

**STRATEGIC RESPONSES BY COMMERCIAL BANK OF AFRICA
LIMITED TO CHALLENGES OF GLOBALIZATION**

BY

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

NOVEMBER 2013

DECLARATION

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

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This project has been submitted for examination with my approval as University Supervisor.

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ACKNOWLEDGEMENT

I am sincerely thankful to my brother Ken, sister Silvia and mother for moral and financial support during my MBA studies.

My deepest gratitude goes to Dr. John Yabs who has worked tirelessly to ensure my project is a success. He has provided me with valuable knowledge ensuring I understand the theoretical concept of research.

The findings and recommendations made in this study will contribute greatly towards the strategic responses used by commercial banks and also other financial institutions to counter the challenges of globalization.

DEDICATION

I dedicate this project to my brother Ken, Sister Silvia and my loving mother Nancy for the moral and financial support, I am truly thankful and humbled. To my friends Kennedy and Japheth thank you too for all the support. Not forgetting Dr. John Yabs my supervisor and mentor who guided me throughout the project, I am totally indebted.

ABSTRACT

Globalization is a process of interaction and integration among the people, companies and governments of different nations, a process driven by international trade and investment and aided by information technology. Globalization has brought competition to the door steps of most companies in every industry the world over because of many challenges that come with it. It is an attempt to reduce the vast world to a mere global village by facilitating interaction of people and business transactions through technological innovations and scientific breakthroughs. Strategy is a plan to achieve a goal or objective. It takes into consideration aspects of how, when, where and what means are going to be taken to achieve the set goals. The process aims at improving the economic and social well being across the different countries across the globe. The process of globalization has affected different firms that operate in different environments. Globalization has been accompanied by advanced technology that has seen increased use of the internet and improved communication. People as well as organization can communicate at any time and from anywhere to any person. Through improved communication, firms have increased their market share especially through the utilization of electronic commerce. The process of globalization has proved to be very effective and helpful to some multinational corporations that have been able to increase their global market shares through internationalization. However, the process has not been utilized by some organizations especially in third world countries that have found it costly to acquire new technologies that could meet their objectives. Some of the firms that have faced many challenges in embracing globalization are commercial banks operating in Kenya. The latter have not effectively overcome the challenges of globalization and it is important that they establish the best strategies to use globalization for their financial benefit. Therefore, a gap exists on the strategic measures that a financial institution operating locally should take to counter the challenges of globalization without necessarily trading in the international market. Since none has written the strategic response on Commercial Bank of Africa, this is the knowledge gap that this study is trying to fill. The Internet revolution is one such technological ingenuities upon which globalization has thrived. However, a glaring gap exists on the strategic measures that a financial institution especially a Bank operating locally should take to counter the challenges emanating from globalization. The Commercial Bank of Africa (CBA) which was founded in Tanzania but now operates in Kenya and Uganda thus becomes the focus organization that the study uses to fill up this knowledge gap. The research question therefore is: What strategic responses is the Commercial Bank of Africa putting in place to control the challenges of globalization? The objectives of the study were to establish the challenges of globalization faced by Commercial Bank of Africa limited and the strategic responses by the Commercial Bank of Africa Limited to these challenges. The study used the case study design to gather qualitative data using an interview guide and it focused on Commercial Bank of Africa Limited. Content Analysis will be used to analyze the primary data (qualitative analysis).

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Banking has gone through many dramatic changes in the last two decades. International trade has had a major impact on the need to operate the banking system on a global basis. There have been extensive regulatory changes, advances in information and banking technologies, the acceptance of the market economy by former non-capitalist economies and the increase in integration of international financial markets and institutions. These have created new opportunities and challenges for banking industry the world over (Jovanovic, 2011). While these have provided an expanded opportunity for banks, they have increased the competitive pressure in the global banking arena. International banks continue to proliferate in countries other than their own that has a major impact on competition. The continued existence of a bank in this increasingly global competitive environment is directly linked to its performance and efficient operation.

