile) with regard to the firm. Section two sought information about the firm; specifically whether it has internationalized and the views of the respondent on the problems of internationalization regardless of whether the firm has internationalized or not. The questionnaire consisted of both closed and open ended questions designed to elicit specific responses for quantitative analysis. The questionnaire was administered through drop and pick method.

### **3.5 Data analysis**

This refers to extraction and derivation of meaningful information from a mass of data. The same was analyzed using descriptive statistics: quantitative techniques such as mean, mode, percentages and frequency tables. The analysis of the findings and the conclusion from the said findings are relayed and discussed at chapter four and five respectively.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents a detailed discussion and analysis of findings of the study with particular reference to the responses received. The targeted population was forty seven (47) insurance companies in Kenya, but only thirty seven (37) questionnaires out of 47 given out were returned. This represented seventy eight point seven (78.7%) of the population hence the analysis was done using the thirty seven questionnaires received from the respondents.

#### **4.2 Demographic information**

Demographic information shows the characteristics of the elements in the sample size: as such the researcher sought to establish the general information of the respondents, which forms the basis under which the interpretations are made. Demographic factor one analyzed the gender of the respondents. This information was necessary to enable the researcher to obtain information on whether the respondents were either male or female. Fifty four percent (54%) of the respondents were male whereas forty six percent (46%) were female.

Demographic factor 2 shows the age brackets of respondents, thirty eight percent (38%) of the respondents were between 25-34 years of age, twenty seven percent (27%) were between 35-44 years, twenty four percent (24%) were in the 45-54 age bracket and those above 55 years of age were 11%. This result illustrates that most of the respondents were generally between 25 and 44 years.

Demographic factor 3 examined the academic qualifications of the respondents. The information was necessary to enable the researcher to know whether the respondents were



educated or illiterate. Sixty seven point six percent (67.6%) have bachelors; twenty one point six percent (21.6%) have masters while ten point eight percent (10.8%) are diploma holders. The study indicates that majority of respondents in the study area are bachelor degree holders. The study also established that majority of the respondents (46%) were underwriters. The results on demographic information of the respondents is statistically shown in Table 4.1

<b>Table 4.1 Demographic Information</b>			
		Frequency	p
Gender	Male	20	54
	Female	17	46
<b>Total</b>		<b>37</b>	<b>100</b>
Age bracket	25-34	14	38
	35-44	10	27
	45-54	9	24
	Over 55	4	11
	<b>Total</b>	<b>37</b>	<b>100</b>
Highest Education level	Diploma	4	10.8
	Bachelors	25	67.6
	Masters	8	21.6
	<b>Total</b>	<b>37</b>	<b>100</b>
Designation	Underwriter	17	46
	Marketing Officer	10	27
	Assistant Manager	7	19
	Senior Manager	3	8
	<b>Total</b>	<b>37</b>	<b>100</b>

**Author: Research Finding**

### **4.3 Operations within Eastern African Region**

Respondents were required to indicate the country which their firms have foreign operations within the East African Region. The result was presented in Table 4.2. The result indicated that majority of the respondents (37.8%) in Kenya do not have foreign operation in any country within the region. This result conforms to a certain degree, to the earlier hypothesis of the research that a majority of insurance firms in this country have not internationalized their operations. Of the firms that have internationalized, a majority have set up operations in Tanzania (27%), and then Uganda (16.2%) followed by Rwanda (10.8%). The findings revealed that insurance firms in Kenya have the least operations in Burundi (2.8%) and South

