CHALLENGES TO INTERNATIONALIZATION OF FIRMS WITHIN THE PETROLEUM INDUSTRY IN KENYA (THE CASE OF KENOLKOBIL COMPANY LTD)

BY

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Challenges to internationalization
DECLARATION

This research project is my original work and has not been submitted for a degree in any other university.

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

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DEDICATION
This project is dedicated to my loving wife Jacinter Auma, children Mouline and Stephen and my mother Consolata Akeyo for their support during my academic career.
ACKNOWLEDGEMENTS

My special acknowledgements go to my supervisor Mr. Shadrack Bett for his valuable support and guidance. Further acknowledgements go to Dr. Ofafa for her encouragement and support.
ABSTRACT

In the recent past there has been an increase of participation of Kenyan Multinational Enterprises in the international market. This has come about as a response to the forces of globalization which have led to integration of world economies. A number of Kenyan companies like KenolKobil have decided to internationalize to protect their local dominance as well as exploit opportunities in the international markets. This research set out to identifying the various challenges to internationalization with reference to cultural, political, legal and the role played by regional economic trading blocs. The research design was a case study of KenolKobil limited.

The study targeted senior employees of KenolKobil Ltd based at the Nairobi headquarters and regional offices in Uganda and Tanzania. A total of seventy two (72) employees were targeted. Data was collected using questionnaires & interview guides. The data collected was analyzed using descriptive statistics. From the research findings cultural challenges include language, cultural diversity, religion, tastes, norms, ethics and nature of material goods. Political challenges include protective government policies, bureaucratic political instability, high tax regimes, political patronage of competitors, existing trade tariffs and high incidences of corruption. Legal challenges included bureaucratic procedures, provision for product local ownership, malicious litigations emanating from established & disgruntled competitors, poor legislations and bottlenecks in approvals and licensing for business. Challenges presented by regional economic trading blocs include existing trade tariffs, trade quotas, increased competition, lack of common monetary policy, provision for local content, lack of commitment from member countries, bureaucratic procedures as well as conflicting legislations and policies among member countries.

Other challenges to internationalization of KenolKobil include price fluctuations, lack of foreign market knowledge, poor transport & communication infrastructures, heavy taxation of petroleum products, lack of storage capacity, government price control of petroleum products in most countries, rivalry from established multinationals and high incidences of corruption among political executives. Limitations in terms of time and financial resources were encountered during the project. The project achieved its objectives of identifying challenges to internationalization of firms in respect to cultural, political, legal and role of existing regional economic trading blocs.
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<tr>
<td>DFI</td>
<td>Direct Foreign Investment</td>
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<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
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<td>MNE</td>
<td>Multinational Enterprise</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>COMESA</td>
<td>Common Market for East &amp; Southern Africa</td>
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<tr>
<td>KPC</td>
<td>Kenya Pipeline Company</td>
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<tr>
<td>SME</td>
<td>Small &amp; Micro-Enterprise</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern Africa Development Community</td>
</tr>
<tr>
<td>FIC</td>
<td>Foreign Investment Controls</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organization of Petroleum Exporting Countries</td>
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<tr>
<td>CBA</td>
<td>Collective Bargain Agreement</td>
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**Internationalization:** The integration of economies throughout the world by means of trade, financial and technological flows, exchange of information and movement of people, goods and services. It can simply be stated as the process of availing goods and services to markets that are outside the country of origin of the producing company.

**Globalization:** Gradual integration and growing interdependence of national economies.

**Multinational Enterprise:** A company which operates in a number of countries and adjusts its products, services and practices to suit local interests, cultures and tastes.

**Political Factors:** Factors that are at play arising from the political dimension e.g. rules, regulations, policies, restrictions.

**Cultural Factors:** Factors that arise from cultural issues such as language, religion, beliefs, values norms, tastes, aesthetics and ethics.

**Legal Factors:** Factors arising from legal perspectives such as legislations, procedures, laws and other judicial matters.

**Regional Economic Trading Bloc:** A partnership of countries into a common market with a view to reducing trade tariffs and other trade barriers.

**Challenges** – Barriers or bottlenecks to internationalization process.
CHAPTER ONE
INTRODUCTION

This chapter introduces the entire study and defines the specific and general objectives of the study. It sets the theme for the intended research and gives a background on the research gaps which have prompted the research project. The chapter also spells out research questions and identifies the various variables. The chapter ends by a justification for the study and some insight of the expected research findings.

1.1 Background of the study

The concept of viewing the world economies as a single unit comprising many micro-economic units is also referred to as globalization. Globalization has been popularized in the last two decades although its origin dates back to the 16th century when European nations struggled to establish empires in Africa and Latin America (Welch, and Loustarinen, 1988). The Dutch and British East India companies were probably the earliest recorded multinational enterprises (Wagner, 2001). Later on in the 18th century, European companies went international by establishing manufacturing facilities in their respective colonies. The process of globalization presented a relentless inevitable process of global expansionism and change that gave rise to the infrastructural road-map for the future international markets as we know it today (Wagner, 2001).

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

Growth by international diversification is an important strategic option for both small and large firms. Due to internationalization of firms, globalization of markets and ongoing economic integration, there has been growing interdependency of countries worldwide (Esther, 2011). According to Root (1994), the new global economy has created business environments that require firms to look past the traditional thinking of the domestic market and to start looking at business from an international global perspective. Friedman, (1999) further note that globalization brings tremendous opportunities and benefits as well as challenges. Increasing globalization, according to Bender, and Fish (2000) leads to an increase in international joint ventures, companies establishing subsidiaries and sales offices abroad. To be successful, companies must manage their knowledge within the organization across the national borders.

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

Internationalization and Globalization

According to Thompson and Strickland (1993), internationalization refers to the integration of economies throughout the world by means of trade, financial and technological flows, exchange of information and movement of people, goods and services. Still Masum, & Fernandez (2008), see internationalization as the process of availing goods and services to markets that are outside the country of origin of the producing company. Companies go international in a bid to compete for resources that are limited in the local environment and depend on the global economy to provide them with the necessary market for their products (Beamish, 1990). Beamish (1990), further observed that internationalization is a process where firms start by increasing
their awareness of the direct and indirect influences of international transaction in the future, before moving on to establish and conduct transactions with other countries. This process is possible through the use of technology and effective communication channels which are advanced today allowing labour and other factors of production to be flexible and stretch across countries (Bell, Crick, 2004).

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

Dunning’s eclectic theory of multinational enterprise provides a useful framework for the classification of factors governing internationalization of firms as Firm-specific advantage, internationalization decisions and location specific factors. These form key forces governing internationalization of firms. According to Bender and Fish (2000), the world is in an era of globalization and companies are continuously affected by the competition around the world. Internationalization has become necessary because from a national view, isolation has become impossible. Failure to participate in the global market assures declining economic capability of a nation as businesses are no longer limited by physical national geographical boundaries (Bender, and Fish, 2000). The concept of internationalization and globalization also refers to the co-operation between national actors (Friedman, 1999). Friedman (1999) further avers that globalization is not just a phenomenon or just some passing trend, indeed it is an overarching international system shaping the domestic markets, politics and foreign relations of virtually every country.
1.1.2 Barriers to Entry into Foreign Markets

Entry barriers are present, in any market, to protect domestic industry or to ensure that companies entering from foreign markets conform to trade relations & arrangements with other countries (Johansson, 1997). These barriers may relate to entry, exit and the market place and can be both tariff and non-tariff in nature. Such barriers also include aspects that impinge on the form of international market entry such as regulations relating to local content and ownership. Exit barriers may relate to repatriation of profits, dividends & capital, taxation issues and technology transfer. Marketplace barriers can include access to skilled personnel, availability of warehouse space, transportation, allocation of critical inputs such as power, water and control over prices (De Burca, Fletcher, & Brown, 2004). According to Bradley (2005) firms pursue international strategies due to strategic or reactive reasons. These include the need to seek opportunity for growth through market diversification because of the large market potential, the need to earn higher profit margins, intense competition in the domestic market, the need to follow and service their multinational clients as well as search for new business opportunities (Boddewyn, Halbrich, Perry, 2000).

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

Value of firm-specific resources and capabilities also play a key role behind decisions to internationalize and allow foreign entrants to overcome the liability of foreignness. KenolKobil specifically considered resources such as financial strength, management resource, technological resource, efficient and elaborate distribution channels, innovative products as well as their customer service strengths before making a decision to go multinational (Musyoka, 2011). Rarity of firm-specific assets encourages firms that possess them to leverage such assets in the foreign markets.
(Friedman, 1999). Patents, brands and trademarks legally protect the rarity of certain product features e.g KenolKobil brand is a leading brand in the oil industry in east and central Africa. It was thus easy for the company to penetrate the east African market (Musyoka, 2011). The location specific advantages can be in the form of geographical advantages due to Kenya’s central location among the east African community and COMESA countries. These minimized cultural and institutional distances to customers (Kimani, 2011).

