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Challenges Of Implementing Foreign Direct Investments (FDI) At United Bank For Africa (UBA) Kenya

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Abstract
Internationalization is referred to as the process of engaging in productions of goods and services beyond national frontiers. Organizations may engage in such ventures either incrementally starting with low commitment modes such as export, licensing and joint ventures then increase gradually to the high commitment modes of foreign direct investments. This study was set to establish the challenges of implementing foreign direct investment at United Bank for Africa Kenya. United Bank for Africa (UBA) Kenya business strategy has been wholly owned subsidiary as the only entry mode without engaging in prior low commitments such as exporting and licensing and increase to higher commitment modes such as foreign direct investments. The objective of the study was to determine the challenges UBA Kenya has faced in implementing foreign direct investment as an entry mode as well as how it has responded to the challenges it has faced. The theories of international business such as eclectic paradigm theory, transaction cost theory and OLI theory has been used by many to explain the existence of FDI. This study adopted a case study approach to determine if the theories can explain UBA Kenya's preference of wholly owned subsidiaries as the entry mode choice in all its foreign operations. The researcher used both primary data collected with an aid of an interview guide and secondary data was collected through review of contents of various relevant publications and reports at the bank. This data was later analyzed through content analysis and presented in form of narrative. The findings from the study suggest that the organization has encountered challenges in implementing foreign direct investment that include; lack of acceptance in the Kenyan market, long turnaround time in loan approvals, also the bank adopted operational policies of the parent company which are not in tandem with the Kenyan banking industry, the Central Bank of Nigeria directive restricting repatriation of funds to non performing subsidiaries in host countries. The study further found that the organization has at the same time come up with ways of countering the challenges it has had in implementing the foreign direct investment. United Bank for Africa has formulated strategies to aid in addressing the challenges it has faced. The bank is carrying out a lot of advertising and awareness to dispel the notion that United Bank for Africa Kenya is a Nigerian Bank. The bank has changed to a polycentric policy whereby it has recruited Kenyans to the Head of Functions and currently has only two positions being filled by expatriates to give the bank a Kenyan face. The bank has created policies that are applicable to Kenya and has had them approved by the group board. The bank is determined to ensure it changes the way people bank in Kenya by introducing innovative products and services to the market. The study recommends that organisations should do a comprehensive research before investing in a new market. Companies should research on the products being offered by competitors and assess whether they are able to offer these products so as to be able to compete. It also recommends that the policy makers should put in place strict rules and regulations to guide foreign direct investment in Kenya. This is to ensure that subsidiaries formed within Kenya are sufficiently independent from their parent companies to be able to make rational decisions based on the market in which they are operating.

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I. Introduction

Background of Study

In today's age of globalization, the world business environment has changed drastically hence organizations competitive positions are constantly challenged by the emergence of new markets, products, technologies as well as competitors. Coping with the increasingly competitive environment has called on firms to rethink their strategies (Pearce & Robinson, 2005). This has in turn forced organizations to look for other avenues such as internationalization so as to gain sustainable competitive advantage. Organizations that want to internationalize must decide on the appropriate mode of entry into the foreign market to make the best use of their resources.

There are various entry strategies that organizations can use to enter foreign markets. Each and every mode has its strengths and weaknesses which must be considered by the organizations top management. The entry mode that a multinational organization chooses has implications on how the organization will commit its resources to the foreign operations, the risk that the organization must bear, and the degree of control that the organization can exercise over the operations on the new market, (Hill et al, 1990). Most organizations will be attracted to a particular mode of entry depending on various aspects such as its background, nature of company, strategic objectives as well as its resource base. The choice for a particular entry mode is a critical determinant in the successful running of a foreign operation. The entry mode chosen has a major impact on the level of control the Multinational enterprise has over the venture (Root, 1994).

Organizations are open systems that operate in an environment that carries with it a myriad of challenges (Johnson and Scholes, 2002). In order for organization to survive in the turbulent environment there is a need to maintain a strategic fit within the environment. This has in turn forced organizations to conduct an environment scanning in order to identify the trends and conditions that could affect the industry and adapt to them (Thompson and Strickland, 1993). It is therefore paramount for organizations to understand the context, within which a country's political, economic, social institutions have emerged, demography and cultural diversities while thinking of emerging in foreign markets. Understanding a foreign country's business environment requires an in depth study of the current political systems and institutions, government policies and any other relevant information that relates to the country's economy. Furthermore, this information will provide useful insight as to why organizations decide to transfer their operations from the home to host country, why they decide to do this instead of licensing or exporting and why they decide to locate in a particular area (Bennett, 1999).

The liberalization of the financial markets and the gradual reducing entry barriers has increased potential opportunities for growth and expansion in the Kenyan banking market. This has led to a growing foreign ownership in the banking industry which has raised several questions as pertaining to the entry modes used by foreign banks into transition economies. United Bank for Africa (UBA) Kenya business strategy has been wholly owned subsidiary as the only entry mode without engaging in prior low commitments such as exporting and licensing and increase to higher commitment modes such as foreign direct investments

Concept of Foreign Direct Investment

According to International Monetary Fund (IMF, 1993) and the Organization for Economic Cooperation and Development (OECD, 1996) Foreign Direct Investment (FDI) is defined as an investment made to acquire a lasting interest in an enterprise operating outside of the economy of the investor. Investment may be in incorporated or unincorporated enterprises, branches or subsidiaries. The investor's purpose is to gain an effective voice in the management of the enterprise. Some degree of equity ownership is almost always associated with acquiring an 'effective voice' and international institutions' guidelines suggest a threshold of 10 per cent. FDI is also more likely to result in the importation of new technology and management skills, and is less likely to displace existing operations. FDI takes on two main form namely Greenfield investments which involves establishing new operations in a foreign country and acquisitions or mergers with an existing firm in a foreign country (Griffin & Putsay, 2010). Direct ownership provides a high degree of control in the operations and the ability to better know the customers and competitive environment, and the market in general. However, it requires a high level of resource base and a high degree of commitment.

Foreign direct investment is considered as a key driver of international integrations as it enhances economic growth and development. It plays an important role in creating direct stable and long lasting links between economies. FDI encourages transfer of capital, technology and knowhow between economies. However, despite these positive effects, FDI do not accrue automatically and evenly across countries, sectors and organizations (Bennett, 1999). There is need to have appropriate policies and international architectural frameworks to facilitate the FDI integration between economies so as to reap the full benefits that come up with it. The international political environment and legal environment plays an important role in shaping an organizations decision on the entry mode to adapt in its expansion strategy. Political factors help in determining the overall legal environment in which organizations operate in. Some of the political considerations which may affect business practices of a country include; government decisions on protectionism policy, regulatory framework, ability to repatriate profits, perceived risk and level of control (Hill, 2011).

According to Hymer (1976) analysis of multinational corporations (MNCs) based upon industrial organization theory found that foreign firms face additional costs such as government restrictions, cultural barriers, stringent legal systems compared to domestic firms in the host country. The business environments in transition economies such as Central and Eastern Europe (CEE) generally expose foreign firms to substantial amounts of risks and uncertainty caused by absence of clear institutional frameworks and macro-economic instabilities (Luo and Peng 1998). According to Lensink and de Haan (2004), in countries where little progress has been made in creating effective institutions foreign banks face more risk, incur higher operational costs and generally have fewer investment opportunities. Uncertainties in host countries make it more difficult to collect, interpret, and organize information to achieve a successful FDI entry mode because of political hazards, imperfect industrial structure, and a unique business culture (Delios and Henisz 2003).

From a market entry strategy standpoint, one of the greatest challenges for MNC's investing abroad is overcoming the liability of foreignness (LOF); the liability associated with foreign operations (Mezias, 2002). The theoretical foundation of LOF was advanced by Hymer (1976), who indicated that foreign firms face additional costs compared to domestic firms in the host markets. Hymer argued that these additional costs arise from: a MNC's unfamiliarity with the foreign environment in which it engages in operations; discriminatory attitudes of customers, suppliers, government agencies, among other factors; and additional costs associated with operating internationally. Hymer termed these foreign firm-specific disadvantages as costs of doing business abroad (CDBA). According to (Luo and Mezias, 2002, Luo *et al.*, 2002) the additional costs incurred by a foreign firm due to LOF, diminish its competitive advantages over domestic counterparts.