Deregulatory banking acts, combined with increased globalization and the integration of financial institutions and markets create a more competitive environment that should increase the efficiency of banking operations in general. It is perceived that increased competition due to globalization and deregulation should affect small banks and large banks equally. The banking sector is one of the most important economic sectors and the most influential and responsive to changes, whether international or domestic (Fair, 1986).

The larger banking entities, by virtue of their economic power, economic size and high economic performance, have a high capability to influence the market trends and global growth of banks in all parts of the world. Globalization banking does not mean abandoning the national domestic market, but moving to provide banking services inside and outside, maintaining the national position and becoming more effective, capable and active to ensuring banking expansion. Globalization is not a framework of action much as it is a motivator of expansion. Thus, global banking is linked to the growth of the bank, its expansion and enhanced capabilities (Chiline, 2002).

Many studies of globalization indicate that it has a large-scale impact on the banking system of any country in the world (Smith et al., 2012; Fair, 1986; and Chiline, 2002). The economic effects of globalization on the banking system may be positive or negative, and the task of those in charge of the management of the banking system is to maximize the positive effects and minimize the negative ones. Reference may be made to a number of serious economic effects of globalization on the banking system conducting the following analysis.

First, there needs to be a diversification of banking activity and the tendency towards dealing in financial derivatives. This includes the diversification of banking services at the funding sources, the issuance of marketable deposit certificates and long-term loans from outside the banking system, the diversification of loans granted and the establishment of banking and securing holding companies (Smith et al., 2012). In other words, bank debts need to be transferred to securities and engaging in new investment

areas such as investment banking and the financing of the privatization at the income level to engage in non-banking areas, then the tendency to deal mainly in currency transactions, issuing of securities, the establishment of investment funds, and insurance issuance through sister insurance companies for the management of investments holding companies for the benefit of customers.

1.1.1 Concept of Strategy

Globalization refers to the process of the intensification of economic, political, social and cultural relations across boundaries, and it is principally aimed at the homogenization of political and socio-economy across boundaries (Rose, 1999). Choosing not to participate in global markets is no longer an option. All organizations, regardless of their size, have to craft strategies in the broader context of world markets to anticipate, respond and adapt to the changing configuration of these markets.

Globalization has brought intense competition to domestic industries that have had to formulate survival as well as triumphant strategic responses to address the challenge. New sources of competition have emerged with the opening up of markets, the accelerating pace of change, and the shrinking distances between markets due to technological breakthrough (Day & Wensley, 1988). The threat of competition from companies in some foreign countries also arises, as the domestic markets embrace competition, courtesy of globalization.

New advances in communications technology has greatly contributed to globalization in trade. Similarly, modern communications and information technology encourage rapid

competitor response to price changes, or new distribution and promotional tactics, and further heighten the pace of competition. As a matter of fact, the global proliferation of relatively inexpensive computing power and global linkages of computer networks through telecommunications have resulted in an information-rich, computation-rich and communication-rich organizational environment (Ingwe, 2012).

1.1.2 Strategic Responses

Pride and colleagues (2011) defined strategic responses with reference to the term 'strategy' in whose framework the nature and direction of an organization are made. Organizations formulate strategic responses in reaction to operating environmental turbulence. Strategic responses can also be viewed as the attempt to match activities of a firm to the operating environment. Ansoff and McDonnell (1990) posit that in an event where a firm finds itself coasting on unfamiliar operating territory, it should revise its strategy in order to be safe. These responses are directed at finding long-term, medium term, or short term solution to challenges of an organization. Accordingly, they can be either reactive or active depending on the level of preparedness of an organization.

Abdallah and Albadri (2010) talk of a five-phase model that involves the formulation and implementation of strategic responses. Phase one entails strategic intelligence gathering and analysis. It ensures that the depth and breadth of information on which strategic decisions are based is up-to-date, accurate, and relevant. Phase two consists of strategy formulation which gives results in the creation of a strategic vision or profile. Phase three is referred to as strategic master project planning. During this stage, the plan for strategy implementation is developed in order to align the organization structure with the strategy

(Griffin, 2010). Phase four involves strategy implementation whereby the planned actions are taken, implementation is monitored, and the strategic master project plan is modified as and when required; and phase five - strategy monitoring, review, and updating - helps to determine whether there is success in the overall strategic response (Griffin, 2010).