In Kenya, the process of globalization has had catastrophic effects on many local companies. Most of these companies were unable to engage adaptive strategic responses to exploit business opportunities presented by globalization and they were forced to either scale down their operations or close down altogether (Mugo, 2008). The changed business environment presented challenges to both indigenous companies as well as some multinational companies which had accustomed themselves to the narrow local market. The oil sector was particularly hit whereby some major multinational companies such as AGIP, Shell BP, Caltex and Mobil closed their local operations (Kimani, 2011). However, in the midst of all these challenges, KenolKobil was able to grow its business volumes and transform itself into a multinational enterprise. This study therefore set out to establish the various challenges to internationalization of KenolKobil from a local to a multinational enterprise.

1.1.3 Oil industry in Kenya

Before the liberalization of petroleum sector in Kenya, the tariff structure adopted by the government was led by two primary objectives of ensuring revenue maximization and to put in place a tax structure that allowed for subsidization of some products by others (Musyoka, 2011). The pump prices of petroleum fuels reflect the heavy taxation that the products undergo despite the policy of partial subsidization by others. For instance kerosene attracts lesser tax while petrol fuel incurs higher rates on taxation (Midwa, 2008 as cited by Musyoka, 2011). The rationale is to benefit low-income households that use kerosene (Ikiara and Njenga, 2000 as cited by Esther, 2011).
Liberalization led to the entry of small independent fuel retailers. These outfits offered price discounts to gain market share. Price became a major strategy for competition while quality and service were sidelined resulting in the emergence of illegal outlets, dumping of petroleum products meant for the export market which resulted in unfair competition (Chepkwony, 2001). On the legislation front Kahira (2006), observed that the Kenya government made various changes in legislations governing the oil industry. In May 2003, legislation requiring oil firms to maintain specific levels of stock was passed while in November 2003 two legislations, the first to introduce the central tender system (now called the Open Tender System – OTS) for Purchasing crude oil and the other directing oil firms to receive all their imported products at the Kenya Pipeline Company (KPC) depot in Mombasa only. In 2005, a directive requiring oil firms to pay custom taxes on imported products in advance was passed. In December 2010 the government introduced price controls at the retail outlets aimed at cushioning the customers against rising cost of petroleum products and bring about order in the petroleum industry (Kahira, 2006).

1.1.4 KenolKobil Limited

According to www.kenolkobil.com, the history of KenolKobil can be traced back to 13th May 1950 when Kenol (the then Kenya Oil Company limited) was incorporated in Nairobi under the companies act as a limited company. The principal activity of Kenol was and still is the production, refining, distilling, storing importing, distributing and supplying of petroleum products. Kenol was listed at the Nairobi stock exchange (NSE) in September 1959. In January 1986 Kenol entered into a joint operation and management agreement with Kobil petroleum limited. In December 2007 Kenol acquired 100% issued shares capital of Kobil petroleum limited and consequently changed its name to KenoKobil limited.

Kenolkobil runs a range of petroleum products and lubricants and the firm is widely active in various sectors of the economy in Kenya. The company runs about 67 Kenol branded service stations and 88 Kobil branded service stations in the country. The products range from fuel, lubricants, liquefied petroleum gas (LPG) car care products, fuel card and non-fuel business. In addition to the Kenyan operations the company has
1.1.5 Organization structure of KenolKobil

Source: www.kenolkobil.com
1.2 Statement of the problem

Despite the various researches on internationalization process, there is still insufficient knowledge about clear cut challenges which influence transformation of firms from local to multinational status (O’Farrell, 1998 as cited by Kimani, E. 2011). Consequently, there remains considerable debate surrounding factors that act as main challenges to internationalization of firms. A study conducted by Koch (2001) in Australia found out that every international market expansion requires a detailed understanding of the foreign market in terms of economic, political, legal and cultural factors in general. Hollensen (2004) in his study identified major internal success factors as firm size, available resource, product brand strength, level of technology and innovation. He also identified main external success factors to be considered as being attractiveness of product, potential of international market, government regulations and trade barriers such as purposed administrative delays, local content requirements and assistance presented by local government.

Doherty, (2011) identified external environmental factors that hinder foreign/regional market entry as: management inexperience, unavailability of resources, weak organizations strategy & goals, internal competition, political instability, non-transparent legal atmosphere and in accessible technological infrastructure. In her study on the factors that influence entry into the regional market at Kenya Commercial bank, Kimani (2011) identified political, legal, availability of financial resources, competitions and product brand strengths as some of the major influencing factors. Musyoka, (2011) in his study of competitive strategies adopted by KenolKobil in developing sustainable competitive advantage focused mainly on success factors such as brand superiority, robust distribution channels, government support and available mass markets in the east African and COMESA regions but did not outline critical challenges facing internationalization of Kenokobil. Kimata, (2003) established that infrastructure, political stability and economic growth potential of a country were major considerations in general without isolating specific challenges. Makori (2006) in his study on the challenges African airlines face in selecting and entering international markets, attempted to established some challenge to internationalization as inability to predict profitability, general risk and profitability of the potential market. All the aforementioned studies concentrated on the process of market selection, strategy, entry modes and success factor to be considered. No
research has focused on the main challenges as experienced by firms undergoing internationalization. It is in this view that this study seeks to identify major challenges of internationalization in relation to cultural, legal, political and hurdles presented by regional economic blocs as an outstanding research gap.

1.3 Objectives of the Study

The main objective of the study is to identify challenges to internationalization of in the petroleum industry in Kenya as experienced by KenolKobil limited.

The specific objectives will be to:

1. To establish how culture is a challenge to internationalization of KenolKobil Ltd
2. To establish how political factors are a challenge to internationalization of KenolKobil Ltd
3. To establish how legal factors are a challenge to internationalization of KenolKobi Ltd
4. To find out how the roles of existing regional economic trading blocs (e.g. EAC & COMESA) are a challenge to internationalization of KenolKobil Ltd

1.4 Research Questions

The study seeks to answer the following questions:

1. What are the major cultural challenges that influenced internationalization of KenolKobil from a local to a multinational company?
2. What are the political challenges affecting internationalization of KenolKobil limited?
3. What are the legal challenges affecting internationalization of KenolKobil limited?
4. What roles played by regional economic blocs (EAC & COMESA) are a challenge to internationalization of KenolKobil limited?

1.5 Significance

The study findings will reveal a general understanding of challenges to internationalization of firms. The study is also expected to provide useful information
to KenolKobil limited on how to mitigate the highlighted challenges as it pursues further international markets. The findings of the study may also be useful to the government for public policy making with respect to the publicly-owned corporations, especially in the oil industry. Finally, the study will provide additional information to the general pool of knowledge as well as forming a basis for further research by other scholars on internationalization of firms.

1.6 Scope of the Study
The study will target senior staff of KenolKobil at the Nairobi headquarters and various branches in Kenya as well as other marketing and senior staff in the regional offices in Uganda and Tanzania.
CHAPTER TWO
LITERATURE REVIEW

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

2.2 Concept of Globalization
According to Kotler & Armstrong (2001), globalization of markets refers to the gradual integration and growing interdependence of national economies. Rapid globalization is one of the salient features of the new millennium, especially since the first development of information technology in the last two decades. Different types of globalization can be identified though most attention is focused on economy, technology and culture. According to Cheng (2001) globalization is multifaceted and includes political, technological, economic, social, cultural & learning globalization. Globalization allows firms to view the world as an integrated market place. Global economic integration has been accelerated by the tendency of national governments to reduce trade and investment barriers (Koch, 2001).

Growth by international diversification is an important strategic option for both small and large firms. Due to internationalization of firms, globalization of markets and ongoing economic integration there has been growing interdependency of countries worldwide (Kimani, 2011). According to Root (1994), the new global economy has created business environments that require firms to look past the traditional thinking of the domestic market and to start looking at business from an international global perspective. Friedman, (1999) note that globalization brings tremendous opportunities and benefits. Increasing globalization, according to Bender, and Fish (2000) leads to
an increase in international joint ventures, companies establishing subsidiaries and sales offices abroad. Reduction of trade barriers is greatly associated with the emergence of regional trading blocs, a key dimension of market globalization. The scale of manufacturing or service output, especially based on employed technologies, has developed to the point where national markets can no longer support efficient operations (Javashree, & Al-Marwai, 2010). As a result, increasing number of local companies face immense pressure to compete on a global platform. Because the challenges are experienced on a global scale, finding solutions to them (economic, technical & environmental challenges) require transnational inclination (Alan Rugman, 2003).