Sudan (5.4%). None of the firms has internationalized to Ethiopia (0%). This findings on Tanzania and Uganda and also conversely Burundi, Ethiopia, South Sudan and to a lesser extent Rwanda seems to support the postulates of the Upsalla model of internationalization discussed earlier in that as the psychic distance between markets increases, the more difficult it becomes to collect and interpret incoming information properly. The firm's experiential knowledge derived from the domestic market is of limited value in markets located at a great psychic distance. The learning through development of experiential knowledge about foreign markets is necessary in order to overcome the "psychic distance" to these markets i.e. differences between any two countries in terms of language, culture, education level, business practice and legislation. The psychic distance between the home and foreign markets affects market selection as well as choice of entry mode. Firms with little experience of foreign markets prefer those that are similar to their own domestic market and are located at a short psychic distance (Eriksson, Johanson, Majkgard and Sharma 1997). Therefore firms start their internationalization on markets that they can rather easily understand; often in neighboring countries. Kenya Uganda and Tanzania have more in common culturally compared to Ethiopia and Burundi whose cultures and even languages are what we may consider to be foreign. This explains why most firms have therefore opted to set up their operations in these two countries. As firms accumulate experiential knowledge, the influence on this kind of distance on the choice of market and entry mode decreases. In line with the this model we can posit that as more experiential knowledge is gained about those new markets, the psychic distance will reduce paving the way for market commitment through engaged resources in remaining countries in the region.

**Table 4.2: Operations in other countries**

Country	Frequency	Percentage
Tanzania	10	27
Uganda	6	16.2
Burundi	1	2.8
Rwanda	4	10.8
South Sudan	2	5.4
Ethiopia	0	0
None	14	37.8
TOTAL	37	100

**Author: Research Finding**

#### 4.4 Forms of Operation

The study sought to establish the current form of operations in each of the countries where insurance firms have foreign operations. The result was presented in Table 4.3

**Table 4.3: Forms of operations**

	Mean	Std. Deviation	Skewness	Kurtosis
Network of branches	1.201	1.005	0.178	-1.401
Subsidiary	2.87	1.414	0.343	-1.226
Joint Venture	1.085	1.032	-0.344	-0.422
Merger and acquisitions	1.0684	1.008	0.3684	-0.525
Any other	1.289	1.085	0.186	-1.356
Non/Not applicable to my firm	3.561	0.215	0.265	-1.2508

**Author: Research Finding**

The result established that network of branches as a form of operations in foreign countries has a mean of 1.201 with standard deviation of 1.005. This implies that network of branches is not important in deciding to establish insurance firms in East Africa Regions. With a mean of 2.87 and standard deviation of 1.414, the study established that insurance firms in Kenya are engaged in foreign operations in the form of subsidiary. It can be gleaned from responses on

this aspect that those firms that have internationalized favour the direct entry approach in spite of the associated risks that were identified by Gronroos (1999).

Joint venture, merger and acquisitions had a mean of 1.085 and 1.0684 and standard deviation of 1.032 and 1.008 respectively. The result indicates that the respondents did not agree that joint venture and merger and acquisitions inform the form of foreign operations. However, with a mean of 3.561 and standard deviation of 0.215, most respondents did not pick any mode of entry because as shown earlier a majority of the insurance firms have not internationalized their operations.

#### 4.5 Motives for setting up operations in another country

Respondents were required to indicate the motives for setting up operations in another country and the result presented in table 4.4. A mean of 1.205 with standard deviation of 0.255 indicates that respondents strongly disagreed that client following is a motive that influence the decision for the firms to set up operations in another country.

**Table 4.4: Motives for setting up operations in another country**

<b>Motives</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
Client following	1.205	0.255	0.3598	-1.658
Search for new markets	3.684	0.1089	0.259	-1.358
Increasing share holder wealth	1.052	0.0958	0.368	-2.585
Incentive offered by regional integration	2.862	1.255	0.255	-1.7801
Financial and political risk diversification strategy	3.452	0.0952	0.551	-1.0581
Bandwagon effect	1.005	0.1189	0.142	-1.297
Firms strategy	2.891	0.255	0.265	-1.251
Any other	1.015	0.1158	0.2581	-2.6581
None/Not applicable to my firm	1.658	0.0285	0.3785	-1.789

#### **Author: Research Finding**

With a mean of 3.684 and standard deviation of 0.1089, respondents strongly agreed that search for new markets are a sufficient motivation to consider when setting up operations in another country. Increasing share holders wealth, bandwagon effect with means of 1.052 and 1.005 and standard deviation of 0.0958 and 0.1189 respectively are not motives for

establishing operations in another country. Incentives offered by regional integration, financial and political risk diversification strategy and firm's strategy with means of 2.862, 3.452 and 2.891 respectively are motives that are sufficient enough to be considered when setting up operations in another country.