1.1.3 Banking Sector in Kenya

The banking sector in Kenya has continued to attract a lot of interest from international financial players. To this end, the number of licensed representative offices of top international banks has steadily increased. The interest anchors well with Kenya's Vision 2030 that will make Kenya the premier regional financial services hub. For this reason, financial development and deepening will be strong outcome (Alba et al., 2005).

The sector has a complete financial infrastructure in Kenya in that banks, microfinance institutions, currency centers, credit reference bureaus, agency banking, risk-based supervision are in place. With banks rolling out branch networks across the region supported by initiatives like agency banking and appropriate information sharing mechanism allows the financial sector to grow. Then the other arms of pension, securities and insurance are moving in the same direction.

The sector has further witnessed the trends of globalization that has forced its players to formulate novel ways of countering the turbulence. The free flow of labour, for instance has attracted different skills from foreign countries to offer their expertise to banks, especially multinationals (Okwalo, 2008). The international transfer of money has

become a core business activity and therefore banks have had to partner with such firms as Western Union, MoneyGram, PayPal, et cetera to inure to this challenge. The Internet banking, popularly known as e-banking has become necessary for banks to adopt given the mobility of their clients who would want to enjoy their services wherever they are. Besides, the introduction of Visa Cards has been in response to these customers who would want to make transactions with the bank wherever they are in the globe (KBA, 2010).

1.1.4 Commercial Bank of Africa Limited

Commercial Bank of Africa is one of the commercial banks that operates in Kenya among many other banks. The bank was established in 1962 in Dar es Salaam and it immediately established its other branches in Nairobi and Mombasa in Kenya. Bank of America acquired the shares of all the other SFOM partners in 1980 and CBA became a subsidiary of Bank of America, with 16% of the shares held by Kenyan investors. Bank of America re-organized CBA, developing and installing Bank of America's global systems and disciplines before selling its majority shares to local investors. Bank of America continued to provide management to the bank via a management agreement before eventually selling the rest of its shares (CBA, 2013).

Currently, the bank is one of the largest privately owned banks in East Africa and it has its operations in Kenya and Tanzania. The bank has been able to realize increased income over years. For instance, the bank realized a total of Ksh. 6.7 million in 2009 that increased to Ksh. 9.5 million and Ksh. 14.3 million in 2011 and 2012 respectively. In

addition, the net income of the bank increased over time together with its number of employees that increased from 470 employees in 2009 to 728 employees in the 2012 financial period (CBA, 2013).

1.2 Research Problem

Strategy is a plan to achieve a goal or objective. It takes into consideration aspects of how, when, where and what means are going to be taken to achieve the set goals. The process aims at improving the economic and social well being across the different countries across the globe. The process of globalization has affected different firms that operate in different environments. Globalization has been accompanied by advanced technology that has seen increased use of the internet and improved communication. People as well as organization can communicate at any time and from anywhere to any person. Through improved communication, firms have increased their market share especially through the utilization of electronic commerce.

According to Njanike (2010), different firms have been able to utilize globalization process differently. While some companies that are focused use the process for its benefit, others have failed to effectively use the process for their benefits. For instance, Apple Corporation has been able to use the globalization process to increase its global market share through e-commerce and outsourcing of products and services. However, Bexley and colleagues (2011) argue that some countries have not been able to exploit the process effectively hence their poor strategic location in their respective industries.

Effective utilization of the process could help an organization to establish strategies that could help the firm meet its objectives (Bexley et al., 2011).

The process of globalization has proved to be very effective and helpful to some multinational corporations that have been able to increase their global market shares through internationalization. However, the process has not been utilized by some organizations especially in third world countries that have found it costly to acquire new technologies that could meet their objectives. Some of the firms that have faced many challenges in embracing globalization are commercial banks operating in Kenya. The latter have not effectively overcome the challenges of globalization and it is important that they establish the best strategies to use globalization for their financial benefit.