2.3 Internationalization

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

Internationalization of business has taken on many facets in terms of trade, investment & ownership, manufacturing & sourcing, markets & customers, finance and technology. The abolition of distance, through improved technology, tended to generate a “uniform distance-less” called globalization in which fundamentally distinct objects became part of a homogeneous experiential mass (Heidegger, 1971).

Dunning’s eclectic theory of multinational enterprise (MNE) provides a useful framework for the classification of factors governing internationalization of firms (Dunning, 1995). The eclectic paradigm specifies three conditions that determine whether or not a firm will internationalize as Firm-specific, ownership specific and
internationalization advantage. To successfully enter and conduct business in a foreign market, the Multinational Enterprise must possess ownership specific advantages that are unique to the firm relative to other firms already doing business in the market (Dunning, 1995). These consist of knowledge skills capabilities, process, relationships or physical assets owned by the firm that allow it to compete effectively in the global market. They amount to the firm’s distinctive competitive advantage. To assure international success, the advantages must be substantial enough to offset the costs that the firm incurs in establishing and operating foreign operations. They must be specific to the MNE that possess them and must not be easily transferable to other firms (Dunning, 1990). Examples of firm ownership advantages include proprietary technology, managerial skills, trademarks or brand names, economies of scales and access to substantial financial resources. The more valuable the firm’s ownership specific advantage, the more likely it is to internationalize via direct foreign investments (DFI) (Bramble, 2000).

A location specific advantage refers to the comparative advantages that exist in individual foreign countries. Each country possesses unique advantages from which companies can derive specific benefits (Hollensen, 2004). Examples of location specific advantages include natural resources, skilled labour, low cost labour and inexpensive capital. Aggressive multinational executives seek to benefit from the host country’s advantages. A location specific advantage must exist for a foreign direct investment to succeed (Hollensen, 2004). It must be profitable for the firm to locate abroad and must utilize ownership specific advantages in conjunction with location specific advantages in the target host country. According to Albaum, Duerr, & Strandkov (2005), some of the advantages of internationalization include ability to control how the firm’s products are produced, control dissemination of firm’s proprietary knowledge and ability to reduce buyer uncertainty about the value of the product the firm offers.

Internationalization may take the form of global sourcing, exporting or investment in key markets abroad. According to Sullivan, (1996), the more proactive firms seek simultaneous presence in all major trading regions. They concentrate their activities in those countries where they can achieve and sustain competitive advantages. Firms internationalize value-chain activities to reduce the cost of research and development
production, and to gain closer access to customers (Li, 1994). Bradley (2005) observes that firms enter international markets mainly to source components more efficiently than at home and to enter emerging product markets that hold more prospects than the domestic market.

At the business enterprise level, market globalization amounts to reconfiguration of company value chain activities including sourcing, manufacturing, marketing and distribution on a global scale. Multinational Enterprises enjoy higher revenues than local firms by providing goods that are not readily available in local markets (Clark, Rajaratnam, & Smith, 1996). They further note that MNEs enjoy global branding because of the advantage of their size than domestic competitors. Globalization both compels and facilitates companies to pursue cross-border business activities and international expansion (Clark, Rajaratnam, & Smith, 1996). According to Wild (2010) these new realities of international business are altering cultures and transforming the way companies do business.

The eclectic theory states that firms undertake foreign direct investment (FDI) when features of a particular location combined with ownership and internationalization advantage makes a location appealing for investment (Bramble, 2000). Market power theory states that a firm tries to establish a dominant market presence in an industry by undertaking foreign direct investment. Firms seek the greatest amount of power possible in their industries relative to their rivals. Market dominance leads to greater profits and allows the firm to dictate the cost of its inputs and/or the price of its products (Baskaran, & Muchie, 2008).

Internationalizing organizations must therefore be in a position to deal with the rules and regulations that have been put in place in foreign countries that they operate in addition to conflicting policies (Bell, Crick, 2004). While going international, organizations need to consider several factors such as: their own internal structure, role of governments of host countries, the mode of operation in the new foreign market, political, legal, economic, social-cultural situations, technological and demographic factors of the host country should also be considered (Ubreziova, Bujnakova, & Majorova, 2009). Internationalization comes as a form of strategic response to changing business environment.
Transformation from local to multinational status requires a company to take conscious and strategic steps to re-direct its processes, practices and products from a local to a global focus (Bell, Crick, 2004). This involves designing an environment in a company in which management and employees work to achieve predetermined goals in a different and more global-oriented deviating from the existing organizational processes, mechanisms and structures. Private firms in particular face unique obstacles in relation to their globalization processes (Rajaratnam, and Smith, 1996). This is largely due to entrenched procedural constraints, limitation in financial provisions and constraints in human resource skill among other factors (Javashree, & Al-Marwai, 2010).

According to Koch (2001) Internationalization process requires information assessment based on five forces that determine industry competitiveness namely: buyers, suppliers, potential new entrants to the industry, availability of substitute goods & services and rivalry among the competitors. Knowledge of the bargaining power of buyers assists in maintaining customers while Knowledge of bargaining power of suppliers assists the internationalizing enterprise to gain competitive edge over them to ensure guaranteed source of inputs (Sheila, 2004). Attempts must be made to reduce the threat of new entrants e.g. by keeping costs low & consumer loyalty high and encouraging governments to limit foreign business activity through regulations such as duties, tariffs, quotas and other protective measures (Thompson, and Strickland, 2000).

The threat of substitute products and competitors need to be identified and countered through various strategic responses such as lowering prices, offering similar products and increasing quality of products and services to the customer (Alan, Rugman, 2003). Examination of these forces will help the firm to make a decision on the overall attractiveness or unattractiveness of a particular market segment (Esther, 2011).

2.4 Multinational Enterprises (MNEs)

According to Levitt (1983) a multinational enterprise is a company that operates in a number of countries and adjusts its products and practices to suit local interests and tastes. Multinational enterprises pursue independent strategies in each foreign market,
have subsidiaries which have essentially autonomous operations and are set up as profit centres with decentralized strategies & operations based on prevailing conditions in the foreign market (Grune, 1989). Levitt (1989) gave the foresight into future internationalization process. He described the process, then, as creation of a standardized market for the globe with no boundaries between regions and nations. At that time it was the beginning of the new era of trade openness and knowledge mobilization across the international market. The economy was virtually a commodity economy before being transformed into a digital economy (Levitt, 1989). Dahringer and Muhlbacher (1991) use the term international to emphasize customer similarities irrespective of their geographical location without ignoring differences among markets. This reinforces the fact that these differences must be dealt with when multinational companies formulate and implement their business strategies in the international markets. Even though geographical location remains critical for many undertakings, de-territorialization manifests itself in many social spheres in the global perspective. Territory, in the traditional sense of geographical identifiable location, no longer constitutes the whole social space (Ruggie, Scholte, 2000).

2.5 Strategies used by Multinational Enterprises (MNEs)

According to Erramilli, (1993) firms employ various strategies to achieve success in their efforts to transform from local to multinational status. The strategy employed depends on various factors such as: culture of the host country, available financial resources, available human resources within the organization, political situation prevailing in the host country, tariff policies of the host country, type of entry barriers, existing competition, strength of product brands, nature of host market and management style of the firm among other factors. Appropriate strategy will be employed based on the prevailing circumstances. According to Alan Rugman (2003), one of the most common strategies used by multinational companies to penetrate the international market is the formation of strategic alliances or partnerships. Strategic alliances are agreements between two or more competitive multinational enterprises for the purpose of serving a global market. These partnerships are almost always formed by firms in the same line of business. The alliances help in facilitating faster outreach of the multinational in the foreign market though they are rather expensive and risky. Sometimes MNEs choose International Joint Ventures (IJV). These are agreements between two or more partners to own and control an overseas business
They take several forms and are employed for various reasons such as: encouraging legislations by host government need to bring on board partners who have local understanding of the business environment (in terms of economy, culture and political systems) and a desire by the multinational enterprise to get a local entity to focus on local operations.

However in general, international joint ventures are difficult to manage and are frequently unstable due to conflicts arising mainly from cultural differences of the two or more partners involved (Emarrilli, 1990). Through mergers and acquisitions companies invest in another country and retain total ownership. This provides the fastest way of conquering a market but it is very prone to challenges presented by existing entry barriers in the particular market. Mergers & acquisitions are thus very risky and expensive approaches given that the multinational enterprise may not have any experience in that particular foreign market leading to costly undertakings.