#### **4.6 Problems of Internationalization of the operations of the firm**

Respondents were required to identify from the questionnaire those problems that were deemed significant in impeding their firms' attempts to internationalize to the regional market. The said problems were classified under two broad subheadings; adjustment costs and uncertainty and knowhow and resource limitations. The findings were presented in Table 4.5 and Table 4.6 respectively.

##### **4.6.1 Adjustment costs and uncertainty**

With a mean of 1.615 and standard deviation of 0.2038, the study established that recruitment and training of national is not a major problem of internationalization of the operations of firms. Adjusting to foreign business practices was established to be an impediment in the internationalization of the operations of the insurance firms as indicated with a mean of 2.528 with standard deviation of 0.1258

**Table 4.5: Adjustment costs and uncertainty**

<b>Problems</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Skewness</b>	<b>Kurtosis</b>
Recruitment and training nationals	1.615	0.2038	0.59	-0.058
Adjusting to foreign business practices	2.528	0.1258	0.016	-1.151
Host government laws	3.12	0.0025	-1.348	2.778
the need to customize services in the foreign market	1.565	0.1892	-0.323	-1.004
Political instability in foreign markets	3.652	0.0258	0.037	-1.452
it may take long to gain client confidence	3.155	0.0158	1.362	-1.078
Cost of international business development	2.681	0.1708	0.077	-1.143
Competition from local firms	3.895	0.2588	0.006	-1.219

**Author: Research Finding**

Host government laws, political instability, gaining client confidence and competition from local firms were established to cause problems for the internalization of the operations of the foreign firms within East Africa Region. Host government laws had a mean of 3.12 with standard deviation of 0.0025 which implies that respondents agreed that host government laws negatively impacts on the establishment of foreign firms operations.

Political instability in foreign markets was cited as a problem in operations of foreign firms. With a mean of 3.652 and standard deviation of 0.0258, political unrest drives away foreign investors from the host countries. Respondents, with a mean of 3.155 and standard deviation of 0.0158, agreed that winning client's confidence may take long which negatively affects operations of foreign firms. Competition from local firms derails the operations of foreign firms as confirmed with a mean of 3.895 and standard deviation of 0.2588.

#### **4.6.2 Knowhow and resource limitations**

The study established that lack of knowledge and expertise to identify opportunities in foreign markets hinders the internationalization of the operations of insurance firms. A mean of 4.561 and standard deviation of 0.0027 implies that respondents strongly agreed that lack of knowledge and expertise to opportunities in foreign markets negatively impacts on the internationalization of the operations of the firms. Again this finding is in line with the Upsalla model of internationalization that identifies experiential knowledge as crucial in overcoming psychic distance and hence market commitment through engaged resources. Without the knowledge then no internationalization can take place. It is worth noting that there was near unanimity on this issue hence the importance of knowledge cannot be overemphasized.

Respondents also agreed that focus on the domestic market by firms is a problem to the internationalization of the operations of the insurance firms as shown by a mean of 3.5651 with a standard deviation of 0.2608. Again this finding conforms to the upper echelons theory

that top managers' human boundaries or limitations such as limited vision, selective perception and interpretation bias can influence strategic choices that executives make. Managers with a local mindset may only look inward and shut out the firm from opportunities that may be available through internationalization of business operations.

Lack of contacts in foreign markets is not a problem in the internalization of the operations of the firm as shown by a mean of 1.205 and standard deviation of 1.2889. Respondents were uncertain on whether language and cultural difference has a bearing on the problems faced in the internalization of the insurance firms in the foreign markets as shown by a mean of 2.564 and standard deviation of 0.1219. Lack of capital to finance expansion negatively affects the internalization of the operations of the insurance firms as shown by a mean of 3.687 and standard deviation of 0.1905. Lack of knowledge on export regulations and procedures and lack of support from the Kenyan government had a mean of 1.025 and 3.351 respectively. This implies that according to the respondents, lack of knowledge on export regulations and procedures does not hinder the internalization of the operations of the insurance firms while lack of support from the Kenyan government negatively impacts on the internalization of the operations of insurance firms.