Therefore, a gap exists on the strategic measures that a financial institution operating locally should take to counter the challenges of globalization without necessarily trading in the international market. Since none has written the strategic response on Commercial Bank of Africa, this is the knowledge gap that this study is trying to fill. Consequently, the study will be guided by the following research question: What are the strategic responses used by the Commercial Bank of Africa to counter the challenges of globalization?

1.3 Research Objective

The research objective of this study was to find out the strategic responses used by the Commercial Bank of Africa to counter the challenges of globalization.

1.4 Value of the Study

The study is expected to be valuable to both contemporary and future researchers who will delve into the depths of knowledge on the strategic responses of domestic firms in global marketplace. Since there are few literatures on the focus of this study, the researcher hopes that it will add to the body of literature on broader challenges of globalization to businesses. From a theoretical standpoint therefore, it is expected to contribute to the general understanding of how banks respond to challenges of globalization.

Policy-makers may benefit from the issues and insights raised in the study that are important in developing the frameworks where formation of such organizations might be enhanced to keep them in sustainable competition. The study will set precedence to be followed by consultants of other commercial banks when confronted with a similar situation.

The results of the study are expected to be of immense benefit to the Central Bank as a regulator, and the government of Kenya on the strategic responses to the challenges that come about as a result of globalization by commercial banks. Moreover, the study is meant to help the Commercial Bank of Africa management to polish its policies regarding globalization in the banking sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of literature on the most salient challenges that globalization poses to organizations and how they can be curbed. The chapter further, looks at the various kinds of strategic responses that a firm, especially in the banking sector, ought to put in place to effectively and efficiently deal with the said challenges to enable it thrive in the business.

2.2 Theoretical Underpinnings

The earliest empirical research on how globalization impacts the environment tended to ask the reverse question: how does environmental regulation impact trade? The prevailing wisdom was that, if trade impacts the environment, it must be the case that environmental regulation affects trade flows; only then would the argument that trade worsens the environment by shifting pollution intensive production to low-regulation (and often low-income) countries make sense. This proposition that globalization facilitates the relocation of dirty industry to poor countries, is known as the Pollution Haven Hypothesis (PHH). Subsequent empirical research has found evidence of a weaker relationship between regulatory stringency and trade patterns and volumes, known as the Pollution Haven Effect (PHE). The PHE is the hypothesis that stringent environmental regulation impacts comparative advantage at the margin, but that it does not necessarily lead to a wholesale migration of industry to regions with weaker regulation.

For this study, Levinson and Taylor (2008) examined the relationship between industry spending on abatement and pollution control and import penetration (measured as the

sum of imports and exports as a ratio to total domestic output) in the United States. Amongst other things, they found industries whose abatement costs increased most experienced the largest increases in net imports, and that for the 20 industries facing the largest relative pollution control costs, more than half of the increase in trade volume can be attributed to changes in domestic regulation. Similarly, Ederington et al. (2005) use panel data on import penetration and find that import penetration is higher for industries with high pollution abatement and control expenditures (PACE) (relative to total costs), and that this correlation is stronger for industries protected by import tariffs. They conclude that, if anything, trade liberalization has shifted U.S. industrial composition toward dirtier industries, by increasing imports of polluting goods by less than clean goods”.

This study also takes into consideration the theoretical perspective of open innovation. Work within organizational theory has convincingly argued that the optimum mode of organization depends on a number of contingency factors, such as complexity of the environment faced, the strategic position of the firm, and the nature of the technology on which it is operating. The choice of organizational structure is seen as a question of “fit” to the environment faced or the knowledge involved (Cassiman and Veuglers 2006). These are summarized as the knowledge, cumulateness, opportunity and appropriability conditions faced by the Commercial Bank of Africa.