2.6 Challenges to Internationalization

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

Koch (2001) suggested that market selection and entry mode choices are determined by several internal factors such as firm resources, the strategic concerns, foreign business experience and networking, and external factors including target market potential and risk, and similarity between home and host markets. In the study of Malaysian multinational companies (MNCs), Ahmad and Kitchen (2008) suggest that international expansion of these firms is affected by ownership advantage factors such as technological capability and business networks. Presence in the market has been the driving traditional reason although other reasons such as resource seeking, market
seeking, establishment of greater presence in the market has also been identified as critical stimuli factors (Gregoriou, 2009).

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

A research by Aselm (2004) concluded that small firms suffer more frequently from financial constraints than bigger firms, but financial conditions have no strong effect on internationalization. Further, labour market constraints constitute a more severe barrier to foreign activities than financial constraints. A labour force being covered by collective bargaining agreements particularly impedes international activities.

OECD (2009) identified limited firm resources, cultural differences, lack of international contacts as well as lack of requisite managerial knowledge about internationalization as being critical constraints to internationalization. These resource limitations, especially of a financial kind, seem particularly prevalent among smaller, newly internationalizing enterprises.
Table 2. Show some barriers to internationalization ranked by Member Economies using the top ten ranking method.

<table>
<thead>
<tr>
<th>Weighted factor</th>
<th>Description of barrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inadequate quantity of and/or untrained personnel for internationalization</td>
</tr>
<tr>
<td>2</td>
<td>Shortage of working capital to finance exports</td>
</tr>
<tr>
<td>3</td>
<td>Limited information to locate/analyze markets</td>
</tr>
<tr>
<td>4</td>
<td>Identifying foreign business opportunities</td>
</tr>
<tr>
<td>5</td>
<td>Lack of managerial time to deal with internationalization</td>
</tr>
<tr>
<td>6</td>
<td>Inability to contact potential overseas customers</td>
</tr>
<tr>
<td>7</td>
<td>Developing new products for foreign markets</td>
</tr>
<tr>
<td>8</td>
<td>Unfamiliar foreign business practices</td>
</tr>
<tr>
<td>9</td>
<td>Unfamiliar exporting procedures/paperwork</td>
</tr>
<tr>
<td>10</td>
<td>Meeting export product quality/standards/specifications.</td>
</tr>
</tbody>
</table>

Source: Adopted from OECD (2009)

Julian (2009) in a study conducted in Australia on "The empirical link between entry mode selection and barriers to internationalization" made some relevant findings. It was concluded that venture management characteristics, distribution chain access, foreign practices incompatible with domestic business, adapting to foreign market needs and foreign market attractiveness, as barriers to internalization, were the most significant determinants of entry mode selection for direct exporters, joint ventures, contract manufacturers and wholly-owned subsidiaries.

Wang, Boateng and Hong (2007) in their study "What Drives Internationalization of Chinese Firms: Three Theoretical Explanations", demonstrated that industrial and institutional environments vary considerably across countries but the study noted that
the unique role of government in terms of governments’ policy action can act as a barrier to internationalization if the policies are too restrictive.

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

Non-tariff barriers are rules, regulations and bureaucratic red tape that governments use to delay or preclude the purchase of foreign goods e.g. slow processing of business permits ‘buy local policy’ and establishment of quality standards that exclude foreign producers among others. Some governments put in place Foreign Investment Controls (FIC) (Erramilli, 1990). These put limits on Foreign Direct Investment (FDI) or the transfer or remittance of funds. These include: requiring foreign investors to take minority ownership position, limiting profit remittance, prohibiting royalty payment thus preventing capital flight among others. International price fixing occurs when a host of international firms fix prices or quantities sold in an effort to control prices. This is known as a cartel – best example being OPEC (Organization of Petroleum Exporting Countries).

Sometimes a tariff is imposed on imported goods. A tariff is a tax on goods that are shipped internationally – the most important form is the import tariff levied on goods imported into the country. Export tariff is levied on exported goods. Governments typically use duties to generate revenue and to protect local industry. Duties are the most commonly used form of tariff.
2.6.1 Cultural Challenges

Cultural environment include values, beliefs, customs, languages and religions. Unlike in the domestic markets where cultural tastes are shared, in the international markets, cultural differences require serious considerations as they affect taste and consumption trends. There is a general agreement among researchers that firms prefer to invest in markets exhibiting near and similar cultures to the home country (Johnson and Vahlne, 1977). However, some firms will successively enter markets at an increasingly cultural distance from the home country due to specific competitive advantages (Eramilli, 1990).

Rowe et al (1994), define culture as the total sum of shared values, attitudes, beliefs, norms, rituals, expectations and assumptions of people in an organization or society. According to Alan, Rugman and Richard, Hodgetts (2003), culture is the acquired knowledge that people use to interpret experience and to generate social behavior. They further note that culture is shared by members of a group, organization or society and form the attitudes and values that shape individual members of the group. According to Thompson, J (2003), when a company is operating in the international markets where various cultural issues are at play certain specific organization cultures, if not checked, may act as bottlenecks. Cultural similarities encourage confidence and enhance universality of tastes that make products more appealing to the target foreign market. When planning the transformation to multinational status, it is important to identify such cultures and attempt to change them (Thompson, J 2003). But Burnes (2000) differs. He argues that changing routines and cultures can be difficult; instead he says that an organization should be restructured and people placed in new roles and relationships from which new cultures will develop to match cultures prevailing in the international arena. Some of the most important organizational cultural beliefs are: belief in supremacy of customers, superior quality of products, being the best and importance of details among others (Thompson, J 2003).

Johnson and Scholes (2002) also refer to culture as routines which give an organization or society a competitive advantage over other organizations or societies. Pearce and Robinson (2003) define culture as the set of important assumptions, often unstated, that members of an organization or community share in common. It is an
intangible, yet ever present, theme that provides meaning, direction and the basis of action. Culture can be looked at as the culture of the organization and the culture of the target foreign market.

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

Thompson, J (2003) note that an appropriate and cohesive culture can be a source of competitive advantage for an organization as it promotes consistency, co-ordination & controls and reduces uncertainty while enhancing motivation and organizational effectiveness. On the other hand an incoherent organization culture can be a great bottleneck to the implementation of organizational strategies. The culture of an organization will need to be changed to match operating environments (Thompson, J 2003). Kotter (1996) noted that truly adaptive firms, with adaptive cultures, are awesome competitive machines. They produce superb products and services faster and better even when they have fewer resources. The rate of organizational learning is dependent on culture while the content of organizational learning fundamentally influences culture. Traditional organization structures, particularly in local enterprises like KenolKobil, were mainly hierarchical (Musyoka, 2011). In these kinds of structures, decision making is bureaucratic and slow. Any meaningful transformation process will almost often lead to the change of organization structure from
hierarchical to somehow flat structures with several constructive interrelationships between roles (Johnson and Scholes 2002).

Various elements of culture significantly affect how business is conducted in various parts of the world. Geert Hofstede and Fons Trompenaars as quoted in Alan Rugman (2003) undertook various studies to evaluate the linkages of elements of culture. They concluded that due to cultural influences businesses are conducted differently in different parts of the world. Managers of multinational companies must therefore understand the various cultures of the markets in which they operate and deliver products or services that conform to the prevailing cultural norms and practices. Culture influences management styles, type of work attitudes and time management among other issues especially in mergers & acquisitions where there are incidences of cultural conflicts arising from two radically opposed cultures. Culture helps to explain why behaviours that are regarded as unethical in one country are socially acceptable in another country.

2.6.2 Political Challenges

Politics as the art of governing is also important in promoting business and ensuring that local firms gain or maintain dominance in certain market areas (Moore, 2003). Erramilli, (1990) note that business is conducted in societies governed by political ideologies which are, almost always, intertwined with economic philosophy. Political systems dictate fundamental economic themes under their control. There are two main political systems namely democracy (rule by majority) and totalitarianism (rule by minority). According to Alan Rugman, (2003), political systems typically create the infrastructure within which the economic system functions through policies and regulations. Certain import regulations such as high tariffs or low quota limits can encourage investment. Also governments may enact laws that ban certain types of investment outright e.g Japan is contemplating discontinuation of nuclear energy. Political systems thus create the necessary environments that can promote or inhibit business and ensure sustained economic growth. Political leadership sets policies, regulations, concessions and ensures stability & security that impact directly on business performance (Hill and Jones, 2003). Political leadership normally ensures that local firms gain or maintain dominance in the domestic market while simultaneously propping them up against opposing barriers in the foreign markets.
Quinn (1991) observed that broadening political support is a critical, essential and conscious proactive step in major strategy implementation. According to Moore (1992) implementation of strategic decisions like internationalization looks up to politics for three reasons: It is in the realm that managers must search to discover what purpose are deemed publicly valuable; second, political institutions grant managers resources they need to accomplish their operational functions and third, it is politics and law that public managers are both theoretically and practically accountable.