Firms interested in serving foreign markets face a difficult decision in respect to the choice of entry mode (Agarwal and Ramaswami, 1992). Organizations ought to understand the context, within which a country's political, economic, social institutions have emerged, demography and cultural diversities while thinking of emerging in foreign markets. Differences in culture, language, taste, logistics and laws need to be analyzed in order to start and conduct successful business on foreign markets especially when foreign direct investment is chosen as an entry strategy (Verwaal and Donkers, 2002). There is need to understand a foreign country's business environment such as the current political systems and institutions, government policies and any other relevant information that relates to the country's economy since setting up a foreign institution demands huge investments.

Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act and the Banking Act and the Prudential Guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalised in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the National Treasury docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. According to the Central Bank of Kenya (2012) annual reports, the Kenyan banking sector comprised 44 banking institutions (43 commercial banks and 1 mortgage finance company), 5 representative offices of foreign banks, 8 deposit taking microfinance institutions, 2 credit reference bureaus and 112 foreign exchange bureaus. Out of the 44 banking institutions, 31 locally owned banks comprise 3 with public shareholding and 28 privately owned while 13 are foreign owned. The 8 Deposit Taking Microfinance (DTMs), 2 Credit Reference Bureau (CRBs) and 112 forex bureaus are privately owned. The foreign owned financial institutions comprise of 9 locally incorporated foreign banks and 4 Branches of foreign incorporated banks.

Over the last few years, the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region; automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market (Central Bank of Kenya, 2012). The banking industry plays a vital role in enhancing economic growth, facilitating international trade and investment through its linkage with banks globally. Over the past years the Kenyan banking industry has witnessed tremendous growth in various aspects such as advancement in technology which has enhanced service delivery channels, increased number of financial service providers, geographical expansions within the East African region. This growth has been facilitated by the enabling macroeconomic environment which has increased access to banking services, expansion of new market segments, prudent risk management as well as enhanced economic prospects which has led to emergence of multinational banks entering into the Kenyan market.

The concept of Foreign Direct Investment, both inward and outward has been practised in Kenya increasingly over the years in all sectors. A survey by Ernst & Young (2013) 'Africa by numbers; Assessing Market Attractiveness in Africa' shows that there has been a strong inflow of FDI since 2007 with 15% of it being invested in the Financial Services sector. The survey also forecasts that FDI inflows to Kenya will average about US$1.3b p.a. over the next five years (although significant oil discoveries will change this dramatically). In the banking sector in Kenya, there are several banks which came into Kenya through Foreign Direct Investment by their Parent Companies. These include Barclays Kenya, Standard Chartered and CFC Stanbic Bank.

According to Ernst & Young's Attractiveness Survey (2013) 'South Africa, Kenya and Nigeria have been leading the way with investing into other parts of Africa' The survey ranked Kenya as the fifth biggest foreign direct investor in other African countries over the past five years based on the number of new projects initiated, an Ernst & Young survey has established. India took the lead position with 237 projects; South Africa was second with 235, UAE third with 201, China fourth with 152 while Kenya initiated 113 investments.

In Kenya, eleven Kenyan incorporated banks have subsidiaries in other African countries through Foreign Direct Investment in those countries. For example, Kenya Commercial Bank having opened subsidiaries in 6 African countries namely Tanzania, South Sudan, Uganda, Rwanda and Burundi. Other banks that have foreign direct investments in other countries are Equity Bank which has operations in the same markets except Burundi, Cooperative Bank of Kenya which has a subsidiary in South Sudan among others.

United Bank for Africa (UBA) Kenya Limited

UBA's history dates back to 1948 when the British and French Bank Limited ("BFB") commenced business in Nigeria and the erstwhile STB and CTB both in 1990. Following Nigeria's independence from Britain, UBA was incorporated in 1961 to take over the business of BFB. Although today's UBA emerged at a time of industry consolidation induced by regulation, the consolidated UBA was borne out of a desire to lead the domestic sector to a new era of global relevance by championing the creation of the Nigerian consumer finance market, leading a private/public sector partnership at supporting the acceleration of Nigeria's economic development, and growing the institution from a banking to a one-stop financial services institution, while spreading its footprints across Africa to earn the reputation as the face of banking in the continent (UBA Annual Report, 2012).

United Bank for Africa Plc is one of Africa's leading financial institutions offering universal banking to more than 7.2 million customers across 750 branches in 19 African countries. With presence in New York, London and Paris, UBA is a partner for banking services for Africans and African related businesses globally. In November 2008, in line with UBA's strategic objective of achieving Pan African status, UBA Kenya Bank Limited was formed as a wholly owned subsidiary of UBA plc, and later licensed by the Central Bank of Kenya (CBK). The Bank opened its doors to the public on 24th September, 2009, after the government gazetted UBA Kenya Bank Ltd as a bank in a supplementary edition of the Kenya gazette. UBA Kenya Bank Limited brings to the market comprehensive world-class financial services to the Kenyan market and seeks to make positive contributions to the country's economy. UBA Plc's strategy is to develop a global African bank, which is a bank owned by Africans for Africa. UBA's expansion into Kenya is in line with this strategic aim of supporting African business, wherever they are found (UBA Annual Report, 2012).

In addition to introducing innovative products and services to the market, UBA Kenya is determined to change the way people bank in Kenya. UBA Kenya currently has presence in three key East African countries namely Kenya, Uganda and Tanzania, making the bank strategically positioned as an ideal partner for regional businesses in East Africa. Initially, the bank's main focus was wholesale banking targeting mainly corporate businesses, public sector organizations and taking advantage of the opportunities in the value chain of the corporate clients.UBA Kenya bank opened 3 branches namely Westlands, Upperhill and Industrial area to be able to carry out banking.

Research Problem

Internationalization is referred to as the process of engaging in productions of goods and services beyond national frontiers (Bennett, 1999). Organizations may engage in such ventures either incrementally starting with low commitment modes such as export, licensing and joint ventures then increase gradually to the high commitment modes of foreign direct investments. According to Dunning (1977, 1980 and 1988) in his eclectic paradigm theory commonly referred to as the OLI theory emphasized that a firms international expansion and entry strategy depends on its ownership advantages (firm resources), location advantages (host country factors) and internalization advantages (relational factors). Transaction cost analysis (TCA) seems to be particularly useful in explaining vertical integration decision; how firms evaluate whether to establish a manufacturing subsidiary in a market abroad (Erramilli & Rao, 1993). According to (Anderson and Gatignon, 1986; Anderson and Coughlan, 1987) the TCA approach begins with the assumption that markets are competitive hence under this conditions, low control modes are favoured because the threat of replacement dampens opportunism and forces suppliers to be efficient. The Uppsala model (Johanson and Vahlne, 1990) internationalization is a process whereby firms gradually increase their international involvement as; on the other hand, they develop knowledge of foreign markets and operations, and on the other commit more and more resources to foreign sales.

The further opening up and liberalization of the Kenyan banking market has increased the opportunities for foreign investments and market entry in the banking sector. United Bank for Africa (UBA) Kenya business strategy has been wholly owned subsidiary as the only entry mode without engaging in prior low commitments such as exporting and licensing and increase to higher commitment modes such as foreign direct investments. UBA Kenya decided to start off with the high commitment modes of FDI directly without going through the incremental stages. On this basis, the study tried to analyze the reasons that prompt firms to engage in such costly and risky ventures in foreign lands where they are at a disadvantage as compared to the local firms. Foreign direct investment is an integral part of an open and effective international economic system and a major catalyst to development. The main aim of every business that internationalize is to establish itself in the global market. The decision of how to enter a foreign market can have a significant impact on the overall performance of the organization. Organizations may pursue internationalization due to a variety of reasons. Some may be proactive while others reactive. Organizations therefore should make rational decisions when deciding the mode of entry since reversing an inappropriate strategy can be difficult.