**Table 4.6: Knowhow and resource limitations**

<b>Knowhow and Resource limitation</b>	<b>Mean</b>	<b>Std. Deviation s</b>	<b>Skewnes</b>	<b>Kurtosis</b>
Lack of knowledge and expertise to assess opportunities in foreign markets	4.561	0.00278	0.132	-1.126
Lack of contacts in foreign markets	1.2505	1.2889	0.368	-0.98
My firms focus in purely on the domestic market	3.5651	0.2608	0.134	-1.321
Language and cultural difference	2.564	0.1219	0.149	-1.321
Lack of capital to finance expansion	3.687	0.1905	0.754	-0.723
Lack of knowledge on export regulations and procedures	1.025	1.5681	0.265	-0.452
Lack of support from the Kenyan government	3.351	0.0958	0.189	-0.265

**Author: Research Finding**

In addition to establishing the relevance of the Upsalla model and the upper echelons theory to this study, the findings of the study are also consistent with Rutashboya and Jaenson (2004) who identified the biggest endogenous inhibitor to internationalization as resource constraint. They then proceed to categorize resource constraint as both tangible and intangible to include poor knowledge of foreign market information and fear of foreign markets, lack of financial resources, management and marketing skills, previous export experience and knowledge, lack of command of foreign language etc. Exogenous inhibitors include financing problems, technical barriers and cumbersome export procedures.

It is worth noting or isolating the fact that a large number of respondents also cited lack of governmental support as a problem to internationalization of their operations. This is curious since most of the firms that have internationalized have identified incentives that have been offered by regional integration as one of the motivating factors. It is therefore apparent that there may again be a knowledge disconnect between what the government has done (and is still doing) to facilitate regional integration in order to benefit this economy and how such efforts are perceived by those firms that still feel that government has not done enough to enable them reap the benefits afforded through regional integration.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents discussions of the key findings presented in chapter four, conclusions drawn based on such findings and recommendations there-to. This chapter will thus be structured into conclusion, recommendations and areas for further research.

#### **5.2 Summary**

The objective of the study was to determine the problems of internationalization of operations by Kenyan insurance firms. Study findings from chapter four shows close to 40% of the respondents have not internationalized their operations into other countries which confirm the earlier position prior to the research. Majority of those that have internationalized have set up operations in Tanzania (27%) and Uganda (16.2%) lending credence to the postulates of the Upsalla model on the issue of psychic distance in that firms tend to internationalize their operations to those countries with the least psychic distance before gradually moving to those that have a greater psychic distance.

Lack of knowledge and expertise to assess opportunities in foreign markets ranked highest in the responses on the problems of internationalization of operations. This again lends credence to the validity of the Upsalla model which identifies lack of knowledge as the biggest problem to the internationalization process. Experiential knowledge is the enabler of internationalization. Domestic market focus was also identified as another problem to the internationalization process this also lends credence to the validity of the upper echelons theory with regard to managerial perceptions that can lead a strategic focus that closes out the firm to opportunities of growth afforded by regional integration. Lack of capital to finance expansion and lack of support from the Kenyan government impedes the operations in the

international market. Host government laws, political instability, gaining client confidence and competition from local firms were also identified to be of major problems for the internalization of the operations in the foreign market for Kenyan insurance firms. The study also established that lack of knowledge on export regulations and procedures does not hinder the internalization of the operations of the insurance firms.

The study also indicated that network of branches, joint ventures and merger and acquisitions do not form the current operations in the countries Kenyan insurance firms are operating. However, the study found that the preferred entry mode into international markets was through establishment of subsidiaries. The study findings indicated that firm's motives in setting up operations in another country revolve around the search for new markets, incentives offered by the regional integration, firm's strategy and financial and political risk diversification strategy. Client following, increasing shareholder wealth and bandwagon effect does not motivate Kenyan insurance firms to venture in other foreign markets. We can therefore state in accordance with Lommelen and Mathysens (2005) that both reactive motives and proactive motives exist in the process of internationalization of Kenyan insurance firms. However the only reactive force that was identified by respondents was the incentives offered by regional integration which again supports the initial position of the study that indeed regional integration has opened up opportunities for business in this country to expand to international markets.