Public managers face decisions which are strategically important to their organizations but potentially beyond their own individual power to decide, and such require political management. International corporate Managers must therefore negotiate with political regimes to have their plans legitimized and carried out as policies for the government (Moore, 2003). At the organization level, stakeholder support is critical for transformation programs such as internationalization process. However, because of many stakeholders with varied interests and power, it is difficult to achieve universal support, leading to internal organization politics. Hill and Jones (2001) see organization politics as tactics that strategic managers and stakeholders engage in to obtain and use power to influence organization goals and transformation strategy and structure to further their own interests. In this political view of decision making, obstacles to change are overcome and conflicts over goals are settled by compromise, bargain and negotiation between managers and coalition of managers and by outright use of power. Quinn (1991) recommended broadening political support for emerging new trusts as an essential and conscious proactive step in internationalization. Specifically, stakeholders who wield political power must support internationalization program if it is to succeed.

### 2.6.3 Legal challenges

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

2.6.4 Role of Regional Economic Trading Blocs

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

Regional economic integration led to the creation of regional markets which have influenced entry into regional & international markets. These foster regional economic competitiveness through open markets and harmonize fiscal policies which enhance internationalization (Boddewyn, 2000). By co-operating, nations within a common geographic region connected by cultural, historical, linguistic, economic or political factors can gain mutual advantages. Through integration countries expand markets size, achieve scale economies, enhanced productivity and attract Direct Foreign Investment (Boddewyn, 2000). However, greater competition in the domestic market drives companies into more direct confrontation reducing their effectiveness in the international market (Mugo, 2008). A strong presence overseas can be seen as a strong entry barrier (Friedman, 1999). By tapping into wider and bigger markets, international sales can increase scale economies and deter entry into the same market. Substitute products or services emanating from the trading bloc easily access the international market further compounding competition. Some regulations in the
trading blocs offering quotas and proportionate tariffs act as barriers to internationalization. For example, Kenyan goods entering the Tanzania market attract 15% duty while Tanzanian goods attract only 10% (Musyoka, Kimani, 2011).

2.7 The Conceptual Framework

Independent variables

- Cultural challenges
  - Language
  - Religion
  - Taste etc

- Political challenges
  - Political instability
  - Policies
  - Regulations

- Legal challenges
  - Protection regimes

- Role of regional economic trading blocs
  - Tariffs
  - Competition
  - Non-tariff barriers

INTERVENING VARIABLES
- Technology
- HR capacity
- Strategies

Dependent variable

Challenges to Internationalization of KenolKobil

Figure 2: conceptual

Source: Researcher
3.1 Introduction

This chapter describes the research methodology that was adopted to achieve the objectives of the study. It presents a description of the method used to collect, analyze, present and interpret data. The methodology used depends on the kind of project in question and the parameters under research. The various sections include the research design, sampling procedure, data collection techniques & procedure, data analysis and presentation.

3.2 Research Design

This research was a case study of KenolKobil (K) Ltd. It was aimed at analyzing the challenges to internationalization experienced by KenolKobil as it underwent the process of internationalization. Kothari (1990) and Young (1960) concur that a case study is a very powerful form of qualitative analysis that involves a careful and complete observation of a social unit. It allows for an in-depth analysis of various distinct characteristics within the social unit and how they contribute to the relationship that exists between the social unit and both its internal and external environment. This design enables the use of both qualitative and quantitative approaches which is exploratory, descriptive and contextual in nature.

3.3 Data Collection Instruments

The choice of a particular method of empirical research depends on the nature of the research problem and the types of data needed for analysis. However, mostly both qualitative and quantitative data are required to come up with a more comprehensive data (Mbatia, 2006). In this research, data was collected using self-administered questionnaire and personal interviews.

3.4 Population of the Study

The research targeted employees of KenolKobil Limited. However due to limited resource of time and finance only employees of KenolKobil Limited based at the Nairobi headquarters and regional headquarters in Uganda and Tanzania were
targeted. The Nairobi office & headquarters being a fair representation of the entire profile of employee base and findings can easily be replicated in other countries where the company operates. The table below shows the sample population of study.

Table 3.0: Population of the Study

<table>
<thead>
<tr>
<th>Category/Region</th>
<th>Population frequency</th>
<th>Percentage</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>190</td>
<td>79</td>
<td>57</td>
</tr>
<tr>
<td>Uganda</td>
<td>30</td>
<td>12.5</td>
<td>9</td>
</tr>
<tr>
<td>Tanzania</td>
<td>20</td>
<td>8.5</td>
<td>6</td>
</tr>
<tr>
<td>Total:</td>
<td>240</td>
<td>100%</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: Researcher

3.5 Sample Design
Stratified random sampling method using a ratio of 0.3 was employed. Stratified sampling enables the researcher to target specific units in the sample space where required information is concentrated. Internationalization is a complex matter and not all employees of KenolKobil were expected to have the desired information. Due to limited resources of time and finance only senior management employees of KenolKobil based in Nairobi at ICEA building were targeted. The questionnaire was administered mostly to senior management and marketing staff based at the Nairobi headquarters in Kenya and regional offices in Uganda and Tanzania. However, top management and heads of strategic business units were targeted most. About seventy two (72) employees were targeted. The table below shows the number of respondents who were targeted in the organization.
### Table 3.1 Sampled Designed

<table>
<thead>
<tr>
<th>Category/Region</th>
<th>Population frequency</th>
<th>Sample ration</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>190</td>
<td>0.3</td>
<td>57</td>
</tr>
<tr>
<td>Uganda</td>
<td>30</td>
<td>0.3</td>
<td>9</td>
</tr>
<tr>
<td>Tanzania</td>
<td>20</td>
<td>0.3</td>
<td>6</td>
</tr>
<tr>
<td>Total:</td>
<td>240</td>
<td></td>
<td>72</td>
</tr>
</tbody>
</table>

Source: Researcher

### 3.6 Data Collection

Cooper and Schindler (2001) noted that a case study research design requires several sources of information for purposes of data verification and comprehensiveness. Both primary and secondary data were used in this study. Primary data was collected through questionnaires and personal interviews. The researcher administered the interviews personally where possible. The questionnaires were distributed by a multi-approach mechanism e.g. drop and pick, e-mail and self-addressed envelopes. Secondary data was collected from documented literature e.g. company journals, annual financial reports and other relevant literature.

### 3.7 Data Analysis

The data collected was analyzed using descriptive statistics e.g. frequency distribution, bar graphs and tables. The data was then grouped according to various themes of the challenges to internationalization of firms. Contents were then manually compared to determine the extent to which it corroborates or contradicts expected results. Findings were then be summarized in a report, analyzed, discussed and conclusions made.

### 3.8 Testing of validity & reliability of data collection instruments

Reliability is the measure of the degree to which a research instrument yields consistent results or data after repeated trials. Validity is the accuracy and
meaningfulness of inferences which are based on research results. To avoid approaching respondents twice, the Equivalent-Form Technique was used to test for the validity of data collection instruments.
4.1 Introduction

This chapter presents the data analysis and interpretation from data that was collected during the research study. The main objective of the study was to investigate on challenges to internationalization of firms in the petroleum industry in Kenya with special reference to KenolKobil Ltd. The research was conducted on a sample of seventy two (72) employees of KenolKobil Nairobi headquarters and regional offices in Uganda and Tanzania to which questionnaire was administered and interviews conducted. Out of the issued questionnaires, only 68 were returned duly filled in making a response rate of 94.4% which was sufficiently representative of the target population.

4.2 Region and Designation

4.2.1 Region

The respondents were asked to show the region where each of them came from. The study results are shown in figure 4.1 below.

Figure 4.1: Region

![Region](image)
The results presented in figure 4.1 show that a large proportion of the respondents (80%) came from Kenya, 13% were from Uganda while 7% were from Tanzania. This is mainly because the Nairobi headquarters is closer to the researcher, who is based in Nairobi, and it was easier to make follow-ups on issued questionnaires.

4.2.2: Designation

The respondents were asked to indicate their job designations. The study results are shown in figure 4.2 below.

**Figure 4.2: Designation**

![Bar chart showing job designations](image)

Figure 4.2 above shows that most respondents (25%) were regional managers, 20.8% of the respondents were in operations, 12.5% were in projects management, 11.1% were depot managers, 11.1% were sales managers 9.7% were non-fuel products managers, 5.6% were distribution managers while 4.2% were finance managers.