Many studies have been carried out on the banking industry in relation to entry strategies and they include; Kieti (2006) determinants of foreign entry strategies by Kenyan firms venturing into South Sudan, Wamukoya (2008) did a study on choice of foreign entry strategies for global firms: a case of Eriksson Kenya, Mugendi (2010) did a study on Equity banks foreign market entry strategies into South Sudan and Uganda, Nyakundi (2010) did a study on strategies adopted by Kenya Commercial bank when entering international markets, Wachari (2010) did a study on determinants of foreign entry strategies adopted by Kenyan firms in selecting and entering international markets and Nyango (2011) did a study on foreign entry strategies by Fina bank in Kenya to enter into East Africa region.

However, despite the relevance of this topic previous research has mainly been on entry strategies and has not concentrated on the challenges facing UBA Kenya in implementing FDI as an entry mode. This study therefore seeks to fill the knowledge gap by investigating the challenges faced by UBA Kenya in implementation of FDI as an entry mode. What are the challenges facing UBA Kenya in the implementation of FDI as an entry mode?

Research Objectives

The study sought to determine the challenges UBA Kenya has faced in implementing FDI as an entry mode.

Value of Study

The findings of the study will be of great importance to various stakeholders through theory building, policy development and managerial practice. It will shed light on how organizations respond to cross national frontiers by formulating appropriate internationalization strategies that will ensure the organization gains sustainable competitive advantage. The study will also bring out the uniqueness of the Kenyan market especially with regard to mobile, internet and agency banking as well as MPESA. These innovative products bring a new angle to the way business is being done and has been done in the past and in other countries. Therefore organizations planning to use Foreign Direct Investment will appreciate this as both a challenge and an opportunity as they enter the Kenyan market. A challenge because the multinational has to assess, modify and create their products to fit this aspects of the Kenyan market and an opportunity because it provides companies a more channels to provide their services to customers in Kenya.

The study will be valuable to UBA Kenya as it will make the managers to establish the challenges of implementing FDI as an entry mode and use the findings of the study to make rationale managerial decisions. The management of UBA Kenya will be able to identify the areas that need improvement or changes in their implementation strategy. This study will also be valuable to UBA Plc as they will be able to gain an independent review of the challenges facing UBA Bank Kenya and therefore may be more willing to give UBA Bank Kenya more autonomy to be able to be competitive in the banking industry. In addition, UBA Plc will be able to appreciate that each market is unique in some way and therefore a generic entry strategy may not be best to adopt when expanding in future. Other organizations will also benefit from this study as this will aid them in evaluating their current strategies and plan for the future.

The government through the regulatory body and policy maker; Central Bank of Kenya which falls under the National Treasury docket, and is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system will benefit from the issues and insights raised in this study to formulate policies and guidelines to aid in providing workable frameworks in the banking industry in Kenya. The regulatory bodies, through this study, may understand better, the need to ensure that subsidiaries have sufficient independence from their groups to enable them operate well in the Kenyan market. Policies will be formulated to ensure this.

The study is also intended to be of value to researchers and scholars as it will form a basis for further research. Researchers and academicians will use the study as a basis for discussion on entry mode strategies used by multinational firms. Furthermore it will contribute to the general understanding of the banking industry in Kenya and would provide detailed examination on how banks respond to the ever changing and dynamic environment they operate in.

II. Literature Review

Introduction

The section reviews related literature in areas related to the study. This section is divided into three subtopics namely; theoretical underpinning of the study, FDI as a foreign market entry strategy and challenges of FDI.

Theoretical Underpinning of the Study

The development of theoretical models used to understand Foreign Direct Investment (FDI) began to emerge in the period immediately following the Second World War, between 1945 and 1960, a period when FDI flows began to gain prominence in the global economy. During this period, there was a widespread interest in internationalization process of firms which gave rise to various models and approaches to try to explain how organizations enter foreign markets. The theories of international business attempts to answer the following questions: why do organizations decide to transfer their operations from the home to host country, why do they decide to do this instead of licensing or exporting and why do they decide to locate in a particular area. There are various models used when considering theories about entry mode determinants and FDI and they comprise of the eclectic paradigm and transaction costs theory which are often seen as ideal models to combine economic theories of monopolistic competition, the level of control, location advantages, and the internationalization process knowledge of the firm.

According to Dunning (1979) eclectic theory, for an organization to invest abroad it must have three specific advantages at low cost namely; ownership, location and internationalization advantages. The ownership advantages as discussed by Hymer (1960) require an organization to have competitive advantage over its competitors in its production process. The internationalization advantages as advanced by Buckley and Casson (1976) assumes that by contracting with external organizations in foreign markets is a risky option which could lead to revealing of the ownership specific advantages of organizations in foreign markets thus the current contracting organizations could result as potential future competitors. Therefore it is of great importance for an organization to internalize its advantages and come up with strategy that enables it control its operations solely. The location specific advantages stipulate that organizations need to gain benefits from locating in an appropriate foreign country in order to undertake foreign direct investments (Griffin & Putsay, 2010).

Transaction cost analysis (TCA) was proposed by Anderson and Gatignon (1986). The underlying theory is based on transaction cost economics initiated by Williamson (1975 and 1985) as a tool to explain economic problems where asset specificity plays a key role. In many developing and transition economies FDI is used to build national competitive advantage in the global economy. For a global economy where low cost factors are available in some countries around the world, transaction costs related to external and internal uncertainty, socio-cultural distance and economic risks of the country are becoming important factors for FDI decision abroad. These are important factors that should be taken into consideration by firms contemplating to undertake FDI abroad. According to Meyer (2001) in developing and transition economies the costs of developing a wholly-owned enterprise were very high, until in the beginning of 2000s, when acquisitions took part in privatization process, but again these processes required complex negotiations with government authorities, management and work councils. After the acquisitions, investors needed to make considerable investment in restructuring post-socialist firms, changing corporate strategy, organizational structure and culture, and implementing technological modernization and environmental clean-up. The costs of establishing a fully-owned local operation in a transition economy are very high. Foreign investors are more likely to establish wholly-owned subsidiaries in economies that have progressed furthest in institutional reforms (Buckley & Ghauri, 1999).

Theory of internationalization is a widely accepted concept in business field, and is based on Johnson and Vahlne´s Uppsala model that researched the internationalization of MNCs in the world. The Uppsala school theory of foreign direct investment, advanced by Johanson and Wiedersheim (1975) did an investigation of four large Swedish multinational coorporation. In the course of their investigation, they observed the gradual development of small incremental changes in an organizations behaviour, which they used to explain the process of an organizations internationalization. According to Johnson and Vahlne (1977) internationalization process can be found everywhere in the establishment of foreign subsidiaries, engaged in cross border international joint-ventures or acquisitions and in the international trade and other business activities, which indicates that the international business model can be widely applied to a number of FDI activities abroad. The theoretical approach of the Uppsala Model is more based on behavioural perspectives, which focus more in the internationalization process by firms (Johanson and Vahlne, 2001). These factors are closely related to the determinants of entry mode choice and the motivations of MNCs to enter a foreign market. According to Aharoni (1966) the internationalization theory is based on the behavioural theory of the firm and the internationalization process represents the growth of the firm that increasingly enhances its involvement with international activities. In addition, internationalization processes do not only concern developing knowledge about foreign markets and corporate operations, but also it indicates that there is an increasing trend by MNCs to commit to foreign market resources as well (Johanson and Vahlne, 2001). Organizations are expected to make stronger market resource commitments, as they gain experience in the market.