### **5.3 Conclusion**

Despite the need for new theorizing with an African context, it is very clear from the findings of this research that the behavioral model of internationalization and in particular the Upsalla theory of internationalization and the upper echelons theory are still very relevant to the internationalization process of insurance firms in Kenya. The study has demonstrated very clearly from the responses received that knowledge is the primary requirement to

internationalize business operations. A firm that lacks the necessary knowledge to internationalize is severely handicapped in this regard and therefore has a problem. This fits in perfectly with the postulates of the Upsalla model on internationalization. In addition to the above management biases, limited vision may also be a problem in the internationalization process in that it may lead the firm to focus solely on the domestic market. This could cause the firm to miss out on the opportunities that could be available in the international market especially through early entry.

#### **5.4 Recommendations**

The study recommends that host countries should enact laws that offer faire competitive environment for the operations of the foreign insurance firms. Trade restrictions should be abolished for East African Region to enhance the expansion of internalization of operations by Kenya insurance firms. Political stability should be embraced within East Africa region to encourage internalization of Kenyan insurance firms. Peaceful nations attract foreign investors since security and protection of investments is assured.

Although it is acknowledged that that much has been done, the government of Kenya should device strategies that are unique to this industry to support insurance firms who are willing to expand their market base beyond Kenya. Only through greater engagement through consultation and development of industry specific strategies can the government achieve its oft stated objective of increasing the participation of local firms in regional economic activities. Consultation and engagement is key, because through this process the firms would be exposed to what the government has done thus far which will in turn lead to a greater appreciation of governments efforts which will again in turn lead to greater knowledge attained by the firms. As a corollary it is anticipated then that more firms will pick up the challenge to internationalize which will in the end result benefit the economy.

## **5.5 Limitations of the study**

The major limitation of the study was with regard to the varied professional background of the respondents to the questionnaires. Although all were in management positions in their respective companies, their professional backgrounds were different hence there were responses from underwriters, human resource managers marketing executives and even accountants. Additionally, most of them appeared to be middle level managers i.e. departmental heads of operations, marketing, administration, accounts, training, claims, business development etc. Only three general managers filled out the questionnaires. Ideally it would have been optimum if all questionnaires were answered by the top level managers i.e. general managers and chief executive officers since they are primarily responsible for the strategic directions of the firm. The varied backgrounds of the respondents could suggest that the respondents viewed differently the problems of internationalization of operations of their firm.

## **5.6 Areas for further research**

The study suggests that similar studies should be done on other firms as the relationship adduced does not conform to the rule of thumb or one-size-fits-all mantra as insurance firms may be having different operational environment. It is worth noting that there is an absence of studies done to determine the problems of internationalization of operations of firms in Kenya. This would be useful because then there would be available data which will be helpful in formulating strategies to overcome them.

In line with the responses received on firms focusing on the domestic market alone it may be necessary to investigate further the extent to which managerial limitations are impacting on the internationalization process to establish whether this problem conforms to the upper echelons theory or whether there could be other factors at play (other than limited vision) that

could be impacting on their perceptions regarding internationalization into the regional market.

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## APPENDICES

### Appendix 1: Questionnaire

Dear respondent,

- I. Data sought from this interview guide is purely for academic reasons and was treated with absolute confidentiality.
- II. Kindly respond to the following question as objectively as you can.

Please do not write your name anywhere on the questionnaire.

#### A. Bio Data.

1. Gender  male  female.
2. Age bracket  25-34  35-44  
 45-54  over 55
3. Highest education level  Diploma  
 Bachelors  Masters.
4. Designation  
-----.

#### B. Key data area.

5. In which of the following countries does your firm have foreign operations within the Eastern African Region? Tick all that is appropriate.



- Tanzania
- Uganda
- Burundi
- Rwanda
- South Sudan
- Ethiopia
- None of the above

6. Of the following, what is the current form of operations in each of the countries where you have foreign operations? (please circle)

- I. Network of branches
- II. Subsidiary
- III. Joint venture
- IV. Mergers and acquisitions.
- V. Any other.....
- VI. None/Not applicable to my firm

7. Of the following motives, which of them would you consider as a sufficient reason for your firm setting up operations in another country? (please circle)

- I. Client following/ need to follow customers who have gone abroad
- II. Search for new markets
- III. Increasing share holder wealth
- IV. Incentives afforded by regional integration.
- V. Financial and political risk diversification strategy.

