

**INTERNATIONALIZATION AND PERFORMANCE OF
KENYA COMMERCIAL BANK**

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DECLARATION

This research project is my work and it has not been submitted in any university for an award of merit. Any cited work of other scholars has been referenced as required.

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Date.....

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D61/77141/2015

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

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DEDICATION

This project is dedicated to my family for the encouragement to further my studies.

ABSTRACT

Internationalization has opened up markets and heightened competition among firms and businesses operating in countries that embolden free markets. Internationalization enables firms to tap into fresh markets take advantage of new opportunities; this widens the scope of the business resulting into increased sales and firm performance. Although there many benefits from internationalization process, a huge capital investment is required to achieve success in gaining entry in a new market. The main goal of this study was determining the influence of internationalization on performance of Kenya commercial bank. To achieve this objective, this study implementer a case study research design that enabled an in-depth investigation of internationalization process and its contribution towards performance. Raw data was collected by interviewing the four heads of departments these included Head of Business Development, Head of Marketing, Head of Operations and the Head of Finance. The decision to choose this group of interviewees was because they were directly in decision making concerning internationalization process and performance. Analysis of data was achieved through use of content analysis that entailed textual analysis and details regarding the study object. The study found that improved regional integration, business expansion into new markets, and venturing into fresh markets were identified as the major benefits that KCB gained from internationalization. As a result of internationalization process, KCB recorded an increase in: market share, profitability, and growth in deposits. The findings further revealed that inadequate skills by management, limited financial resources as well as poor incentives to invest in the foreign markets were the major barriers to the bank's speedy process of internalization. The study recommends that commercial banks should formulate strategies that improve the internationalization processes. The study is inapplicable to firms outside the banking sector or others banks because Kenya Commercial Bank was the only Kenyan ban involved in the study due to time and cost constraints. Additionally, some interviewees were unwilling to cooperate; some of the senior staff directed the junior staff to take the interviews on their behalf.

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ABBREVIATIONS AND ACRONYMS

ATMs	Automated Teller Machines
CBK	Central Bank of Kenya
EAC	East Africa Community
FDI	Foreign Direct Investment
FSAs	Firm Specific Advantages
KCB	Kenya Commercial Bank
LOF	Liability of Foreignness
MNCs	Multinational Corporation

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Firms in the developed and developing nations benefit from various measures implemented following increased level of globalization. These measures include high international integration and low trade barriers, which promote both domestic and international trade. In countries where the domestic market is limited, a chance to operate in the international market guarantees success for companies and improved economic growth. Companies that operate in the international market have greater access to a large market share compared to those that target domestic markets only. Large market share implies additional sales revenue and increased competitive advantage for organisations (Zekiri, & Angelova 2011).

This study is anchored on two theories namely, internationalization and location theories. Internationalization theory maintains that the approach employed by an organisation to expand its business in the global markets can be assessed mainly through outward foreign direct investment. Organisations internationalize to gain access to new markets and benefit from of specialized resources (Blomstermo & Sharma, 2003). Location theory holds that the choice of the location to produce by a MNC is driven by the accessibility of resources, transportation costs and trade barriers (Glatte, 2013).

The banking system is among the leading sectors that promote the economic growth and development in a country through the various roles. The roles include payment of checks drawn by clients, enabling various modes of payment to the customers and accepting deposits. Due to the vital roles that the banking system plays towards

achieving economic development in their countries, there are regulations that govern their activities. The regulations vary from nation to nation. The common regulation for the banks is that they must have minimum amount of money deposited with the central bank of the countries where they operate. This is because the primary aim of the financial institutions is to sell loans and operate customer accounts (Kamau, 2014).

1.1.1 Internationalization Process

According to Boojihawon and Acholonu (2013) expansion of businesses to the global markets necessitates a careful analysis and consideration. This is because it is risky especially when an MNC is seeking to invest in a developing country as compared to investing in a developed nation. There are several barriers that MNCs face for example cultural and psychological variations and difference in the level of geographic distances among others. These barriers are also referred to as 'liability of foreignness' (LOF) (Lin, Liu & Cheng, 2011). Although there are inherent barriers in investing and expanding into foreign markets, banks among other players in the world of business have devised strategies to internationalize (Narula, 2011). Firms targeting international market experience challenges associated with the external business environment. Some of these challenges include competition, changes in legal-political environment, economic factors, and changes in customer demands. Despite the challenges experienced by businesses in the international market, MNCs has continued to thrive.

Glaum and Oesterle (2007) indicate that firms internationalize in order to boost their performance and widen the scope of their target markets. MNC with prospects of investing in a new market conducts research and development to establish the market

needs and whether the firms can fit into the international markets. However, Peace (1992) argues that there are traditional views that firms can do better if they borrowed some of the practices used by firms' in foreign markets and implement them in their host countries. Kotabe, Srinivasan and Aulakh (2009) argue that these is not enough, MNCs requires resources that they might not have in their home country, they have to look beyond their borders and enter into markets where they can access such resources. On the other hand, Zekiri and Angelova (2011) argue that MNCs seek for more resources and assets in international markets to increase their ownership gains. MNCs from both developing and developed countries share common goals of enhancing their ownership advantages, expanding their business and access to specialized resources among others.