The Uppsala Model can be viewed as a flexible connection system between different departments and different actors in a corporation, who have various ideas and interests concentrated on the development of the firm (Lin, 2008). According to Johanson and Vahlne (2001), MNCs being engaged in foreign markets should focus on opportunities and problems in the market and try to find solutions to their problems to foster the internationalization process in order to work more efficiently. Johanson and Wiedersheim-Paul (1975) explain the two patterns of internationalization. The first pattern of internationalization is when the firm has no experience in market experiences in the specific country market development and start with no regular exporting activities in the market. Then, this firm progresses to export through independent representatives and follows by sequence sales subsidiaries and manufacturing in the globe. Through this pattern business activities gain commitment resources and experience in this market. The second pattern of internationalization is by entering a new market through great psychic distance when conducting business abroad. Psychic distance characteristics are differences in language, culture, business regulations, and political and business system. According to Johanson and Wiedersheim-Paul (1975) these are obstacles faced by MNEs in gaining information flows within the firm and about the market. As a result, MNEs tend to begin their internationalization process in easily understood markets that offer more opportunities and have low market uncertainty in the future. In addition, Johanson and Vahlne (2001) state that the possible indicators of an internationalization process are the relations between market commitment, market knowledge, current business activities, and commitment decisions, as well as psychic distance. However, other patterns are taken into account by firms such as degree of the vertical integration, which represents the strength of connection of a firm with a foreign market. Joint-ventures, acquisitions, franchising and greenfield investments are methods of FDI expansion through internationalization. The Uppsala model lays a strong foundation for foreign direct investments and lay emphasis on the incremental commitment to international investment through a gradual process in terms of time and through a stages approach.

Foreign Direct Investment as Foreign Market Entry Mode

Foreign market entry mode is an institutional arrangement that makes possible the entry of a firm's products, service, know-how, management and other resources into a foreign market (Root, 1994). The mode of entry into an international market is the channel through which an organization that wants to operate in the international market employs to gain entry to a new international market. The choice for a particular entry mode is a critical determinant in the successful running of a foreign operation. Foreign market entry modes used by organizations to access foreign markets comprise of; exporting, licensing, franchising, joint venture, direct investment (Hill, 2011).

Exporting is the marketing and direct sale of domestically-produced goods in another country. Exporting is a traditional and well-established method of reaching foreign markets. There is no need for the company to invest in a foreign country because exporting does not require that the goods be produced in the target country (Cateora & Graham, 2002).

Licensing is a contractual arrangement in which a company receives a royal or a fee in exchange for the right to use its trademark, patent, trade secret and other valuable intellectual property. The organization granting the licence incurs limited risk due to the fact that it does not have to invest significant resources into the country. In return the licensee gains access to the trademark patents and is able to gain competitive advantage (Bradley, 2005).

Franchising is a similar entry mode to licensing. By the payment of a royalty fee, the franchisee will obtain the major business know-how via an agreement with the franchiser. The know-how also includes such intangible properties as patents, trademarks. The difference from the licensing mode of entry is that the franchisee must obey certain rules given by franchiser. Franchising is most commonly used in service industries, such as McDonald's (Griffin & Putsay, 2010).

According to (Bennett, 1999) Joint ventures are collaborative arrangements between unrelated parties with exchange or combine various resources while remaining separate and independent legal entities. Joint ventures can be termed as an example of the wider concept of the strategic alliance which enables the knowledge-sharing arrangements, mutual licensing measures as measures to control and utilize excess capacity. Usually joint ventures are formed to undertake a specific project that has to be completed within a stipulated time.

According to UNCTAD (2007) foreign direct investment is defined as investment involving long-term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of foreign direct investor. FDI can be made through the acquisition of an existing entity or the establishment of a new enterprise. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment, and the market in general. However, it requires a high level of resources and a high degree of commitment. Acquisitions can be defined as a corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Acquisitions are usually made as part of an organization's growth strategy whereby it is more beneficial to take over an existing organization's operations and niche compared to expanding on its own. On the other hand, green field can be defined as a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees (Griffin & Putsay, 2010).

Firms interested in serving foreign markets face a difficult decision in respect to the choice of entry mode (Agarwal and Ramaswami, 1992). Organizations ought to understand the context, within which a country's political, economic, social institutions have emerged, demography and cultural diversities while thinking of emerging in foreign markets. Differences in culture, language, taste, logistics and laws need to be analyzed in order to start and conduct successful business on foreign markets especially when foreign direct investment is chosen as an entry strategy (Verwaal and Donkers, 2002). There is need to understand a foreign country's business environment such as the current political systems and institutions, government policies and any other relevant information that relates to the country's economy since setting up a foreign institution demands huge investments.

Challenges of Foreign Direct Investment

According to Root (1994) the choice of market entry mode is one of the most critical strategic decisions for multinational enterprises as it affects future decisions and performance in foreign markets and it entails a high level of resource commitment which is difficult to transfer from one to another market entry mode. The choice of market entry mode is a critical strategic decision for firms intending to conduct business oversees. It is vital for organizations to make rational decisions when formulating a market entry strategy since the mode chosen is a critical determinant in the successful running of the foreign operation.

From a market entry strategy standpoint, one of the greatest challenges for MNC's investing abroad is overcoming the liability of foreignness (LOF); the liability associated with foreign operations (Mezias, 2002). The theoretical foundation of LOF was advanced by Hymer (1976), who indicated that foreign firms face additional costs compared to domestic firms in the host markets. Hymer argued that these additional costs arise from: a MNC's unfamiliarity with the foreign environment in which it engages in operations; discriminatory attitudes of customers, suppliers, government agencies, among other factors; and additional costs associated with operating internationally. Hymer termed these foreign firm-specific disadvantages as costs of doing business abroad (CDBA). According to (Luo and Mezias, 2002, Luo *et al.*, 2002) the additional costs incurred by a foreign firm due to LOF, diminish its competitive advantages over domestic counterparts. This so-called liability of foreignness (Zaheer, 1995) can be difficult to overcome and will further increase the costs and risk of doing business in a foreign business environment. Consequently, foreign firms originating in mature market economies are generally confronted with high transaction costs and considerable institutional risk when they invest in transition economies with relatively weak formal institutions.

According to Meyer (2001) a stable institutional framework is important, because it establishes a structure to facilitate market interactions and influences the availability and flow of information between market participants. In order to make prudent business decisions and reduce the uncertainty over outcomes associated with these decisions there is need to have access to information. Makhija and Stewart (2002) a high level of uncertainty increases risk and the level of transaction costs firms incur when conducting business transactions. It is paramount for organizations to determine the riskiness of investments, differences in institutional development over time and across economies as it forms a strong basis in determining multinational expansion strategies.

Luo and Peng (1998) found out that the business environments in transition economies such as Central and Eastern Europe (CEE) generally expose foreign firms to substantial amounts of risks and uncertainty caused by absence of clear institutional frameworks and macro-economic instabilities. According to Lensink and de Haan (2004), in countries where little progress has been made in creating effective institutions foreign banks face more risk, incur higher operational costs and generally have fewer investment opportunities. Hoskisson et al (2000) also observed that these external forces are generally considered to increase incentive for foreign firms in postponing its market entry. According to Delios and Henisz (2003) uncertainties in host countries make it more difficult to collect, interpret, and organize information to achieve a successful FDI entry mode because of political hazards, imperfect industrial structure, and a unique business culture. These transactions costs can arise from lengthy and costly negotiations with the host government or from sudden regulatory changes that are unfavourable to foreign investors.

Investments in foreign environments are often surrounded by a considerable amount of uncertainty arising from instabilities in the macro-economic environment (Folta, 1998). In order to deal with this kind of uncertainty its challenging because it is extremely difficult to predict the future states of the macro-economic environments in transition economies, and to understand how these future contingencies might affect the firm. According to Rivoli and Salorio (1996) uncertainty in the macro-economic environment is exogenous to the firm and mainly resolves through the passage of time. According to Luo and Peng (1998) during the initial stages of economic restructuring, the business environments in most transition economies are characterized by exceedingly high levels of macro-economic uncertainty. Multinational Banks therefore, have to commit resources to obtain and develop human capital, technology and market information, in order to acquire the knowledge needed to successfully operate in a new foreign market (Eriksson *et al.*, 1997).