2.3 Challenges of Globalization

Researchers have over the years identified the numerous challenges that are associated with globalization (Ali, 2000; Dunning, 1993). These challenges have unsavoury impact

on the operations of an organization if they are not dealt with using proper mechanisms. According to Dunning (1993), globalization brings competition both from foreign firms as well as domestic firms that operate in a similar industry. The researcher observes that multinationals operating in other countries import new ways of doing businesses with the aid of the ever changing technology that alters how the business is done (Norris & Hurley, 2000).

Globalization has greatly altered the psyche of consumers who have become more knowledgeable about what they want. According to Glanville and Glanville (2000), consumers demand value for their money and a producer who is not responsive to this fact risk losing out. The influx of foreign firms in most developing countries coupled with the Internet revolution have intellectually empowered consumers in one region to compare themselves to those in other regions, hence the high demand for value within a certain timeframe for their money.

Firms that hitherto did business without considering what their clients want have become casualties of the globalized customer. In this regard, according to the authors, organizations must be alert to the changing tastes of their customers by gathering market intelligence regularly. Banks that are abreast of the global trends, for example, have instituted electronic customer feedback systems that give instantaneous response about the service. An organization that lacks the mechanisms of obtaining valuable information from customer will not thrive in the global marketplace (Callingham, 2004).

2.4 Strategic Responses to Challenges of Globalization

Many scholars have given various definitions of strategic responses, albeit with a tenuous line of difference. According to Sternad (2011), strategic response is the reaction of a firm or an organization to the environmental changes. That is, the matching of an organization's resources and activities to the operating environment. Zimmermann (2011), on the other hand defines strategic response as a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives in reaction to the changes in the external environment. The challenges of globalization are numerous and threatening, and therefore require appropriate strategic responses.

Forming strategic alliance is one way of countering the effects of globalization. Indeed, it is a strategic response that facilitates an agreement between firms to do business together in ways that go beyond normal company-to-company dealings. These alliances range from informal to formal agreements with lengthy contracts in which the parties may also exchange equity, or contribute capital to form a joint venture. Strategic alliances are partnerships of two or more corporations or business units that work together to achieve strategically significant objectives that are mutually beneficial. If correctly implemented, argues the author, the potential of strategic alliances strategy is enormous for it can dramatically improve an organization's operations and competitiveness.

The study conducted by Coopers and Lybrand rated growth strategies and entering new markets as among the top reasons for forming strategic alliances. This is true in today's fast-paced business environment in which companies have limited time to establish new

markets one by one. It has therefore become convenient for organizations to form alliances with companies that already exist in that marketplace. Moreover, acquisition of technology can be achieved through strategic alliances given that not all companies provide technology that they need to compete effectively in their markets (Martinez-Fierro, 2006).

The global trend of outsourcing has increased the pace of strategic alliances where companies give up their non-core activities to third-party service providers and concentrate on their core business activities (Kerkhoff, 2006). The soaring number of 3PL firms (third party logistics providers) is a testimony to this fact. By outsourcing the said activities, the company can efficiently channel all its resources toward the production of outputs for which it is in the business. As a result, quality production of products/service can leverage its competitive advantage (Kerkhoff, 2006).

Innovation strategy is another response strategy that taps into the deep insights of an organization's human spirit and knowledge; generates a pipeline of ideas that are evaluated, selected and ventured using disciplined tools, methods and processes (Tucker, 2009). Innovation strategy enables organizations to compete favorably in the global marketplace since it improves business performance of organizations that emphasize it (Kim & Mauborgne, 2005). According to Daft and Lane (2009), innovation is the response to environmental turbulence for future opportunities. The uncertainty, risk and change that set in once the operating environment has been disturbed are the catalysts for innovation (Braganza & Ward, 2001).

Research and Development (R&D) departments have the responsibility of generating new ways of doing business through innovations. Investing in this department therefore, can facilitate the generation of new ways of doing things. In his empirical study, Afuah (2003) it was confirmed that the R&D department, apart from generating new knowledge, also disseminates and enhances the organization's ability to assimilate this knowledge. Kalling and Styhre (2003) have reiterated that the department brings value to creativity through mixing new concepts and ideas so as to generate application. Njagi (2010) also underscores the indispensability of R&D department in the process of innovation by an organization. Sustainable growth through innovation has ceased to be optional since it is central to the valuations of commercial enterprises, irrespective of economic conditions (Mitra & Gupta, 2008). Challenges of globalization to businesses notwithstanding, innovation strategy remains paramount to the success of a business.