1.1.2 Organizational Performance

Performance can be defined as the ability of an organisation to make maximum utilization of its available resources such as knowledge and people to realize corporate goals and objectives (Neely, Adams & Kennerley, 2002). Organisations around the world are facing a hard time in developing cost-effective measures that can drive performance improvement without affecting performance negatively (Neely, 2005). A clear performance measurement definition enables managers to move in the right direction and to focus on important aspects of the organisation. The most quoted performance measurement definition is by Neely et al., (2002, p.13) who defines "performance measurement as the process of quantifying the efficiency and effectiveness of past actions". While this definition puts more emphasis on the effectiveness and efficiency, it is less likely to influence managers to stop and challenge their performance measurement systems since it provides a limited indication as to what they should quantify and why (Moullin, 2002).

Performance measurement can broadly be classified into financial and non-financial measures. Chatzoudes and Chatzoglou (2011) contend that performance measurement has evolved from purely financial performance measures such as return on investment, return on assets and return on capital employed. Non-financial measures include but not limited to; cost reduction, customer satisfaction, flexibility, quality, on-time delivery and reduced lead time. This aspect of organisational performance enhances flexibility.

1.1.3 Commercial Banks in Kenya

The Kenyan Commercial banks have experienced major transformations since the 1990s market liberalization. The banks are not highly profitable, a fact that is attributed to the oligopolistic nature of commercial banking sector in the country. Between 1995 and 2004, the institutions recorded an annual profit efficiency averaging at 65.6%, but there has since been a decrease. Apart from the oligopolistic nature of the banking sector in Kenya, the other factor that has reduced the profit efficiency of commercial banks is the inability to revive the macroeconomic factors that promote growth of the banking sector. However, the profitability of the banks is set to increase in the near future due to the adoption of new technology that has led to introduction of new products. Additionally, the increased competition in the sector will encourage efficiency and higher profitability of the commercial banks (CBK, 2016).

The new technology in the sector has led to the introduction of new products targeting various market segments. Through the segmentation, the banking sector is expected to experience increased efficiency in its business operations. The target market of the banking sector today differs from the 1990s, where it targeted the high-income

earners only. Kamau (2014) explains that the sector targets low-income earners today due to market diversity. However, the customer base for the banks in Kenya is still low despite efforts to reach all consumers regardless of their income level. There is a great opportunity for banks to tap the unexploited market both locally and in the neighbouring nations where some populations lack access to banking services.

1.1.4 Kenya Commercial Bank

Kenya Commercial Bank Group is also referred to as KCB; it is a financial service institution that operates within the African Great Lakes region. The bank has its headquarters in Nairobi, Kenya, with subsidiaries in Kenya, Tanzania, Uganda, Rwanda, Burundi, Southern Sudan and Ethiopia (KCB, 2016). KCB is one of the commercial banks that is licensed to work and operate in Kenyan boundaries by CBK. The bank face severe competition from its rivals, macroeconomic variables such as rates of interest, inflation, volatile exchange rates also make hard for the bank to survive. KCB has products and services that include but not limited to mobile banking, internet banking that enable customers to transact within and outside the country (Kamau, 2014).

It is worth noting that 82% of the banks shareholdings current rests with the public and private investors and the remaining shareholding is owned by the Kenya Government. The bank makes decision through public participation being a public institution. Today, the bank has expanded its network of branches to neighbouring countries to boost trade across East Africa and the entire East and Central Africa region through offering quality banking and financial services. Overall, the bank has 222 branches, 2396 agents and over 403 ATMs and 519 additional ATMS in partnership with Pesapoint and Kenswitcth. KCB is among the leading banks in

Kenya with the largest client base of more than 2 million retail and corporate customers. The bank assets are valued at KES. 220 billion and KES. 40 billion capital inform of shareholding (Kavoo, 2013).

1.2 Research Problem

Globalization has open up markets and intensified competition among firms and business that operate in nations that encourage free markets (Kotabe, Srinivasan, S & Aulakh, 2009). Internationalization enables firms to tap in new markets, opportunities and experiences and thus resulting into increased sales and firm performance. Although there several benefits derived from internationalization, entry into a new market requires huge resources and strategy.

Chin- Chun and Boggs (2007) posit that to successfully ventilate into new markets, an organisation must devise coping strategies to fit in an environment; this entails understanding the procedures and processes of doing business, market structures and establishing relationships with stakeholders; the government, suppliers and the customers. However, some firms have succeeded while others have failed.