According to Meyer (2001) following the disintegration of the socialist system in the Eastern Europe, economic agents had insufficient knowledge regarding the use of market mechanism for both potential partners and competitors in these countries; thus increased the search, negotiations and contracting costs of new businesses. Furthermore, Meyer and Estrin (2001) found out that Greenfield projects are to slow to achieve investors' desired strategic objectives due to high costs of establishment. On the other hand Peng (2000) asserts that Greenfield investors may find it harder to integrate into local business networks, which may be vital for success, because networks are extremely useful in places where formal institutions are weak.

III. Research Methodology

Introduction

The chapter presents the methodology that was applied in this study. This included the research design, data collection method and finally the data analysis and presentation of the findings.

Research Design

The study adopted a case study research design. The study sought to determine the challenges faced by UBA Kenya in implementing FDI as an entry mode. According to Kothari (1990) a case study is a form of qualitative analysis that involves a careful and complete observation of social unit which may be a person, family or institution.

A case study was appropriate for this study as it provided the researcher with in-depth information which assisted in meeting the overall objectives of the study. It allows for the qualitative analysis which involves a careful and complete observation or the unit of study. Primary data collected from such a study is considered more reliable and up to date.

Data Collection

The study used both primary and secondary data. Primary data collected through self administered interviews by use of an interview guide. According to Mugenda and Mugenda (2003) interview schedules obtains in depth data through the use of probing questions and allow collection of data relevant to the research objectives through clarification of the intended choices.

Secondary data was obtained from various documents including the company's annual reports, strategic plan, and periodical. The respondents of this study comprised of the bank senior management from the following departments; Country Head, Audit and Control, Chief Finance Officer, Country Head Human Resources, Chief Operations Officer and Company Secretary/Head Legal.

Data Analysis

The data was analyzed through content analysis to come up with conclusions and recommendations. According to Mugenda and Mugenda (2003) content analysis is the systematic qualitative description of the composition of material of the study. Its main purpose is to analyze given information in order to determine factors that explain a given phenomenon.

The qualitative data reduced and transformed through selection, sharpening, sorting, focussing, discarding, organizing and summary or paraphrasing in such a way that final conclusion can be drawn and verified. Content analysis was preferred as it looks at documents, texts or speech to see what themes emerge.

IV. Data Analysis, Findings And Discussions

Introduction

This chapter presents the data analysis and interpretation as per the study objectives. The objectives of the study were to determine the challenges UBA Kenya has faced in implementing FDI as an entry mode.

This data is presented through the use of narratives that have been concluded through content analysis of respondents' feedback with the aid of the interview guide.

Motivation for Foreign Direct Investment Strategy at United Bank for Africa (UBA)

From the findings, the respondents confirmed that this is the most common mode of entry that the bank has used when entering new markets and has been very successful. "The bank has used this method in other markets such as Uganda, Ghana among others and it has been successful'' says the Chief Financial Officer (UBA Plc Annual Report, 2010). He goes on to say that "The bank is able to breakeven over a short period of time. In addition, usually when a bank decides to enter a market by acquiring shareholding in an already existing bank acquisition or a merger, this method is quite expensive and the process is very long and tedious.

Once the bank completes the merger/acquisition, many a times one realizes that the investment is not that good due to various reasons that may have not been fully disclosed such as poor asset quality especially when it comes to the loan book. Because of this, United Bank of Africa Plc decided to start on a clean slate and build from the ground up.''

The United Bank for Africa Plc brand is a brand well known worldwide and hence the bank did not expect a challenge when it came to acceptance in the Kenyan market.UBA Kenya was expected to have a high growth rate as it has had in the West African market and other markets globally and therefore the bank did not see the need of acquisitions/mergers. It was seen that UBA Bank Kenya would grow very fast as the UBA Plc brand is renown worldwide.

Challenges Facing United Bank of Africa Kenya in Implementing Foreign Direct Investment

Interviews conducted at UBA Kenya Bank confirmed that the bank is facing various challenges in regard to implementation of foreign direct investment. The first challenge mentioned is that the bank has not really been accepted by the Kenyan market. Kenyans have not been able to identify with the bank as they believe it is a Nigerian Bank. Most organizations and individuals have the perception that United Bank for Africa Kenya is a Nigerian bank. This is because the banks origin is in Nigeria, the head office is based in Lagos and the UBA brand is very popular in Nigeria. In addition, the advertisements of UBA in the satellite TV stations (DSTV which is popular in Kenya) run UBA adverts. The Nigerian aspect in these adverts is quite clear in these adverts especially due to the accent of the persons speaking. As a result the Kenyan market has not really identified with United Bank for Africa Kenya as they associate it with these adverts and this is quite a hindrance to the business

Another challenge was that, the bank being wholly owned by United Bank for Africa Plc has adopted policies of the UBA Plc. These policies for instance require that a fraction of the top management be from the group. As a result, all the bank's previous Chief Executive Officers have all been foreigners mostly Nigerians. This only helps to enforce the Kenyan perception that UBA Bank Kenya is a Nigerian Bank. This does not help the image of the bank as the Kenyan market perceives it to be a Nigerian bank. The other challenge mentioned is United Bank for Africa Kenya embraces an ethnocentric policy whereby United Bank for Africa Plc sends employees to the Kenyan Subsidiary. Most international commercial banks are manned by Kenyans hence United Bank of Africa Kenya being managed by Nigerians only in senior positions did not resonate well with the customers and the general public thus has hampered their penetration in the Kenyan banking industry

In addition, the operational policies adopted United Bank for Africa Kenya is materially the same as those of the group that is United Bank for Africa Plc. However, the West African markets are very different compared to the Kenyan market. The Kenyan market is very dynamic and advanced as there is MPESA and various mobile and internet banking products being offered. The group failing to understand the products and perceiving them to be too risky do not approve these products and in the rare event that they are approved, the process is too long causing delay in implementation. When the product is finally approved it is too late, customers have moved elsewhere where the products were being offered.

It was noted from the respondents that in the Kenyan banking industry a section of banks have their clientele well defined for instance the Asian Banks have the Asian community banking with them. United Bank for Africa choose to enter the Kenyan market Greenfield so as to serve the multinationals that they serve globally who have their presence in Kenya and who are associated with them. The bank took the value chain approach where the banks target an employer, its employees, suppliers and other stakeholders to these organisations. This has however been quite a challenge as most of these multinationals are already accessing banking services from other multinational banks such as Barclays, Standard Chartered and are accessing these services at very low cost. The potential customers, already comfortable with these arrangements are reluctant to change and move to UBA Kenya.

From the study it was found out that the Kenyan banking industry is very dynamic and competitive thus the need to be abreast and roll out appropriate strategies to remain competitive. The banking industry in Kenya is driven by technology and has over the last 3 years been thriving on products such as mobile banking, internet banking and agency banking. UBA Kenya however had a challenge on this as approvals of these products has just been granted over the past year. UBA Kenya being a wholly owned subsidiary of UBA Plc had to gain approvals from UBA Plc to roll out these products. The process of gaining approval for these products is quite long and time consuming, thus limiting its penetration in the Kenyan market, as UBA Plc has not had these products elsewhere before. Therefore the unique nature of the Kenyan banking industry and products has been quite a challenge for UBA Kenya. It was also observed that the Kenyan banking industry is driven by Small Medium Enterprises thus it's been quite a challenge for United Bank of Africa Kenya to fully implement its foreign direct strategy due to the fact that that's not the clientele it had envisioned as United Bank of Africa Plc considers it as a risky venture.

The respondents also confirmed that in the Kenyan banking industry most blue chip companies are multi banked and accept very thin margins of credit facilities especially base minus, demand high interest rates for deposits as well as to be given credit facilities on clean basis. United Bank for Africa Kenya has been forced to turn away most blue chip companies as their lending rules cannot accommodate such blue chip companies. In addition, these other multinational banks having been in Kenya for a while have built their core capital and have the capacity to give large credit facilities to these multinationals. UBA Kenya however having a core capital of just above Kshs 1billion does not have this capacity.