4.3: Internationalization

4.3.1: Involvement in the internationalization process of the company

The respondents were asked to indicate whether they were involved in the internationalization process of the company. The study results are shown in figure 4.3 below.
The study results in figure 4.3 above show that a significant number of the respondents (84%) were involved in the internationalization process of the company. 16% of the respondents indicated that they were not involved in the internationalization process of the company.

4.3.2: Role played in the internationalization process

The study sought to establish the role played by employees in internationalization process. The study results are shown in figure 4.4 below.
The study results show that majority of the respondents (29.2%) were involved in product promotion, 25% were involved in fuel distribution, 19.4% were involved in regional promotion of products, 12.5% were involved in Market surveillance, 9.7% were involved in promotion of non fuel products while 4.2% were involved in financial management. From these results it can be deduced that internationalization process is primarily a marketing function but supported by all other functional organization units.

4.3.3: Employee involvement in the internationalization process

The respondents were asked to indicate whether all staffs in the company were involved in the internationalization process. The study results are shown in figure 4.5 below.

Figure 4.5: Employee involvement in the internationalization process

Majority of the respondents (74%) indicated that all employees were involved in the internationalization process of KenolKobil, 19% indicated that they were not involved while 7% were not aware of their involvement. This implies that the success of any internationalization process requires greater involvement of employees.
4.3.4: Support for the Internationalization process (by the CEO)

The respondents were asked to indicate whether the top management (CEO) supported the Internationalization process. The study results show that the CEO was very supportive of the process as all the respondents indicated that he supported the process of internalization. Top management support is critical for the success of internationalization process.

4.3.5: Challenges to internationalization process

Table 4.1: Various challenges to internationalization

Respondents were asked to rate, on a scale of 0-10, the various challenges to internationalization. The study results are presented in a descriptive statistical table as shown in table 4.1 below.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>2.3568</td>
<td>0.9576</td>
</tr>
<tr>
<td>Politics</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>9.8067</td>
<td>0.3695</td>
</tr>
<tr>
<td>Legal factors</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>9.0342</td>
<td>0.6235</td>
</tr>
<tr>
<td>Role played by regional economic trading blocs</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>4.3658</td>
<td>0.6587</td>
</tr>
<tr>
<td>Economic</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>1.3528</td>
<td>0.3256</td>
</tr>
<tr>
<td>Strategy of the organization</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>5.0865</td>
<td>0.5362</td>
</tr>
<tr>
<td>Policies of the organization</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>7.3265</td>
<td>0.3658</td>
</tr>
<tr>
<td>Availability of financial resources</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>8.9027</td>
<td>0.3172</td>
</tr>
<tr>
<td>Technology available</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>7.9125</td>
<td>0.4581</td>
</tr>
<tr>
<td>Human resource capacity</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>8.5120</td>
<td>0.6241</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>4.3032</td>
<td>0.5872</td>
</tr>
<tr>
<td>Globalization</td>
<td>68</td>
<td>0</td>
<td>10</td>
<td>3.2685</td>
<td>0.5368</td>
</tr>
</tbody>
</table>

The research findings presented in table 4.1 above show that major identified challenges to Internationalization process include politics, Legal factors, availability of financial resources, human resource capacity and available technology. All these factors were represented by means ranging from 7.5 to 10. The other main challenge
was organizational policies represented by a mean of 7.3265. Other challenges in the range of 4-5 included Machinery & equipment, role played by existing regional economic trading blocs and the organization strategy. Minor challenges facing Internationalization process include Economics, culture and globalization as these were represented by means ranging from 1.3-5.

4.3.5: Other challenges to Internationalization process

The respondents were asked to indicate the other challenges that could be facing the process of internationalization. The figure 4.6 below shows the study results.

**Figure 4.6: Other challenges to internationalization**

The study findings show that other main challenges to internationalization include competition with 50% indicating it. 19.4% indicated Market protective regimes, 16.7% indicated Price fluctuations, 8.3% indicated Government policies & bureaucracy while 5.6% indicated that there were difficulties in inter-boarder movement.

4.4: Cultural Challenges

4.4.1 Cultural challenges on internationalization of KenolKobil

The respondents were asked to indicate whether cultural challenges had affected internationalization of KenolKobil. Figure 4.7 below shows the study results.
The results presented in figure 4.7 above shows that 54% of the respondents indicated that cultural challenges had effected internationalization of KenolKobil while 46% indicated that cultural challenges had no effects on internationalization.

4.4.2 Extent to which cultural challenges affect internationalization

The respondents were asked to indicate the extent to which cultural challenges affected internationalization. Figure 4.8 below shows the study results.
The results presented in figure 4.8 above show that majority of the respondents 42% showed that cultural challenges affected internalization to a great extent. 28% indicated that it affects to a very great extent, 12% indicated that it affects to a low extent, 10% indicated moderate extent, while 8% indicated that it affected internationalization to a very low extent.

4.4.3: Cultural factors that are challenges to Internationalization of KenolKobil

The respondents were asked to rate (in a continuum of 1-4) the various cultural aspects (factors) that act as challenges to internalization in terms of how it has challenged internationalization of KenolKobil. Results are shown in table 4.2 below

<table>
<thead>
<tr>
<th>Table4.2: Factors challenging Internationalization of KenolKobil</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td>------------------</td>
</tr>
<tr>
<td>Religion</td>
</tr>
<tr>
<td>Language</td>
</tr>
<tr>
<td>Customs</td>
</tr>
<tr>
<td>Material goods</td>
</tr>
<tr>
<td>Beliefs</td>
</tr>
<tr>
<td>Values</td>
</tr>
<tr>
<td>Norms</td>
</tr>
<tr>
<td>Taste</td>
</tr>
<tr>
<td>Ethics</td>
</tr>
<tr>
<td>Aesthetics</td>
</tr>
</tbody>
</table>

The results in table 4.2 above show that majority of the respondents indicated that Language, religion and material goods were factors greatly affecting internalization of KenolKobil, with a mean of 3.2658, 3.8012 and 3.9658 respectively. The factors affecting moderately were customs and taste with a mean of 2.5481 and 3.0358 respectively. Values, beliefs and norms somehow affected the process.
4.4.4 Language as a challenge to internationalization of KenolKobil

The respondents were asked to indicate how language is a challenge to internationalization of KenolKobil. Figure 4.9 below shows the study results.

**Figure 4.9: Language as a barrier to internationalization**

![Language Barriers Graph]

The results shown in figure 4.9 above show that majority of the respondents 83% indicated that language presented communication barriers while 17% indicated that they faced language challenges in terms of nuance.

4.4.5 Religion as a challenge to internationalization of the company

The respondents were asked to indicate how religion is a challenge to internationalization of the company. Figure 4.10 below shows the study results.
Majority (80%) of the respondents indicated that religion influences taste, 79% indicated that it influences attitude, 64% indicated influence in consumption trends while 45% indicated influence in acceptability of goods and products.

### 4.4.6 Aspects of culture that are major challenges to internationalization

The respondents were asked to indicate how (in a continuum of 0-5) the following aspects of culture are a challenge to internationalization. Table 4.3 below indicates the study findings.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tastes</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>4.3265</td>
<td>0.8625</td>
</tr>
<tr>
<td>Cultural parities / diversity</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>3.9658</td>
<td>0.5329</td>
</tr>
<tr>
<td>Material goods</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>4.8572</td>
<td>0.4218</td>
</tr>
<tr>
<td>Language</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>4.5864</td>
<td>0.4682</td>
</tr>
</tbody>
</table>

The study findings above revealed that majority of the respondents indicated that material goods and language are aspects of cultural factors that affect internationalization greatly with means of 4.8572 and 4.5864 respectively. Tastes and
cultural parities or diversity aspects also affect internalization greatly with a mean of 4.3265 and 3.9658 respectively.

4.4.7 Overcoming cultural challenges to internationalization

The respondents were asked to indicate how the identified cultural challenges to internationalization were overcome. Figure 4.11 below shows the study results.

**Figure 4.11: Overcoming cultural challenges**

The study results presented in figure 4.11 revealed that majority (43%) of the respondents indicated that cultural challenges were overcome by adapting & cultural integration, 28% indicated that they were overcome by innovations in packaging and aesthetics, 18% indicated product modification while 10% indicated they were overcome through training.