The banking industry in Kenya is embracing internationalization following the removal of trade barriers by the East African community to ease business between countries (Versailles, 2012). This has enabled the banks to enhance their strategic positioning making it easier for them to open branches in the African region (EACS, 2014). Commercial banks need to strategize to gain successful market entry and thus increase their market segment, reduce risks, increase sales turnovers and improve overall performance. Kenya Commercial Bank is one of the leading commercial banks that have five branches in Sudan, Tanzania, Rwanda, Burundi and Uganda.

This is attributable to political stability, a favourable regulatory environment, tax laws and uniqueness of the bank's products and services.

Studies have been done globally and locally in relation to internationalization and performance: Johanson and Mattsson (2011) studied the factors influencing internationalization of firms in the service sector and the findings revealed that political stability, tax law and individual disposable income were the main factors led to successful entry of firms into new markets. Boojihawon and Acholonu (2013) explored the impact of internationalization on performance. The findings showed that internationalization contributed to increased sales and minimized risks through location diversification which resulted into improved performance. Lin, Liu and Cheng (2011) found a positive relationship was found between performance and internationalization when the firms Mwangi (2013) found that commercial banks were slow to internationalize their ventures. Migwi (2014) found that globalization enhance market entry of commercial banks in Kenya. Maina (2015) found that adoption of competitive strategies by commercial banks influenced bank performance. A limited focus has been given to internationalization and performance of commercial banks in Kenya. Therefore, this study seeks to find an answer to the question: what is the influence of internationalization on performance of Kenya Commercial Bank?

1.3 Research Objective

The main objective of this study is to determine influence of internationalization on performance of Kenya Commercial Bank.

1.4 Value of the Study

The study will be relevant to several stakeholders. The banking sector, Kenya government, researchers and other stakeholders will find the study findings worthwhile. The banking sector will learn the importance of internationalization and the strategies that commercial banks might adopt expand its market share and increase sales. Banking Practitioners will understand different approaches applied by firms to tap into new markets.

CBK might use the empirical findings in setting policies that provide a favourable environment to do business. This will enhance foreign market entry resulting into business growth and expansion. Thus, commercial banks can do business in the African region and beyond and contribute towards improved performance.

Scholars will learn about the theories supporting this study, their relevance and how they related to this study. In addition, they will understand the role of international business in enhancing performance. The findings realized in this study might be applied as a reference for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter has given a discussion concerning three important sections; they include an introductory paragraph providing an overview of the chapter, the theoretical basis and the influence of internationalization on performance. These sections have been discussed with regard to the objective of the study.

2.2 Theoretical Foundation

Discussed in this section is the history about the theories supporting this study, theoretical developments and their importance to the study. These theories include internationalization theory and Location theory.

2.2.1 Internationalization Theory

Internationalization theory helps analyse the behaviour of international businesses. Buckley and Casson (1976), Rugman (1981), and Hennart (1982) are among the scholars who developed this theory. It explains the reasons why multinational corporations exercise ownership over knowledge-based, intangible, and firm-specific advantages. Advantages associated with knowledge emanate from transactional cost economics in which externalities are resolved through organizational hierarchy that overcomes market failure. Rugman & Verbeke (2002) argue that other firm-specific advantages such as brand advantage, management of organizational competencies and skills are based on the efficiency of the management. The internalization theory holds that MNCs organize their activities in ways that develop and explore the advantages among other kinds of intermediate products. Internalization is regarded as a governance strategy that cushions companies against the adverse effects of market failure. Internationalization enables markets to take advantage of the available

knowledge and succeed in the external market. According Buckley and Casson (1976), MNCs are pressured to internalization by the market imperfections. Such organizations make FDI when the gains of exploiting FSAs are more than the costs incurred in engaging in international business.

The liability of foreignness is the cost of engaging in international business, as explained by Zaheer (1995). However, Hymer (1976) argues that the high cost of doing business is not the only factor affecting the profitability of businesses operating in the international market. The author explains that other barriers including high costs of information also affect business operations. Rival hosts may withhold important business information for the companies thus affecting the efficiency of their business decisions. In some cases, the businesses may be discriminated by the foreign and domicile governments. Eden and Miller (2004) contend that MNCs are also affected by the occurrence of unfamiliar hazards as well as other economic aspects such as foreign exchange risk

In line with this study, MNCs have a responsibility of deciding whether to invest in foreign countries directly or engage in export activities while producing at the home countries. The nature of competition in the business environment is among the factors that influence the profitability of MNCs. For the organizations to succeed in the international trade, they need to invest in environments where the competition is imperfect. It is also crucial for the company to consider transportation costs since high transport costs lowers firm profitability and makes it difficult to run a business. Additionally, the inability of a business to access crucial business information may also have an adverse effect on its establishment costs. Lastly, high transactional cost increases the probability of a MNC to consider internationalization through FDI.