- VI. Bandwagon effect (following other competitors who have ventured into foreign markets.
  - VII. Firm's strategy
  - VIII. Any other.....
  - IX. None/Not applicable to my firm
8. What would you consider to be the main problems of internationalization of the operations of your firm? (please circle)
- a) Adjustment costs and uncertainties.
    - i. Recruiting and training nationals
    - ii. Adjusting to foreign business practices
    - iii. Host government laws.
    - iv. The need to customize services in the foreign market
    - v. Political instability in foreign markets
    - vi. It may take long to gain client confidence
    - vii. Cost of international business development.
    - viii. Competition from local firms.
  - b) Knowhow and resource limitations.
    - i. Lack of knowledge and expertise to assess opportunities in foreign markets.
    - ii. Lack of contacts in foreign markets
    - iii. My firm's focus is purely on the domestic market.
    - iv. Language and cultural differences
    - v. Lack of capital to finance expansion.
    - vi. Lack of knowledge on export regulations and procedures.
    - vii. Lack of support from the Kenyan government.
  - c) Corruption.
    - i. Do you think that corruption is a problem in the process of internationalization to neighbouring markets? If so please explain.
    - .....
    - .....
    - .....
    - .....

Thank you and God bless you.

## Appendix 2: List of Insurance firms in Kenya

	NAME OF COMPANY	PHYSICAL ADDRESS	PHONE NO.	EMAIL ADDRESS
1	AAR Insurance Company Ltd	George Williamson House, 2nd Floor, 4th Ngong Avenue, Box 41766 - 00100, Nairobi	2895000/2715319	<a href="mailto:info@aar.co.ke">info@aar.co.ke</a>
2	Africa Merchant Assurance Ltd	2nd Floor, Trans-National Plaza, Mama Ngina Street, Box 64599-00200 Nbi	312121	<a href="mailto:info@amaco.co.ke">info@amaco.co.ke</a>
3	AIG Kenya Insurance Company Ltd	AIG House, Eden Square Complex, Chiromo Road, Box 49460-00100 Nbi	3676000	<a href="mailto:chartiskenya@chartisinsurance.com">chartiskenya@chartisinsurance.com</a>
4	APA Insurance Company Ltd	Apollo Center, Off Ring road, Box 30065 -0100 Nbi	2862000	<a href="mailto:info@apainsurance.org">info@apainsurance.org</a>
5	APA Life Insurance Ltd	Apollo Center, Off Ring road, Box 30065 -0100 Nbi	3641000	<a href="mailto:insurance@apollo.co.ke">insurance@apollo.co.ke</a>

6	British American Insurance Company Ltd	Britam Centre, Mara/Ragati Road, 30375-00100 Nbi	2710927	<a href="mailto:insurance@british-american.co.ke">insurance@british-american.co.ke</a>
7	Cannon Assurance Company Ltd	Gateway Business Park, Mombasa Road, Box 30216-00100 Nbi	3966000	<a href="mailto:info@cannonassurance.com">info@cannonassurance.com</a>
8	Capex Life Assurance Company Ltd	Avenue Office Suites, Ngong Road, Box 12043-00400 Nbi	2712384/5	<a href="mailto:capex@swiftkenya.com">capex@swiftkenya.com</a>
9	CFC Life Assurance Ltd	CFC House, Mamlaka Road, Box 30390-00100 Nbi.	2866000	<a href="mailto:info@cfclife.co.ke">info@cfclife.co.ke</a>
10	CIC General Insurance Company Ltd	CIC Plaza, Mara Road, Box 59485-00100 Nbi	2823000	<a href="mailto:callc@cic.co.ke">callc@cic.co.ke</a>
11	CIC Life Assurance Company Ltd	CIC Plaza, Mara Road, Box 59485-00100 Nbi	2823000	<a href="mailto:callc@cic.co.ke">callc@cic.co.ke</a>
12	Corporate Insurance Company Ltd	Corporate Place, Kiambere Road, Box 43172-00100 Nbi	2717617	<a href="mailto:cic@swiftkenya.com">cic@swiftkenya.com</a>