4.5 Political Challenges

4.5.1 Political factors as challenges to internationalization

The respondents were asked to rate (in a continuum of 0-5) how various political factors were a challenge to internalization. Table 4.4 below indicates the study findings.
Table 4.4: Political challenges:

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protective policies</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>4.0326</td>
<td>0.6589</td>
</tr>
<tr>
<td>Political instability</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>3.9256</td>
<td>0.4256</td>
</tr>
<tr>
<td>Bureaucratic procedures</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>4.3625</td>
<td>0.6854</td>
</tr>
<tr>
<td>Tariffs</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>3.5629</td>
<td>0.9785</td>
</tr>
<tr>
<td>Insecurity</td>
<td>68</td>
<td>0</td>
<td>5</td>
<td>4.6532</td>
<td>0.6358</td>
</tr>
</tbody>
</table>

Table 4.4 above indicates that the respondents were in agreement that all the listed political factors were a challenge to internalization. Insecurity, bureaucratic procedures and protective policies were indicated as major challenges with means of 4.6532, 4.3625 and 4.0326 respectively. Political instability and tariffs are equally major challenges with means of 3.925 and 3.5629 respectively.

4.5.2 Overcoming political challenges to internationalization overcome

The respondents were asked to indicate how political challenges were overcome. Figure 4.12 below shows the study results.

**Figure 4.12: Overcoming political challenges**

![Bar chart showing the percentage of how political challenges were overcome](chart.png)
Figure 4.12 above shows that majority of the respondents (35%) indicated that political challenges were overcome through negotiations, 34% indicated Lobbying, 28% indicated diplomacy while 2% indicated that they overcome through networking.

4.6 Legal challenges

4.6.1 Legal challenges to Internationalization

The respondents were asked to indicate the legal challenges to internationalization. Figure 4.13 below shows the study results.

**Figure 4.13: Legal challenges**

The results show that majority of the respondents (39%) indicated that the main legal challenges were bureaucratic procedures and provision for local ownership with 34% indicating it. 15% indicated that enforcement of proprietary rights, 9% indicated labour market protected by collective bargain agreement while 3% provision for local content.

4.6.2 Overcoming the legal challenges to internationalization

The respondents were asked to indicate how they overcome the legal challenges to internationalization. The figure below shows the study results.
The study shows that majority 32% of the respondents indicated that legal challenges were overcome through negotiations. 27% indicated that they were overcome by Joint ventures, 21% indicated mergers and acquisitions, 12% indicated lobbying while 8% indicated product modification.

4.7 Regional economic trading blocs

4.7.1 Challenges arising from regional economic trading blocs

The respondents were asked to indicate challenges arising from regional economic trading blocs (e.g. COMESA, EAC). Figure 4.15 below shows the study results.
Figure 4.15 above indicates that existing trade tariffs was a major challenge as majority of the respondents (28%) indicated it. Existing trade quotas was the second major challenge represented by 24% of the respondents. Other challenges include increased competition, Lack of common monetary policy and Multi-level procedures in order of their percentages which were 18%, 10.2%, 10% and 8% respectively.

4.7.2 Overcoming challenges arising from existing regional economic trading blocs

The respondents were asked to indicate how challenges arising from regional economic trading blocs were overcome. Figure 4.16 below shows the study results.

Figure 4.16: Overcoming challenges arising from existing regional economic trading blocs

![Overcoming challenges in Regional economic trading blocs](chart)

Figure 4.16 above shows that challenges arising from existing regional economic trading blocs were overcome through negotiations (38%), diplomacy (26%), lobbying (24%) and through product differentiation (12%).

4.7.3 Other challenges to internationalization of the company.

The respondents were further asked to indicate other challenges affecting internationalization of the company other than political, cultural, legal and those
associated with regional economic trading blocs. The study results are shown in figure 4.17 below.

**Figure 4.17: Other challenges to Internationalization process**

![Bar chart showing other challenges to internationalization process](chart)

The study findings in figure 4.17 above show that the respondents indicated that the other main challenges affecting internalization of the company other than cultural, political, legal, and role of regional economic trading blocs as: price fluctuations (27%), lack of foreign market knowledge (22%), conflicting work ethics and norms (19%), high cost of innovation (18%) and product life cycle (14%).
5.1 Introduction

This chapter presents summary of findings as discussed in chapter four and interpretations of the data analysis, conclusions and recommendations based on the findings.

5.2 Summary of findings

The main objective of the study was to identify challenges to internationalization of firms in the petroleum industry in Kenya as experienced by KenolKobil limited. The study focused on responses to four major questions relating to challenges to internationalization of firms in respect to cultural, legal, political and hurdles presented by existing regional economic trading blocs.

On whether cultural challenges affect internationalization, majority of respondents were in agreement that culture affects internationalization to a great extent. According to the study findings, major challenges to internationalization relating to culture were noted to be language, religion, cultural diversity, tastes, norms, ethics and nature of material goods. Adapting to foreign market needs adjustments in cultural dimensions of the product usage in the foreign markets in terms of language and cultural differences in order to meet foreign customer preferences. When a firm enters a foreign market, local competition will inspire the firm to adapt its strategies to accommodate the needs of the local market in terms of products that better meet the local needs and tastes - which are primarily cultural factors. Thus the need to adapt products to meet foreign customer preferences and tastes could be and still is a major challenge to internationalization of firms. The study further found out that these cultural challenges can be overcome through cultural integration (adaptation), aesthetics & packaging, product modification and training.

On political issues as challenges to internationalization of firms, all the respondents agreed that political factors affected internationalization of KenolKobil. The study found out that some of the political challenges include insecurity, protective government policies in host countries, bureaucratic procedures, restrictions or delays
in granting work permits in host countries, political instability, high tax regimes which increases costs of imported goods, political patronage of competitors, existing trade tariffs in the host countries and corruption. The study findings further revealed that political challenges can be overcome through negotiations, lobbying, diplomacy and networking including outright intervention by the ruling political executives.

Respondents were also asked to state whether legal challenges affected internationalization to which all the respondents agreed that legal factors affected internationalization of KenolKobil. According to the study findings, major legal factors that were a challenge to internationalization of KenolKobil include bureaucratic procedures, provision for product local ownership, enforcement of proprietary rights, labour market protected by collective bargain agreements, difficulty in registration of agreements & partnerships, malicious litigations emanating from established & disgruntled competitors in the foreign market, and provision for local content. Other legal challenges were noted to be lack of transparency & organization at the legislative level, complex procedures and formalities necessary for the establishment of companies with foreign capital, bottlenecks in approvals and licensing in host countries, restricted labour legislation and discretionary employment of foreigners and restrictions at various levels e.g. on the acquisition of properties and business premises. The study findings further revealed that legal challenges can be overcome through negotiations, entering markets via joint ventures, outright mergers & acquisitions, lobbying and product modification.

The respondents were further asked to state whether existing regional trading blocs (e.g. EAC & COMESA) presented challenges to internationalization of the company. All the respondents agreed that existing economic trading blocs had presented challenges to the internationalization of KenolKobil. The study findings found out that challenges presented by existing regional economic trading blocs include existing trade tariffs, existing trade quotas, increased competition due to accelerated movement of goods within the regions, lack of common monetary policy leading to currency value losses, multi-level procedures and provision for local content. The provision for local content was particularly difficult to achieve as petroleum products emanate from outside most of the member states. Other challenges identified include
lack of total commitment from all member countries, lengthy and cumbersome procedure involving wider consultations as well as conflicting legislations and policies among member countries. The respondents were further asked to state how the identified challenges were overcome. Majority of the respondent indicated that the challenges were overcome through negotiations, diplomacy, lobbying and product differentiation.

The respondents were further asked to state any other challenges identified during the internationalization of KenolKobil other than political, cultural, legal and role of regional economic trading blocs. The identified challenges include: oil price fluctuations in the international markets, lack of foreign market knowledge, poor transport and communication infrastructures leading to high cost of doing business, conflicting work ethics & norms, heavy taxation of petroleum products, lack of storage capacity, government price control of petroleum products in most countries, rivalry from established multinationals and high incidences of corruption among political executives.

5.3 Conclusion

From the study findings it can be concluded that cultural, political, legal and role played by regional economic trading blocs presented various challenges to the internationalization of KenolKobil. Cultural challenges included language, cultural diversity, religion, tastes, norms, ethics and nature of material goods. Political challenges to internationalization of KenolKobil included protective government policies in host countries, bureaucratic procedures, political instability, high tax regimes, political patronage of competitors, existing trade tariffs in the host countries and high incidences of corruption among political executives. Legal challenges included bureaucratic procedures, provision for product local ownership, difficulty in registration of agreements & partnerships, malicious litigations emanating from established & disgruntled competitors in the foreign market, lack of transparency & organization at the legislative level and bottlenecks in approvals and licensing for business establishment using foreign capital.
Challenges presented by regional economic trading block included existing trade tariffs, existing trade quotas, increased competition due to accelerated movement of goods within the regions, lack of common monetary policy, multi-level procedures, provision for local content lack of total commitment from all member countries, lengthy and cumbersome procedures involving wider consultations as well as conflicting legislations and policies among member countries. Other challenges to internationalization of KenolKobil included oil price fluctuations in the international markets, lack of foreign market knowledge, poor transport & communication infrastructures, heavy taxation of petroleum products, lack of storage capacity, government price control of petroleum products in most countries, rivalry from established multinationals and high incidences of corruption among political executives.