2.2.2 Location Theory

Location theory explains why particular economic activities are located in specific regions. Based on the approach, agents make their decisions that favour their interests. For this reason, firms select locations that maximize their earnings while individuals are interested in locations that maximize their utility. According to Richards (1992), various factors including transportation cost, trade barriers, and availability of resources dictate the choice for location. As Beckmann (2009) explains, localized knowledge, trade barriers, competition, and price localization influence viability of entry into the market. Supporters of this theory argue that production operations of multinational companies are enhanced by the availability of a central production place.

The centralized production makes it easy for the companies to supervise their activities and establish relationships with the communities as well as the government. This creates an enabling environment for the business by ensuring that the company complies with the regulatory requirements. Glatte (2013) explains that potential discovery of minerals also influences the location of multinational corporations.

2.3 The Relationship between Internationalization and Performance

Jones's (2009) study on the process of internationalization showed the value of cross-border activity in improving business growth. More emphasis was given to high-technology firms that had externally networked and emerged successful in the local markets. Further, it was reported that service firms that had internationalized acquired knowledge, technology, skills and diverse resources that were utilized to promote growth and business success.

Bradley and O'Reagain (2011) indicated that many banks were considering internationalizing in order to achieve rapid growth. Growth was measured using performance where an export sale was the key indicator. The results further revealed that internationalization was positively related to performance. This view is supported by Burpitt and Rondinelli's (2010) who found that financial success was essential for initial exporting activities and this motivated firms to internationalized in the subsequent periods. Firms agreed that sales, profit and growth were critical factors to their internationalization. This showed that internationalization enabled firms to achieve financial success. Partial correlation results showed that both financial success and learning oriented variables were related to a likelihood of continued exporting by firms.

Yip, Biscarri and Monti (2009) tested the link between internationalization and performance on 68 mid-sized service firms in the United States and unearthed that firms that followed a systematic internationalization approach improved their performances. The six internationalization approaches included motivation, strategic planning, market research, market selection, mode of entry selection, planning for post entry problems and resource commitment.

Chatterjee and Lim (2011) explored the connection between external factors and internal factors of commercial banks in Singapore laying specialized focus on effectiveness of internationalization on performance. The results showed a positive association between internationalization and performance. Further, the findings unravelled that regionalization and internationalization were a positive combined pathway in achieving commercial banks success. Banks regionalized since markets

such as Malaysia and Indonesia were similar to that of Singapore in terms of cultural aspects making it easier for the banks to penetrate such markets.

Moini (2011) explored the impact of internationalization factoring in the aspect of export profitability of firms in Europe. He stressed that the level of profit was an important factor to consider by the management in their willingness to venture into export activities. Moreover, Parnell (2012) revealed that internationalisation provide additional channels for businesses to thrive which led to an improvement in performance. He concluded that organisational performance was previously assessed using accounting data such as growth in revenues, market share and return on investment; he thus recommended the use of qualitative measures to offer insights to organisational outcomes and processes.

2.4 Summary of the Literature Review and Knowledge Gaps

It can be deduced that internationalization expands the scope of operations and offers a wider access to products or service. Through internationalization firms are able to penetrate into new markets and exploit their full potential by enhancing the value of their products or services to suite diverse customer needs in different locations. Most MNCs perform their business roles within their home, region or internationally. Studies depict that through internationalization firms enhance their business growth, sales, financial success, market share, profits and intra-region and extra-region sales (Jones's, 2009; Bradley & O'Reagain, 2011; Burpitt & Rondinelli's, 2010; Yip, Biscarri & Monti, 2009; Chatterjee & Lim, 2011; Moini, 2011; Parnell, 2012; Vikas & Ajai, 2007). Although these studies agree that internationalization impacts positively on performance; most of them have been carried out in the international setting which is different from the local setting.

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Vikas and Ajai (2007) did an investigation on the internationalization and performance of Indian firms, the study explored the regional trend on internationalization of Indian manufacturing and service firms. Moderating effect of business group affiliation on the link between international and performance was tested. The results revealed that Indian outward FDI shifted from developing to developed countries over time. Firm performance of Indian firms was found to be positively related to the extent of internationalization. Further, service firms were

found to derive more benefits from internationalization as compared to manufacturing firms; which led to increased profits.

Stephen (2007) did a test on the regional impact of internationalization on performance of Asian service firms, a three-stage model was employed and the results unravelled that internationalization and performance relationship varied significantly on basis of whether internationalization was intra-regional or extra-regional.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives an introduction of the methodology which will be applied to accomplish the set goal. It has described the research design, tools for collecting data, procedures and data analysis.

3.2 Research Design

The current study adopted a case study design. Yin (1994) puts forth that a case study design entails conducting an in-depth research of the phenomenon in question. The design was highly effective in collecting accurate and novel data since the researcher collected first-hand information on the object under investigation. In addition to collection of unique and accurate data, the study design was preferred in conducting research concerning areas that lacked clear outcome. The selection of a case study design in the current study was because of its suitability in studying a single organization such as KCB in this case.