Diversification strategy is another strategic response associated with a change in the characteristics of an organization's product line and/or market. Diversification requires new skills, new techniques and new facilities to be realized. Accordingly, it almost invariably leads to physical and organizational changes in the structure of the business that represent a distinct break with past business experience.

In a global marketplace where customer needs are always in flux, it becomes necessary for an organization to either improvise or sometimes overhaul its product line in order to cater for the changing needs of customers. The market can be unforgiving for a firm that does not gather intelligence on the requirements of the market and hence fails to respond to it (Blenkhorn & Fleisher, 2005). Indeed, there is congruence between the above

examples and the reasons given by researchers for diversification. Organizations diversify to compensate for technological obsolescence to distribute risks (Bessis, 2011); to utilize excess productive capacity (Furrer, 2010); to re-invest earnings; among other reasons. The decision to implement this strategy should be backed up by a strong conviction of future growth prospects, if not necessitated by trends of globalization.

Compensation strategy is also instrumental in mitigating the challenges of globalization. The recentralization of business activities, transnational mergers and strategic alliances, an increasing proportion of employees residing in non-headquarter countries and the global sourcing of talent translates to a need to manage a diverse, more mobile workforce and strike a balance between global strategy and local needs and constraints (Khanna & Bhasin, 2011). An increasing number of business leaders have begun to view Human Resource as the function that can truly help organizations transition from ‘international’ to ‘global’ players. Unfortunately, relatively few organizations have considered the role that total compensation – pay and benefits – ought to play in supporting the efforts of globalization. This stems from the fact that devising global compensation programs is fraught with challenges such as diverse economic situations, differing demographic patterns and conflicting talent management priorities (Pelkmans, 2001).

The HR function has been concerned with constant trainings of employees so as to equip them with new methods of doing things courtesy of globalization constraints (Khanna & Bhasin, 2011). Inventions and discoveries of simple and efficient ways of operations happen regularly and are disseminated across the globe and therefore it is imperative that staff is trained on these novel methods of operations constraints (Khanna & Bhasin,

2011). In so doing, the function enables an organization to counter some of the challenges posed by globalization.

2.5 Empirical Literature

Merging leads to the achievement of economies of scale and increases the volume of activity and savings and reduce the costs of the activity and mergers and acquisition leads to a change in bank management and the selection of leaders to pursue more efficient and modern management methods which leads to lower costs and increase profits. The study recommended the development of skills of personnel in charge of the credit section and selection of the best skills from the efficient employees of the bank that are also well-reputed and highly experienced in the industry. The bank should take into consideration on-going training of employees in order to be acquainted with the latest development in the banking sector; and also knowing the nature of competition facing banks.

Thoumrungroje and Tansuhaj (2009) carried out a study on the effects of globalization on the performance of the firm. The results of their study indicated that the increase in uncertainty could lead firms to engage in more networking activities, which finally enhances firm performance. This implies that uncertainty alone can be harmful to the firm's performance unless certain strategies such as networking activities and alliance participation and implemented to mitigate its negative effects. In addition, globalization not only benefits firms in terms of increasing opportunities, but it also hurts business performance due to higher competitive threats (Jones, 2002). The study also established that globalization has several implications for managers in the global market place. This study elaborated on the different effects that globalization has on businesses. The results

indicated that such effects are not significantly different across cultures. This study also confirmed that globalization is a universal phenomenon and that corporations are inevitably affected. Globalization can affect performance both positively and negatively.

While global market opportunities are likely to enhance firm performance, global competitive threats to worsen it, managers must be aware of such double-edged effects, and try to capitalize on the opportunities while converting threats opportunities. In their study on the globalization of commercial banking, Bexley et al. (2007) concluded that to accomplish total globalization, a common currency must be established which will ease the entry of foreign banks into domestic markets that can contribute to more efficiency through increased competition. On the other hand, a currency crisis in an emerging market would exaggerate this situation. Domestic borrowers, including banks, that obtain funds from abroad, usually borrow in a foreign currency such as the dollar to give foreign investors some reassurance about the value of their investments.