13	Directline Assurance Company Ltd	17th Floor, Hazina Towers, Monrovia Street, Box 40863- 00100 Nbi	2242405	<a href="mailto:info@directline.co.ke">info@directline.co.ke</a>
14	Fidelity Shield Insurance Company Ltd	Fisco Center, Muthangari Drive, Box 47435-00100 Nbi	4225000	<a href="mailto:info@fidelityshield.com">info@fidelityshield.com</a>
15	First Assurance Company Ltd	First Assurance House, Gitanga Rd, Box 30064-00100 Nbi	2692250	<a href="mailto:hoinfo@firstassurance.co.ke">hoinfo@firstassurance.co.ke</a>
16	GA Kenya Insurance Company Ltd	GA Hse, Ralph Bunche Rd, Box 42166-00100 Nbi	2711633	<a href="mailto:info@gakenya.com">info@gakenya.com</a>
17	Gateway Insurance Company Ltd	Gateway House, Gateway Place, Milimani Road, 60656-00200 Nbi	2713131	<a href="mailto:info@gateway-insurance.co.ke">info@gateway-insurance.co.ke</a>
18	Geminia Insurance Company Ltd	Geminia Insurance Plaza, Kilimanjaro Avenue, Box 61316- 00200 Nbi	2782000	<a href="mailto:info@geminia.co.ke">info@geminia.co.ke</a>
19	Heritage Insurance Company Ltd	CFC House, Mamlaka Road, Box 2783000 30390-00100 Nbi		<a href="mailto:info@heritage.co.ke">info@heritage.co.ke</a>

20	ICEA Lion General Insurance Company	ICEA Building, Kenyatta Avenue, Box 46143-00100 Nbi	2750000	<a href="mailto:genins@icea.co.ke">genins@icea.co.ke</a>
21	ICEALION Life Assurance Company	ICEA Building, Kenyatta Avenue, Box 46143-00100 Nbi	2750000	<a href="mailto:genins@icea.co.ke">genins@icea.co.ke</a>
22	Intra Africa Assurance Company Ltd	Williamson House, 4th Ngong Avenue, Box 43241-00100 Nbi	2712610	<a href="mailto:intra@swiftkenya.com">intra@swiftkenya.com</a>
23	Invesco Assurance Company Ltd	Bishop Mangua Centre, Box 52964- 00200 Nbi	2605552	<a href="mailto:info@invescoassurance.co.ke">info@invescoassurance.co.ke</a>
24	Jubilee Insurance Company Ltd	Jubilee Insurance Hse, Mama Ngina Street, Box 30376- 00100 Nbi	3281000	<a href="mailto:jic@jubileekenya.com">jic@jubileekenya.com</a>
25	Kenindia Assurance Company Ltd	Kenindia House, Loita Street, Box 44372-00100 Nbi	2214439	<a href="mailto:kenindia@africaonline.co.ke">kenindia@africaonline.co.ke</a>
26	Kenya Orient Insurance Company Ltd	Capital Hill Towers, Cathedral Road, Box 2728603/4 34530-00100 Nbi		<a href="mailto:info@kenyaorient.co.ke">info@kenyaorient.co.ke</a>
27	Kenyan Alliance Insurance Company Ltd	Chester House, Koinange Street, Box 34530-00100 Nbi	2216450	<a href="mailto:kai@kenyanalliance.com">kai@kenyanalliance.com</a>