The comprehensiveness of data that was collected through case study design was enhanced by the use of multiple approaches such as observations, interviews, video records, and audio recording. The various data collection methods boosted the understanding of the involved cases and offered answers to research questions. This ensured validation of the assumptions held by interviewers and interviewees. The case study design allowed the researchers to describe the potential variables rightfully within the research context.

3.3 Data Collection

An interview guide was employed for collecting raw data. This data was got by interviewing four Heads of Departments; Head of Business Development, Head of Marketing, Head of Operations and the Head of Finance. The decision to choose this group of interviewees was because they were considered to have a deeper understanding of the international operations of the banks and how these operations impacted on the bank's performance. A face-to-face conversation or interview was conducted with the 4 Heads of Departments.

All the necessary arrangements and communication with the departmental heads was made prior in order to give sufficient time for the actual interview. This gave ample time for the interviewees to prepare and give responses to all the interview questions by the interviewer. Published data sources were availed for reference purposes. Additional information was obtained from internal publication of the organisation such as annual reports, company repository and quarterly bulletin.

3.4 Data Analysis

Content analysis was used in analysis data. According to Scott (1995), content analysis refers to the technique used to derive meaningful and replicable inferences through coding of textual data. An evaluation of textual data involved converting qualitative data into quantitative data. One of the merits of content analysis is that it gave accurate findings from first-hand information. The textual analysis ensured that the researchers understood social interaction by reviewing social interactions in communication through text transcripts. Text analysis was effective in providing cultural insights to the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter gives a discussion of findings that have been achieved through the use of content analysis. These findings have been described in line with the objective for this research. The sub-topics discussed in this chapter include the background information, internationalization process, the link between internationalization process and performance including the discussion of findings.

4.2 Demographic Information

Regarding the specific departments that the interviewees worked for, it was revealed that one of the interviewees worked for business development department, the second interviewee worked for marketing department, the third one worked for operations department and the last one, worked for finance department. All these departments were considered to deal with issues of internationalization processes and decisions as well as performance.

Concerning the managerial positions held by the interviewees, it was disclosed that one of the interviewee was a business development manager; the second interviewee was the assistant marketing manager, the third interviewee was the head of operations and the fourth interviewee was the finance manager. The decision to choose this category of interviewees was arrived after a careful consideration that they were directly involved in key decision making on issues of internationalization process and performance.

Regarding the duration that the interviewees had worked for KCB bank, it was One of the heads of department had worked in KCB for 15 years, some two departmental heads were in their 11th year and the rest were clocking their 9^h and 10th years. Hence, the study concluded that most of the employees had worked for KCB in a duration exceeding 10 years. This implied that they had attained a relevant experience on internationalization process and how it contributed towards improving performance. Thus, the interviewees had a better understanding of internationalization process and performance.

The interviewees were requested to indicate the duration which they had served in their present capacity and it was discovered that one of the interviewees had served for 11 years in his present capacity. Other two heads of department were in their seventh and ninth years in the present capacities and the last one was in her sixth year. It was revealed that the interviewees had a better understanding of how internationalization process contributed towards the bank's performance.

4.3 Internationalization Process

Interviewees were requested to note whether the bank had internationalized its operations, interviewees reported that KCB had internationalized its business operations and process in a bid to expand the bank's activities beyond the Kenyan borders. They argued that internationalization was gaining popularity among banks since most countries were increasingly becoming interconnected and more financially integrated; this was driven by potential gains that arose from financial internationalization. Kenya has made efforts to remove trade barriers and investment; this has translated into an increase in global competition for local players. Liberalization and advancement in technology is forcing banks to reconsider how to run their businesses.

Regarding what drove the bank into internationalization, the interviewees agreed that profitability was a key driving factor for any business. By internationalization, the bank was able to sell its products and services in a foreign market as a way of increasing its sales.

Currently the bank considered expansion in the Kenyan market difficult due to slow economic growth attributed to the political environment and the market saturation. The bank's management considered a country like Rwanda, a lucrative opportunity for business growth. Three of the interviewees noted that through internationalization KCB has greatly been exposed and this has led to the bank's global reputation and as such a local market leader. Profitability is highly influenced by competitiveness, and so through internationalization, the bank has been able to mitigate its costs in a competitive global market. The bank has gained access to international markets leading to increased scale of production and a decline in unit costs.

Secondly, interviewees were in agreement that the decision to internationalize by KCB was because of the changing international environment. KCB had been able to expand more opportunities for global trade and investment resulting into major growth in the world economy. This kind of growth led to removal of trade barriers between Kenya and the neighbouring countries. Thirdly, there are several country specific factors that have driven KCB into internationalization; these include economic and political stability, favourable culture and institutions. The interviewees noted before a decision was reached on the choice of a country to internationalize, KCB considered the economic activities, political stability, cultural setup and institutions. Currently, KCB is successfully running business in seven African countries namely Kenya, Uganda, Tanzania, Rwanda, Burundi, South Sudan and Ethiopia. The Bank adopted direct investment strategy to gain entry outside the Kenyan market into the seven subsidiaries. This was achieved through allocating huge amounts of capital and managerial efforts to successfully gain entry.