The other challenge is the directive passed by the Central Bank of Nigeria restricting repatriation of funds to non performing subsidiaries in the host countries. UBA Bank Kenya is still loss making and therefore non-performing. UBA Plc however willing is not allowed to inject more capital into UBA Kenya. For example, the Central Bank of Kenya had set the capital requirement of all banks to be Kshs 1Billion by 31st December 2012. UBA Kenya having made losses that reduced their core capital did not meet its requirement. UBA Plc would have ideally injected more funds to enable UBA Bank Kenya to meet this requirement; however, due to the restriction by Central Bank of Nigeria it was not possible. Therefore UBA Bank Kenya had to look for another investor to inject the necessary capital. This has been a challenge as this dilutes the shareholding of UBA Plc.

The other challenge mentioned was that approvals for loan facilities took too long as they have to be approved at the Head Office therefore causing loss of business. This in turn puts off would be customers due to the long formalities and turnaround time in making decisions.

Another challenge that United Bank for Africa Kenya has encountered when the bank came to Kenya it only opened 3 branches and the location of these branches was not prime for business. Furthermore the bank does not have a branch in the central business district (CBD). This is a limiting factor to the bank as it becomes difficult for the customers to access services therefore customers prefer to bank with banks that have various branches hence are in proximity to the customers. The respondents also mentioned that the other challenge is that UBA Plc has not allowed UBA Kenya to open any more branches until they break even. This even makes breaking even harder due to the limited number of branches.

Overcoming Challenges Associated with Implementing Foreign Direct Investment

From the findings, the respondents indicated that United Bank for Africa is carrying out a lot of advertising and awareness to dispel the notion that United Bank for Africa Kenya is a Nigerian Bank. The bank is doing this through advertisement in the media and sponsorship of various events in the country.

The bank has changed to a polycentric policy whereby it has recruited Kenyans to the Head of Functions and currently has only two positions being filled by expatriates to give the Bank a Kenyan face.

The bank has created policies that are applicable to Kenya and has had them approved by the group Board. Some of the policies that have so far been developed and approved by the Boards are Credit Policy, Asset and Liability Management Policy, Anti-Money Laundering Policy among others (UBA Annual Report, 2012). For products, the bank tries to carry out research and present a case to the group board for approvals to be granted. Sometimes the bank even goes to an extent of inviting members from the group to come to Kenya to see how the product works so as to instil confidence in the group that the products work and therefore hasten approvals necessary. This was done for example when UBA Kenya wanted to introduce agency banking as one of its products. UBA Bank Kenya invited the Head of Alternative Channels and Head of Risk Management of UBA Plc to visit and see how the product works in Kenya. Approval has since been granted and roll-out is in the process of being started (UBA Annual Report, 2012).

The bank has also changed its strategy of targeting value chains and corporate that is multinationals and is now opening up and looking for business with SMEs and individuals. This is because the value chain approach was very slow in yielding results due to the challenges mentioned above. The bank realised that the SME sector has a lot of business as well. As a result, the bank has rolled out new products, both deposits and credit facilities to cater for the needs of SMEs in Kenya. One such product is I-Tax, whereby the customer is able to pay their tax to KRA at the bank.

As a result of the restriction of capital injection by Central Bank of Nigeria by banks to their non performing subsidiaries, UBA Bank Kenya has identified potential investors to invest in the bank if the need arises. The bank is also fast tracking its plans to reach profitability so as not to wipe out capital already invested to date.

For approval of loan facilities, the bank does preapprovals for clients who they expect to come for various facilities so as to reduce the turnaround time. In addition, the group has also granted some approval limits to the Board in Kenya so that not all loan approvals have to go to the group.

Discussion

As per the findings of the interviews carried out at UBA Kenya, the study shows that the theories underpinning the study are applicable. The eclectic theory that states that for an organization that wants to invest abroad must have three specific advantages at low cost namely; ownership, location and internalization advantages. The research found out that ownership advantages that UBA Plc has includes capital, technological advancement, and management expertise. The common location advantages UBA Plc has is the presence in three key East African countries namely Kenya, Uganda and Tanzania. These countries have a psychic distance between each other hence its beneficial because the cultures of the people in this countries are almost similar and they have traditionally been trading together.

In addition some of the issues discussed in Section 2.4 Challenges of Foreign Direct Investment are applicable. It was found that one of the greatest challenges for Multinational Companies investing abroad is overcoming the liability of foreignness (LOF); the liability associated with foreign operations (Mezias, 2002). The theoretical foundation of LOF was advanced by Hymer (1976), who indicated that foreign firms face additional costs compared to domestic firms in the host markets. Hymer argued that these additional costs arise from: a MNC's unfamiliarity with the foreign environment in which it engages in operations; discriminatory attitudes of customers, suppliers, government agencies, among other factors; and additional costs associated with operating internationally.

This Liability of Foreignness has been the biggest challenge facing UBA Kenya especially the discriminatory attitudes of the potential customers in Kenya. UBA Kenya has been associated with Nigeria and the bank has not been able to shrug this perception off of itself. The Kenyan market not having been able to identify with UBA Bank Kenya has made it difficult for the bank to attract customers.

In addition, UBA Bank Kenya's unfamiliarity with the foreign environment for instance Kenya has also been a challenge. The Kenyan market is very dynamic and technologically advanced, having products such as mobile money, internet banking and agency. These products are very unique to the Kenyan market, and UBA plc's unfamiliarity with these products has been a set back to UBA Kenya.

UBA Bank Kenya also has additional costs associated with operating internationally, which have also been a setback to the success of the bank here in Kenya. One of these is the timing of delivery of products to customers. During the study, it was found that one of the major setbacks of the bank was the delay and denial of approvals required from UBA Plc for general products and specific products to customers.UBA Plc would deny approvals of certain products that UBA Kenya would like to roll-out even though the risk as assessed by UBA Kenya are low. This is as a result of a lack of understanding of the Kenyan markets by those in charge of approvals at the group level. Even where approvals were granted, they were granted too late therefore loosing customers.

The findings of study indicate that UBA Plc should have carried out more research on the Kenyan Market prior to its entry. More research on the mode of entry and the ability of the bank to provide the necessary products should have been done. An acquisition may have been a better approach for this bank as the bank would not have begun from ground zero. The bank would have retained customers from the acquired bank and would therefore not have to struggle much to grow the loan book and deposit base. This entry method has been done by a peer of UBA Plc for example Ecobank Kenya and has succeeded despite the bank having an origin in West Africa. In addition, UBA Plc should have assessed its risk appetite including its ability to provide the products that are popular in the Kenyan market such as the agency, internet and mobile banking. In addition, UBA Plc to ensure the success of UBA Kenya should grant UBA Kenya more independence in terms of approvals of products so as to allow it to be competitive in the market.

It was found that UBA Kenya is doing as much as it can, within its allowable limits to overcome the challenges which it is facing. As much as UBA Plc is supporting its subsidiary, some of its policies are a hindrance to the success of the bank in Kenya.

V. Summary, Conclusion And Recommendations

Introduction

This chapter gives a summary of the research findings and recommendations drawn from the study.

Summary of Findings

The study sought to find out the challenges of implementing foreign direct investment at United Bank for Africa Kenya. In summary the study established that United Bank for Africa Plc has undergone a myriad of challenges in conducting its operations.

The biggest challenge UBA Bank Kenya is facing is the perception of the Kenyan people towards the bank. The bank has not really been accepted by the Kenyan market. This is because a majority of Kenyans believe it is a Nigerian Bank. This is because the banks origin is in Nigeria, the head office is based in Lagos and the UBA brand is very popular in Nigeria. In addition, UBA adverts, which run in the satellite TV stations

(DSTV which is popular in Kenya), have a Nigerian aspect to them. It is clear in these adverts especially due to the accent of the persons speaking. This perception has been a hindrance to the growth of the bank.