28	Madison Insurance Company Ltd	Madison Insurance House, Upper Hill Rd, Box 47382-00100 Nbi	2864000	<a href="mailto:madison@madison.co.ke">madison@madison.co.ke</a>
29	Mayfair Insurance Company Ltd	Mayfair Centre, Ralph Bunche Road, Box 45161-00100 Nbi	2999000	<a href="mailto:info@mayfair.co.ke">info@mayfair.co.ke</a>
30	Saham Assurance Company Ltd	Ecobank Towers, Muindi Mbingu Street, Box 20680-00200 Nbi	2243682/1	<a href="mailto:mercantile@mercantile.co.ke">mercantile@mercantile.co.ke</a>
31	Metropolitan Life Assurance Company Ltd	International Life House, Mama Ngina St., Box 46780-00100 Nbi	2243126	<a href="mailto:info@metropolitan.co.ke">info@metropolitan.co.ke</a>
32	The Monarch Insurance Company Ltd	Prudential Assurance Building, Wabera St., Box 44003-00100 Nbi	4348493/8	<a href="mailto:info@themonarchinsco.com">info@themonarchinsco.com</a>
33	Occidental Insurance Company Ltd	Corner Plaza, 2nd Floor, Parklands Road, Box 82788-00100 Nbi	8024149	<a href="mailto:enquiries@occidental.co.ke">enquiries@occidental.co.ke</a>
34	Old Mutual Life Assurance Company Ltd	Old Mutual Building, Cnr of Mara/Hospital Rd, Box 30059-00100	2829000	<a href="mailto:omken@oldmutualkenya.com">omken@oldmutualkenya.com</a>

Nbi

35	Pacis Insurance Company Ltd	Centenary Hse, 2nd Floor, Off Ring Rd, Westlands, Box 1870-00100 Nbi	4452560	<a href="mailto:info@paciskenya.com">info@paciskenya.com</a>
36	Pan Africa Life Assurance Company Ltd	Pan Africa House, Kenyatta Avenue, Box 44041-00100 Nbi	2781000	<a href="mailto:insurance@pan-africa.com">insurance@pan-africa.com</a>
37	Phoenix of E. A. Assurance Company Ltd	Ambank House, 17th Floor, University Way, Box 30129-00100 Nbi	2229302	<a href="mailto:info@phoenixassurance.co.ke">info@phoenixassurance.co.ke</a>
38	Pioneer Life Assurance Company Ltd	Pioneer House, Moi Avenue, Box 30129-2220814/5 00100 Nbi		<a href="mailto:info@pioneerassurance.co.ke">info@pioneerassurance.co.ke</a>
39	Real Insurance Company Ltd	Royal Ngao House, Hospital Road, Box 40001-00100 Nbi	4904000	<a href="mailto:genaral@realinsurance.co.ke">genaral@realinsurance.co.ke</a>
40	Resolution Insurance Co. Ltd	Roshanmaer Place, Lenana Rd., Box 4469 - 00100, Nairobi	2894000	<a href="mailto:info@resolution.co.ke">info@resolution.co.ke</a>



41	Shield Assurance Company Ltd	Avenue Office Suites, Ngong Road, Box 25093-00100 Nbi	2712591	<a href="mailto:info@shieldassurance.co.ke">info@shieldassurance.co.ke</a>
42	Takaful Insurance of Africa Ltd	CIC Plaza, Mara Road, Box 1181-00100 Nbi	2725134/5	<a href="mailto:info@takafulafrica.com">info@takafulafrica.com</a>
43	Tausi Assurance Company Ltd	Tausi Court, Tausi Road, Off Muthithi Rd, Box 28889-00100 Nbi	3746602	<a href="mailto:clients@tausiassurance.com">clients@tausiassurance.com</a>
44	Trident Insurance Company Ltd	Capital Hill Towers, Cathedral Road, Box 13501-00100 Nbi	2721710	<a href="mailto:info@trident.co.ke">info@trident.co.ke</a>
45	UAP Insurance Company Ltd	Bishops Garden Towers, Bishops Road, Box 43013-00100 Nbi	2850000	<a href="mailto:uapinsurance@uapkenya.com">uapinsurance@uapkenya.com</a>
46	UAP Life Assurance Company Ltd	Bishops Garden Towers, Bishops Road, Box 43013-00100 Nbi	2850300	<a href="mailto:life@uaplifec.com">life@uaplifec.com</a>
47	Xplico Insurance Company Ltd	Connaught Place, Lantana Road, Box 38106-00623 Nbi	4442888	<a href="mailto:info@xplico.co.ke">info@xplico.co.ke</a>