On whether the mode of entry utilized by KCB in internationalization was related to the bank's overall strategy, the interviewees agreed that use of direct investment has enabled KCB to control its operations in Kenya and other foreign countries in the region efficiently with less difficulty. The company has also benefitted from cheap labour both on temporary and permanent basis by hiring some of its employees in the new markets, qualified personnel, product and service portfolio and knowledge of local management. Also the Bank has another portfolio of diaspora banking which was as a result of partnership with Communication agencies.

Interviewees further concurred that KCB preferred setting up subsidiaries in foreign markets. This is supported by Vikas and Ajai (2007) who indicated that in spite of the initial investment cost of FDI, KCB preferred this approach considering the kind of competition that faced the banking sector that mainly relied on corporate reputation. FDI enabled KCB to retain its identity and corporate brand. The implemented a risk management approach that prevented it from engaging in any form of contracts that would have exposed it to risks of corporate reputation. Narula and Nguyen, (2011) supports these findings noting that reputation risk is the potential to paint a negative image regarding of a bank and impact on customer numbers. This might expose the bank to litigation costs and reduction in revenues.

Interviewees agreed that confidentiality was key for banking business and any form of market entry that threatened this was considered inappropriate and risky. They argued that the banking business was confidential and thus implications for infringement of this right had huge implications. Thus, entry approaches such as franchising could not be considered due to confidentiality related risks. FDI gave a high level of control (100%) for the bank operations without any form of interruptions unlike in the case of joint ventures and strategic alliances. FDI was considered flexible as opposed to acquisition which was too complex. To maintain its standards, quality and corporate brand; KCB considered FDI to be appropriate in order to effectively control all its subsidiaries in host countries. The bank got an opportunity to interact with the customers and understand their needs better. Knowingly that every environment had different needs particularly in other countries, the bank was able to customize its banking products and services to cater for the specific needs of its customers. Some of the new products introduced in the market was Sahl banking which was tailor-made for the customers of the Muslim religion background.

Two of the interviewees' thought that although mergers and acquisition were cheaper modes of market entry as compared to FDI, they were exposed to high levels of risks due to the hidden costs of the financial health of an acquisition that might have been exposed later exposing the bank to high risks. Also, there lacked adequate experts of mergers and acquisitions in Kenya and the African region to advise and guide KCB on how to conduct a successful acquisition. Interviewees further explained that acquisition could have exposed the bank to brand dilution as well as erosion of a stable corporate cultural which would have impacted negatively on the business and result into losses. Acquisitions were viewed as despicable, costly and unpredictable.

Whether KCB had a strategy in guiding its expansion plans, the interviewees were in agreement that the bank had expansion plans to other countries such as Somalia among other countries outside East African region. The bank had plans to go into some of the Africa's largest economies without considering the geographical proximity. Interviewees indicated that over the last twelve years, KCB has successfully entered markets of countries that were geographically within its reach with less cognitive distance with Kenya. The interviewees gave contradictor responses; two of them indicated that Somalia was un- unlikely market for KCB due

to immense cases of insecurity and unfavourable economic conditions marred by inter-clan conflicts and a breeding zone for Al-Shabaab terrorist organisation that was the main cause of insecurity in the country. Interviewees argued that it was impossible for KCB to risk investing in a country that lacked peace and instability with little prospects of economic growth. The other two interviewees argued that the bank was focused to growth and expansion and was ready to invest in Somalia if conditions stabilized. They insisted that if this situation was contained, the bank was planning to penetrate in that market and provide security for its property and staff including all its stakeholders.

About the unit or function of the bank that was directly linked to internationalization process, the interviewees concurred that KCB had an internationalization process unit that were charged with planning, decision making and the entire process of internationalization of the bank. Half of the interviewees observed that internationalization process unit kept track of all the international operations and expansion plans. This department formulated internationalization strategies that included setting objectives, plans, policies to realize goals in foreign markets. Plans were crafted to exploit new competitive advantages in the new market while maintaining old markets. As explained by the interviewees, internationalization designed to paths; the first one involved identifying a viable market that was suitable for the business, gathering information about the market and understanding it.

Secondly, three of the interviewees pointed out that internationalization unit identified opportunities and challenges of various markets to enable them arrive at the right decision. This highly influenced the bank's decision to commit its resources in a market in an incremental fashion.

Concerning the commitment of the management towards internationalization process, interviewees were in consensus that the management of KCB was directly involved in setting up a committee that planned for expansion plans and entry into new markets. They were involved in; the formulation and establishment of quality policies and objective, provision of resources and training, overseeing the implementation of internationalization process in all management levels as well as evaluating of the policy based on how the implementation of internationalization process was done.

Three of the interviewees further noted that KCB's management was involved in the provision of financial capital which was essential for the internal strategic internationalization processes. They were also involved in the recruitment processes of their employees to ensure that the process was competitive and the employees' skills and knowledge matched their job description.