Internationalization is a dynamic process that is both firm and industry specific but the general case of the growth of KenolKobil Ltd as a firm is a useful overarching viewpoint from which to establish the particular features of any international expansion. With a better understanding of many single barriers to internationalization, there is need to prepare any company undergoing internationalization to mitigate against any challenges that it is likely to encounter in the global arena. The project has thus achieved its objectives of identifying the various challenges to internationalization of KenolKobil with respect to cultural, legal, political and hurdles presented by existing regional economic trading blocs.

5.4 Recommendations

From the research findings the following recommendation can be made:

- It is recommended that internationalizing firms should develop and nature adaptive cultures to enable them overcome the various cultural challenges.

- As observed from research findings, political challenges emanate from ineffective political environment. It is therefore recommended that governments should ensure prudent political management which provides the
necessary incentives for business growth devoid of corruption and political bottlenecks.

- It is recommended that governments should legislate supportive legal provisions that encourage fair business practices both locally and on the international platform as legal challenges present major barriers to internationalization of firms.

- Existing regional economic trading blocs, though formed to promote international business growth, can be a barrier to internationalization of a firm. It is therefore recommended that trade practices adopted by these bodies (particularly trade quotas and tariffs) should be inclusive and synergistic among all the member states.

5.5 Suggestion for further studies

Further studies need to be conducted to investigate the specific roles of both local and host governments in internationalization process of a company. In addition, further studies should be conducted to investigate challenges to internationalization on firms outside the petroleum industry to compare the research findings and develop a general benchmark of expected challenges to internationalization.
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Appendix 1: Letter of Introduction

11th September, 2012.

Alfred Onyango A.
P.O. Box 74105- 00200,
Nairobi, Kenya.
Tel: 0722 588 156

Human Resource Manager,
KenolKobil Ltd,
Nairobi, Kenya.

Dear Sir,

RE: PERMISSION TO CONDUCT RESEARCH IN THE ORGANIZATION

I am a student undertaking MBA program at Kenyatta University. I am currently conducting a research on Internationalization of firms in the petroleum industry in Kenya. I have selected your company as an area of study due to your company’s success in the Internationalization Markets.

I am requesting to be granted permission to collect data relevant to internationalization from your employees. I intend to use questionnaire to collect data as well as personal interview. Information collected will be treated in strict confidence and used for this research purpose only.

Thank you in advance.

Yours faithfully

Alfred Onyango A.
Appendix 2: Questionnaire

Section A: Introduction

Q1. Name (Optional)  

Q2. Region  
A. Kenya [ ]  
B. Uganda [ ]  
C. Tanzania [ ]

Q3. Designation  

Section B: Internationalization

Q5. Have you been involved in the internationalization process of the company?  
Yes [ ]  No [ ]

Q6. If yes, what role did you play?  
----------------------------------------------------------------------------------------------------------------------------------

Q7. Were all staff in the company involved in the internationalization process?  
Yes [ ]  No [ ]  Do not know [ ]

Q8. Was the internationalization process supported from the top (by the CEO)?  
Yes [ ]  No [ ]

Q9. Rank the following factors in a continuum of (0-10) as challengers to internationalization process (0- not a challenge, 1-3- Minor challenge, 4-5-Challenge, 6-7 - big challenge, 8-10- Major challenge).  

a. Culture [ ]
Section C: Cultural Challenges

Q11. Has culture affected internationalization of KenolKobil?
    Yes [ ]  No [ ]

Q12. If yes, to what extent?
    a. Very great [ ]
    b. Great [ ]
    c. Moderate [ ]
    d. Low [ ]
    e. Very low [ ]
Q13. Rate the following cultural factors in terms of how it has challenged internationalization of KenolKobil?

<table>
<thead>
<tr>
<th></th>
<th>Has not affected</th>
<th>Somehow affected</th>
<th>Affected</th>
<th>Greatly affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Religion</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Language</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Customs</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Material goods</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Beliefs</td>
<td>[ ]</td>
<td>[ ]</td>
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<td>[ ]</td>
</tr>
<tr>
<td>Values</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Norms</td>
<td>[ ]</td>
<td>[ ]</td>
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<td>[ ]</td>
</tr>
<tr>
<td>Taste</td>
<td>[ ]</td>
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<td>[ ]</td>
</tr>
<tr>
<td>Ethics</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Aesthetics</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>

Q14. How is language a challenge to internationalization of KenolKobil? (Tick as appropriate)
   a. Communication barriers [ ]
   b. Nuance [ ]
   c. Others (state) ........................................................................................................

Q15. How is religion a challenge to internationalization of the company? (Tick as appropriate)
   a. Influence taste [ ]
   b. Influence consumption trends [ ]
   c. Influence attitude [ ]
   d. Influence acceptability of goods/product [ ]
Q16. Rate the aspects of culture that are major challenges to internationalization

<table>
<thead>
<tr>
<th>Don’t affect</th>
<th>Sometime affect</th>
<th>Affects</th>
<th>Affects greatly</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

Tastes

Cultural parities / diversity

Material goods

Language

Others (State)---------------------------------------------------------------

Q17. How can the cultural challenges to internationalization be overcome? (Tick appropriate)?

a. Training [ ]

b. Product modification [ ]

c. Packaging and Aesthetics [ ]

d. Adaptation/ cultural integration [ ]

e. Others (State)---------------------------------------------------------------

Section D: Political Challenges

Q18: Rate the following political factors as challenges to internationalization (0- Not affect, 2- Sometimes affect, 3-Affects, 4-Greatly affect, 5-Very much affects)

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protective policies</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Political instability</td>
<td>[ ]</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
</tbody>
</table>
Q19: How were the political challenges to internationalization overcome?

a. Negotiations [ ]
b. Lobbying [ ]
c. Networking [ ]
d. Training [ ]
e. Diplomacy [ ]
f. Others -----------------------------------------------

Section E: Legal challenges

Q20. What were some of the legal challenges to internationalization of Kenolkobil? (Tick as appropriate)

a. Bureaucratic procedures [ ]
b. Provision for local content [ ]
c. Provision for local ownership [ ]
d. Enforcement of proprietary rights [ ]
e. Labour market protected by collective bargain agreement (CBA) [ ]

Q21: In your view what other legal aspects were challenges to internationalization?

---------------------------------------------------------------------------------------

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Q22. How were the legal challenges to internationalization overcome? (Tick as appropriate)

a. Mergers and Acquisitions [ ]
b. Joint ventures [ ]
c. Negotiations [ ]
d. Lobbying [ ]
e. Networking [ ]
f. Product modification [ ]
g. Others (State)-----------------------------------------------------------------------------------
   -----------------------------------------------------------------------------------------------

Section F: Challenges arising from regional economic trading blocks

Q23. In your view what are some of the challenges to internationalization arising from existing regional economic trading blocs? (Tick as appropriate)

a. Increased competition [ ]
b. Provision for local content [ ]
c. Existing trade tariffs [ ]
d. Existing trade quotas [ ]
e. Lack of common monetary policy [ ]
f. Multi-level procedures [ ]
g. Others (State)-----------------------------------------------------------------------------------------------
   -----------------------------------------------------------------------------------------------

Q24. How were the challenges arising from existing regional economic trading blocs overcome? (Tick as appropriate).

a. Product differentiation [ ]
b. Improvement of product quality [ ]
c. Negotiations [ ]
d. Diplomacy [ ]
e. Networking [ ]
f. Lobbying [ ]
g. Others (State)-----------------------------------------------------------------------------------
   -----------------------------------------------------------------------------------------------
Q25. Other than cultural, political, legal and the role of regional economic trading blocs, what other challenges to internationalization of the company would you identify?
Appendix 3: Interview Guide

1. What would you consider as cultural challenges to Internalization of KenolKobil?
2. How can the identified cultural challenges be overcome?
3. What would you consider as political challenges to Internalization of KenolKobil?
4. How can the identified political challenges be overcome?
5. What would you consider as legal challenges to Internalization of KenolKobil?
6. How can the identified legal challenges be overcome?
7. In your view what challenges are presented by existing regional economic trading blocs.
8. How can the identified challenges be overcome?
9. What other challenges would you identify other than cultural, political, legal and role played by regional economic trading blocks?