One major challenge UBA Bank Kenya is facing is adoption of group practices which are not beneficial in the Kenyan market - The bank being wholly owned by United Bank for Africa Plc has adopted the policies from the parent company one notably the ethnocentric policy whereby the policy states that a fraction of top and senior management should be from the parent company. As a result the bank's Chief Executive Officers have been Nigerians, this has not resonated well with the Kenyan market as most individuals and organizations perceive the bank to be a Nigerian bank. Other international banks operating in the Kenyan banking industry have embraced a polycentric approach hence it giving the bank a national outlook.

Another challenge is the adoption of the operational policies of United Bank of Africa Plc by the Kenyan subsidiary. The two markets are distinct from each other hence the need to come up with bespoke strategies aimed at addressing the uniqueness of the market they operate in. This has brought about a number of challenges in the bank.

The Kenyan market being very dynamic and competitive in terms of technology advancement, internet banking, agency banking there is need to give UBA Bank Kenya some autonomy to be able to provide these products and gain sustainable competitive advantage. Currently, as it is, all products have to be approved by the Head Office thus making it very slow and also many a times; these proposals are rejected on the grounds that they are risky.

Furthermore, the bank is not able to provide products that can compete with other banks in the industry. This is the case especially with large corporates in Kenya. Banks in Kenya often provide credit facilities to these corporates at low interest rates and with little security as the chance of default is minimal if not nil. However, UBA Bank Kenya is forced to stick to their restrictive policies that stipulate certain pricing and securities and a long approval process. This results in loss of business.

These two challenges mentioned above are as a result of adopting unsuitable operational policies from the group and a lack of understanding of approvers who are operating in the Kenyan market. These decisions are better left to those who are operating in the market and therefore understand it better. In addition, UBA Kenya has a Risk Department that assesses the risks involved and ensures they are minimal and mitigated.

In summary, the challenge being faced by UBA Bank Kenya is to disassociate the UBA brand from Nigeria and the group without losing the identity of UBA Plc. Finding this balance has been a challenge being faced by the UBA Group as well as UBA Bank Kenya. Once this balance is found, UBA Bank Kenya will be able to be sufficiently independent of the UBA Nigeria but still be able to associate itself with the UBA Plc global brand.

Conclusion

From the study findings, the researcher concludes that United Bank for Africa (UBA) Kenya business strategy has been wholly owned subsidiary as the only entry mode without engaging in prior low commitments such as exporting and licensing and increase to higher commitment modes such as foreign direct investments. UBA Kenya decided to start off with the high commitment modes of FDI directly without going through the incremental stages. However, United Bank for Africa Kenya faced challenges of implementing foreign direct investment. This is supported by the respondents' identification of the key challenges. The study also concluded that United Bank for Africa has formulated strategies to aid in addressing the challenges it has faced.

The biggest challenge that the bank is facing is that it has not really been accepted by the Kenyan market. Kenyans have not been able to identify with the bank as they believe it is a Nigerian Bank. United Bank for Africa Kenya is carrying out a lot of advertising and awareness to dispel the notion that United Bank for Africa Kenya is a Nigerian Bank. The bank is doing this through advertisement in the media and sponsorship of various events in the country.

Another challenge was that, the bank being wholly owned by United Bank for Africa Plc has adopted policies of the UBA Plc. These policies are not all applicable to the bank in Kenya, for instance UBA Plc requires that a fraction of the top management be from the group thus it does not assist the bank as it further enforces the notion that UBA Kenya is a Nigerian bank. To address this, the bank has adopted a polycentric policy whereby it has recruited Kenyans to the Head of Functions and currently has only two positions being filled by expatriates to give the Bank a Kenyan face. The bank has created policies that are applicable to Kenya and has had them approved by the group Board.

United Bank of Africa Kenya has also faced a challenge when it comes to providing products that are unique to the market. These are products such as mobile banking, internet and agency banking. UBA Kenya requires approval from UBA Plc to roll out these products. However there is a delay in the approvals as the head office has not had such products before. Due to lack of understanding of the unique nature of the Kenyan market this results to delays or denial of approvals. To solve this problem, UBA Kenya tries to carry out research and present a case to the group board for approvals to be granted. Sometimes the bank even goes to an extent of inviting members from the group to come to Kenya to see how the product works so as to instil confidence in the group that the products work and therefore hasten approvals.

Another challenge that the bank faces is the long turnaround time when it comes to approval of loan facility. These approvals take a very long time because the facility has to go through a loan approval process in UBA Kenya and then it is forwarded to UBA Plc for final approval. This often takes too long such that the client opts to go to another bank where the same facility would take less than 24 hours to be approved. To address this slow turnaround time, the bank does preapprovals for clients who they expect to come for various facilities so as to reduce the turnaround time. In addition, the group has also granted some approval limits to the Board in Kenya so that not all loan approvals have to go to the group. The bank is determined to ensure it changes the way people bank in Kenya by introducing innovative products and services to the market.

Another challenge faced by UBA Kenya is the limited number of branched that is; 3 branches none of which is in the Central Business District. This is a limiting factor to the bank as it becomes difficult for the customers to access services therefore customers prefer to bank with banks that have various branches hence are in proximity to the customers. In addition UBA Plc has not allowed UBA Kenya to open any more branches until they break even. This even makes breaking even harder due to the limited number of branches. The bank has therefore opened 'red shops' these are United Bank for Africa Kenya stands located within various malls where customers can do various transactions such as drop cheques, open accounts and do automated teller machines (ATM) transactions with automated teller machines located in those areas.

In the Kenyan banking industry most blue chip companies are multi banked and accept only very thin margins for credit facilities especially at base minus interest rates, they also demand high interest rates for deposits as well as given credit facilities on clean basis .This is a challenge for United Bank for Africa Kenya as their lending rules cannot accommodate such demands. In addition, these other multinational banks having been in Kenya for a while have built their core capital and have the capacity to give large credit facilities to these multinationals. UBA Kenya however having a core capital of just above Kshs 1billion does not have this capacity. The bank as a result has entirely changed its strategy from that of targeting large corporate and using a value chain approach and has adopted a new strategy. This new strategy now targets the SME sector in Kenya, whose demands can be accommodated.

United Bank of Africa Kenya has also faced a challenge when the Central Bank of Nigeria passed a directive restricting repatriation of funds to non performing subsidiaries in the host countries. UBA Bank Kenya is still loss making and therefore non-performing. UBA Plc however willing is not allowed to inject more capital into UBA Kenya. This was a challenge especially towards the end of 2012 when the Central Bank of Kenya had set the capital requirement of all banks to be Kshs 1Billion by 31st December 2012. UBA Kenya having made losses that reduced their core capital did not meet this requirement. UBA Plc would have ideally injected more funds to enable UBA Bank Kenya to meet this requirement; however, due to the restriction by Central Bank of Nigeria it was not possible. Therefore UBA Bank Kenya had to look for another investor to inject the necessary capital. This has been a challenge as this dilutes the shareholding of UBA Plc. UBA Kenya has now looked for possible investors in the case that such a scenario arises again in future.

Recommendations for Policy and Practice

In view of the above, the researcher recommends the following; the multinational corporations should critically analyze the various strategies at their disposal before making a decision on how to enter the selected market. The market entry strategy an organization adopts plays an important role in determining the successfulness of the multinational corporation in the local market.

The study also recommends that multinational corporations should conduct an analysis to determine the advantages and disadvantages of the available entry strategies before selecting the appropriate entry strategy.

The success of the entry strategy that a multinational chooses to enter a market with depends a lot also on that market itself. Therefore the organization needs to study the market and its uniqueness compared to other markets which they have entered into. This is in relation technology advancement, politics and laws of the country. In addition, the organization needs to assess if it has the capability, willingness and flexibility to offer the products that competitors in the country are offering so as to be able to attract customers in that country and grow.

In addition, it is important for the organization to find a balance whereby the multinational can be able to keep its identity and at the same time be able to identify with the clientele in that country. This can be done through advertising to popularize the brand but putting in these advertisements a twist of the country's culture. This way, people will be able to identify with these brands.