Regarding some of the international strategic factors which were considered in the internationalization process, interviewees pointed out that these s internal strategic factors that were considered in the internationalization process involved familiarity of the business. Before the bank made the decision to expand to other countries, it made sure that it was familiar with the banking operations of a country in terms of cultural environment, competition, economic stability and the existing regulations. Secondly, the bank considered its expansion policy, availability of financial capital and availability of human assets. This enabled the KCB to understand markets in foreign countries and set a stable platform for the establishment of its business.

4.4 Internationalization Process and Performance

Whether the bank improved profitability through the process of internationalization, interviewees revealed that the bank expanded its market and attracted new customers this has resulted into increased sales and as a consequence profits have also increased. KCB has broadened its customer bases through ventilating into new markets, the bank has been able to achieve high volume of sales and grow. KCB has recorded better marginal products and services from its international sales. The bank has recorded positive returns from high levels of foreign sales, both for accounting and market indicators. Interviewees further observed that KCB made technological advances and research and development to understand its customer needs in the new markets in order to provide products and services that add value to customers in order to earn high marginal productivity from exporting efforts. The decision to increase internationalization and high-value to products and services was meant to boost the level of the bank's competitiveness at firm and country level.

Whether the bank had expanded its capacity through internationalization, the interviewees unanimously agreed that KCB has expanded its capacity being one of the leading commercial banks in Kenya from its expansive and elaborate plans. It has a

wide and competent customer experience workforce who is well trained to effectively participate in different roles of the bank and handle challenges in different circumstances in all the countries that the bank operates. As of December, 2015, the bank had an estimated 6,000 staff in Kenya and 1,989 in all its subsidiaries. KCB seeks to participate widely in most of the development projects in different industries such as agriculture, technology and construction to enhance its internationalization process and overall performance. Interviewees indicated that KCB utilized its corporate reputation as an opportunity and as strength in case where a global icon is expected to win bigger and venture in more profitable ventures.

Whether KCB improved diversification through the process of internationalization, the interviewees unanimously agreed KCB diversified its products and services to cater for the needs of fresh markets in other countries. One of the interviewee indicated that the bank introduced new products lines and services to address evolving needs of its customers.

This growth is driven by diversifying business lines in new markets, operational efficiencies, non-funded incomes and significant contributions from subsidiaries. For example the bank is seeking to tap into rising demand for affordable housing by enhancing cheap offshore seed funds and exploiting modern technology to assist in conveying price benefits to the mortgage customers. This project is set to commence in Kenya early next year and Uganda and Tanzania late next year.

4.5 Discussion of Findings

Regarding internationalization process of KCB, interviewees reported that KCB did an analysis of all the potential markets before arriving at a decision to invest to invest in any country. This was aimed at propelling the bank to devise strategies that promoted successful implementation of FDI. The mode of entry was aligned with the goals of the bank. Based on the survey, it is evident that internationalization of financial services is highly beneficial. For KCB, high profitability and ability to adapt to changes in the banking environment are among the major driving forces for internationalization. Other factors such as political stability and economic environment also motivate the bank to exploit international market. Internal factors for internalization include availability of financial resources and expansion policy.

These findings are aligned with the observations of Versailles (2012) who insisted on the need for an organisation to plan and understand the market before entry. He insisted that the entry mode chosen by an organisation needed was supposed to be aligned to corporate goals and objectives of that organisation.

On whether, internationalization process contributed towards improving performance, interviewees agreed that through internationalization the bank was able to improve its performance by increasing its market share and profitability. The survey further revealed that KCB gained advanced technology and research development due to internationalisation. The staff gained more competence due to experience of working in the international market. These results are consistent to Narula and Nguyen (2011) who explained that that internationalization process contributed positively towards increased sales by expanding market segments and this contributed towards improving performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Under this chapter, the study gives summarized findings drawn from the previous chapter that have been done line with the objective for this study which was determining the influence of internationalization on performance of Kenya Commercial Bank. The areas discussed in this research are as follows: summary of findings, a conclusion, recommendations, study limitations and suggestions for future research.

5.2 Summary of Findings

This section covered issues to do with the internationalization process of KCB and how this contributed towards an improvement in performance.

5.2.1 Internationalization Process

The findings unearthed that interviewees were in a consensus that a reduction in trade barriers, increased financial integration, liberalization, and technological advancement are the major factors that created an enabling environment that motivated KCB to consider internationalization of financial services. Among the major forces that led to the business decision was the need to generate high profits, desire to adapt to the changing international environment, and country specific factors such as political stability.

Interviewees were also in agreement that direct investment was the most suitable form of business entry strategy adopted by the bank due to its inherent advantages including managerial efficiency and high level of control. However the bank used a different mode of entry into the Ethiopian market which is setting up a representative office. Franchising was considered a poor market entry strategy due to the high need for confidentiality. The bank also considered merging with other firms or acquiring others because of hidden costs. The interviewees reported that the bank intends to expand to other countries in the near future. In addition to evaluation of external factors such as competition and political stability, the bank also considered internal factors such as expansion policy, capability of human resources, and availability of financial capital.

5.2.3 Internationalization Process and Performance

In line with the objective of this study of determining the influence that internationalization had on performance of KCB, the interviewees were in harmony that through internationalization, KCB the bank has expanded its market share by attracting new customers; this translates to increased profitability due to high sales volumes. Interviewees further noted that the bank has also achieved higher technological advancement and developed research because of the internationalization. The bank also has a team of skilled employees with the capacity to play different roles in the institutions. The well-trained workforce is competent enough to handle challenges that may arise in the international market. With its good corporate reputation, KCB is set to expand to ventures that are more profitable.

5.3 Conclusion

It was concluded that KCB benefitted from internationalization by venturing in fresh markets, expansion of businesses through cross-border transactions and enhancing regional integration. This impacted positively towards market share growth, growth in deposits and improved profitability. As reported by interviewees, KCB has expanded its brand identify and as impacted on the bank's competitive advantage by establishing successful subsidiaries in the African region. This has built the bank's corporate reputation, being a regional bank; KCB has been able to reach out to various countries across Africa resulting to growth and diversification.

Further, although KCB made efforts to penetrate into new markets; it was quite slow in internationalizing into new ventures. Some of the reasons were that managers were not well grounded on how businesses internationalized, they lacked sufficient skills, inadequate financial capacity and incentives to invest in the foreign markets.

5.4 Recommendations

It would be advisable that the management of KCB should improve their entrepreneurial skills to meet international standards. This can be achieved through conducting a market analysis, learning foreign culture and embracing some of the international business practices employed by international banks. This will create an atmosphere that supports global market exploration and international business.

Commercial banks should devise strategies to enhance internationalization processes and procedures to enable them to explore new markets and support their operations. Commercial banks will successfully penetrate new markets resulting into increased sales and profitability.

Kenya government should provide an enabling environment for commercial banks to internationalize through creating trade links with other countries within the region such as Uganda, Tanzania and Rwanda. Removing trade barriers such as reducing taxes and strengthening ties, this will promote successful internationalization and contribute positively on commercial banks' performance.

5.5 Limitations of the Study

Time and cost constraints limited this study to one bank only, Kenya Commercial Bank. This implies that the findings obtained under this study cannot be utilized for direct application in another commercial bank or the banking sector to generalize the results got from this study. A wider scope could have provided basis of comparison and generalization of the findings.

Some interviewees perceived the process to be non-paying and hence time wasting. The researcher spent a lot of time trying to convince them to participate in the interviews. This took a long period of time to achieve while all the interviewees were not fully convinced why they needed to give information. Few senior staff directed their juniors to represent them in the interviews.

Open-ended questions only were utilized in this study. A blend of both closed-ended and open-ended questions could have allowed the researcher to collect more detailed information that is sufficient for more detailed and comprehensive findings. This could have improved the quality of the results obtained in this study.

5.6 Areas for Further Research

A replica of this study should be executed using an explorative design approach in order to find out the cause and effects of internationalization on performance. Thus, researchers can establish the long-term contribution of internationalization on performance hence provide a solid basis for a reliable conclusion.

In future, a study needs to be done using a cross-section design to include all Kenya commercial banks this will give researchers a wider scope to do a survey on internationalization process utilized by commercial banks and their contribution towards performance. Afterwards, results can be compared and then a plausible conclusion can be made.

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APPENDIX I: INTERVIEW GUIDE

Goal of the interview Process

The main objective of this study is to determine influence of internationalization on performance of Kenya Commercial Bank.

Section A: Background Information

1. Name of your department

2. What managerial position do you hold?

3. How long have you been working for KCB?

4. How long have you been working in your present capacity?

Section B: Internationalization

- i. a). Has your bank internationalized its business?

b). If yes, what drove your bank to internationalize? Please explain

- ii. Is your bank's mode of entry adopted in internationalization aligned to the firm's overall strategy?

- iii. Does your bank have a strategy to guide its expansion plans?

- iv. Please tell me in how many countries is Kenya Commercial Bank doing business?

- v. Kindly explain to me the unit or function of your bank that is directly involved with international process?

- vi. In your view, please explain your management's commitment to international processes?
- vii. What are some of the international strategic factors considered in the international process?

Section C: Internationalization and Performance

- i. In your view how has internationalization improved economies of scale in your bank?
- ii. In your view, how has internationalization increased the bank's growth in asset base?
- iii. In your view, has internationalization improved the bank's capital base?
- iv. In your view, has internationalization improved the bank's market share?
- v. Please tell me how internationalization has improved diversification?
- vi. In your view, has internationalization improved the bank's profitability?
- vii. In your view, what are the greatest achievements that internationalization has made to your bank?