Another recommendation is that multinationals planning to have foreign direct investments should assess the processes in these subsidiaries to ensure that inefficiencies resulting from the Group are resolved. These processes such as approvals at the group level should not result in inefficiencies to the customers. The organization should find ways of working and still have their group procedures without affecting turnaround times and inconveniencing customers. That way, the employees will not have to explain to customers that their facilities are taking a long time to be approved because 'they have to go to Head Office in Nigeria for approval'. These are not problems that the customer should be concerned with. The operations should be as seamless as operations of local organization.

The study also recommends that when a multinational corporation is planning to go into a new market they should be willing to adopt a business model that other similar multinational corporations have adopted and succeeded. For example in Kenya it is characteristics for banks to have many branches making it convenient for customers as wherever they are there is a branch of their bank nearby. This has worked very well for other banks. United Bank for Africa Kenya however chose to open only 3 branches hence it has limited the customers who would choose to bank with United Bank for Africa Kenya.

With regard to policy governments should come up with policies which ensure that subsidiaries established within their countries have sufficient independence from their groups to enable them operate well in the Kenyan banking industry market. This will enable subsidiaries to have sufficient powers to come up with and roll out products which they deem to be fit for the market which they operate in. However, the policies set will also have to ensure that risk management is strong within these organisations. This can be done by putting guidelines in place for risk management structures within organisations. Furthermore, due to the increased independence these subsidiaries will have with implementation of these policies, regulators will have to tighten their monitoring to ensure that these organisations are prudent and carry out proper risk management.

Limitations of the Study

The study only focused on one organization that is a bank through a case study approach hence may not be sufficient to draw conclusion and recommendations. This is due to the fact that different banks adopt different strategies that differentiate them from their competitors and as a result they are faced by different challenges.

The research faced both time and financial constraints. Furthermore the duration for conducting the study was limited thus exhaustive and comprehensive data could not be carried out on the challenges facing United Bank for Africa Kenya in implementing foreign direct investments. In addition the bank has been in operation for 4 years having many strategies each with its own challenges. However due to time constraints, analysis of each and every strategy was quite difficult to assess.

Suggestions for Further Study

The study recommends that further research be done on the challenges facing multinational corporations including foreign banks in the Kenyan banking industry so as to allow for generalization of challenges facing commercial banks in Kenya. The research further recommends similar studies to be conducted in different industries for purpose of benchmarking.

Another constraint was the busy schedule of the targeted respondents hence the researcher had to limit the effects of this constraint by aggressively contacting the intended respondents and planning for the interview.

The nature of the organization that is a bank in the case study was also a challenge. Banks tend to be very conservative and confidential. Therefore convincing the Sorganization that the data collected would be purely used for academic purposes was quite tricky. However, after getting the necessary documentation and talking to the bank, it was accepted. Even then, during the interviews, the bank was still very careful about the information they could divulge.

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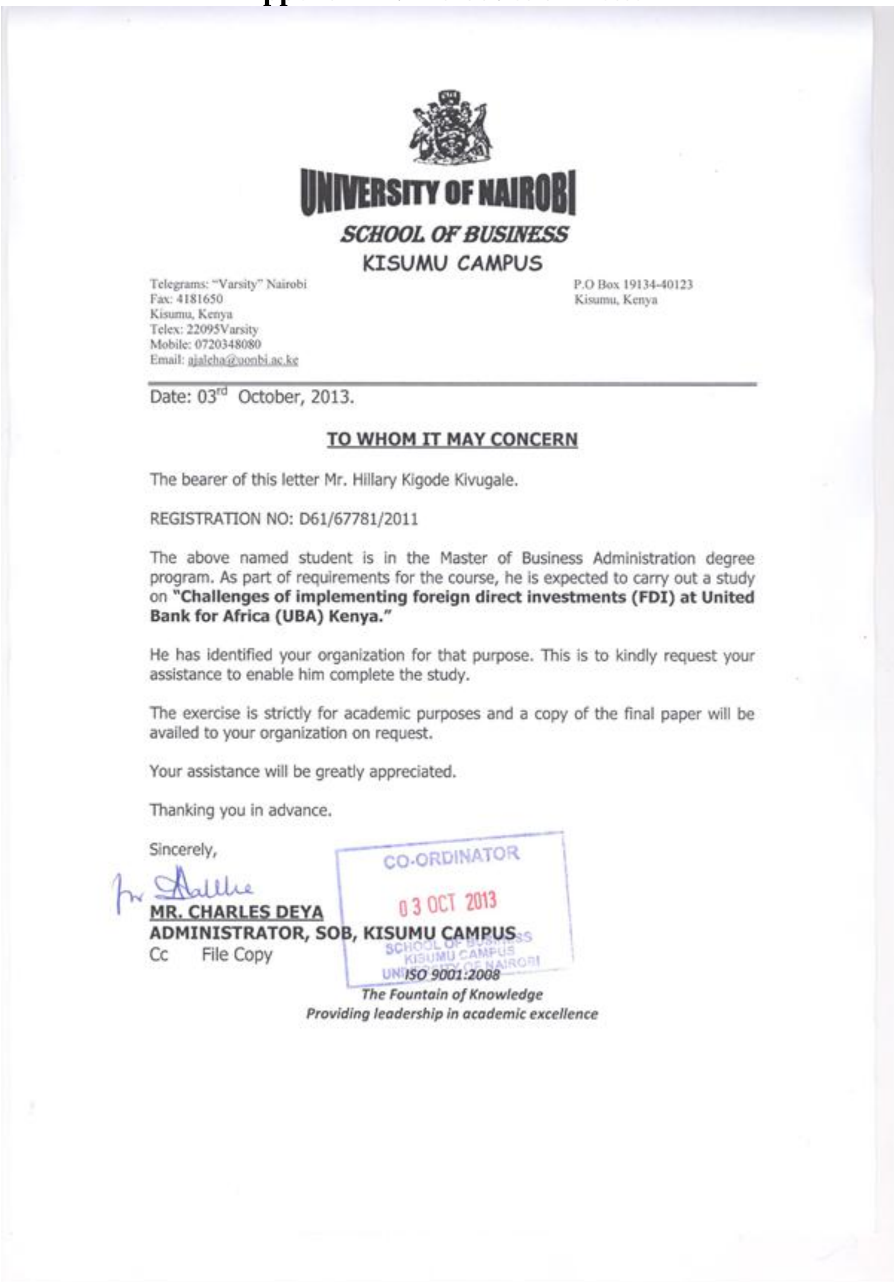
Appendices

Appendix I: Interview Guide

1. UBA Plc has used foreign direct investment as its entry mode strategy without engaging in prior low commitment modes. What can you say are the key drivers that motivated this entry strategy?
2. In your opinion how would you describe the operating environment in the banking industry in Kenya and how has it impacted on UBA choice of entry strategy?
3. In using foreign direct investment through wholly owned subsidiaries, what are the major challenges UBA Kenya faced in its implementation?
4. In dealing with these challenges what has the UBA Kenya done?
5. In your opinion has the adoption of foreign direct investment as an entry mode been of any value to the company?
6. What are the possible suggestions you would recommend regarding selection of entry strategies in the increased competition in the banking industry?

Appendix II: Introduction Letter



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P.O Box 19134-40123
Kisumu, Kenya

Date: 03rd October, 2013.

TO WHOM IT MAY CONCERN

The bearer of this letter Mr. Hillary Kigode Kivugale.

REGISTRATION NO: D61/67781/2011

The above named student is in the Master of Business Administration degree program. As part of requirements for the course, he is expected to carry out a study on **"Challenges of implementing foreign direct investments (FDI) at United Bank for Africa (UBA) Kenya."**

He has identified your organization for that purpose. This is to kindly request your assistance to enable him complete the study.

The exercise is strictly for academic purposes and a copy of the final paper will be availed to your organization on request.

Your assistance will be greatly appreciated.

Thanking you in advance.

Sincerely,

CO-ORDINATOR
03 OCT 2013
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MR. CHARLES DEYA
ADMINISTRATOR, SOB, KISUMU CAMPUS
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