Banks need to develop human resources through rehabilitation and training in such a way as to fit with the developmental process and the requirements of modern banking technology. They need to implement the modern banking technology and introduce modern services and products to the customers in the local market. Gachunga (2009) concluded that globalization has its positive side as well as its negative side. It affects the economic dimensions; that is trade, finance, aid, migration and ideas. Increases in these dimensions of globalization, if managed in a way that supports development in all countries, can help alleviate global poverty under certain conditions..

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the researcher described the methods that were adopted in order to answer the research questions that had been outlined in chapter one of this study. The chapter thus contained the discussion on the following aspects of research methodology: research design, data collection procedure and data analysis.

3.2 Research Design

The study utilized a research design that was appropriate to researchers. The purpose of a case study is normally to gather information about the present existing conditions without making amends to the actual observation (Creswell, 1994). Therefore, this study aimed at gathering information from the Commercial Bank of Africa (CBA). Descriptive research, according to Best and Kahn (1998) has the ability to produce statistical information about aspects of education that interest policy-makers and researchers.

According to Orodho (2003), a case study is used in preliminary and exploratory studies to enable researchers gather information, summarize, and interpret the data. The purpose of a case study according to Mugenda and Mugenda (2003) is to determine and report phenomena and help in establishing the current population under the study. The researcher hoped that the chosen design would enable him to adequately address the research questions therefore meeting objectives of the proposed study.

3.3 Data Collection

The researcher intended to use both primary and secondary data to carry out the study. An interview guide was used to facilitate the collection of data from the respondents. Primary data was collected by way of personal interview with an interview guide that consisted of open ended questions. The respondents of this study are the departmental heads from the credit risk management unit, strategy management and business analysis unit, human resource unit, information technology unit, finance and administration unit and the operations unit. The research questions of this study was best answered using personal interview where the researcher intended to interact with respondents asking them the strategic responses that the bank had put in place to address the effects of globalization.

3.4 Data Analysis

Considering the qualitative nature of the study and the envisaged response as per the interview guide, the data was analyzed using qualitative content analysis. Content analysis is a method of summarizing any form of content by counting its various aspects, thus enabling a more objective evaluation. The content analysis was carried out to identify key themes as expected through the choice of words by the respondents. Analysis of data collected was then compared with theoretical approach and themes in literature review. The analyzed data was thereafter interpreted with respect to research questions.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

In this chapter, the study concentrates on the information obtained from the study population and collected through interviews. The data is presented, analyzed and interpreted to give an educated view of the situation. This is done in relation to the objectives of the study that sought to establish the strategic responses used by Commercial Bank of Africa to deal with challenges posed by globalization.

4.2 Strategic Direction of Commercial Bank of Africa

The Commercial Bank of Africa is committed to enhance the wealth and fulfillment of life for its customers through provision of competitive financial solutions that are tailor made to suit the dynamic needs of their clients. They seek to provide opportunities that are more attractive to their employees and increase shareholders value. This forms the basis under which the current mission statement of the bank is founded. The study discovered that majority of the respondents claimed that the mission of the bank has not been reviewed over the past five years though there was a plan to review it which was mostly discussed during annual meetings. This was propagated by the fact that customer needs are changing day by day mostly occasioned by globalization. Never the less, at the time of this study no tangible changes had been undertaken to address the issues.

At the time of study, a plan had already been laid on how to address these issues and other challenges brought about by globalization. For instance, the management had proposed the change of the vision of the bank from “To be a Respectable and Significant Financial Services Business in East Africa” to “To be a Respected and Significant

Financial Services Business Partner in Africa”. The fact that all the departments of the bank such as operations, credit, Human resource, finance, ICT, and business development were affected by globalization there was a great need for change and review of the mission statement.

4.3 Study Findings

4.3.1 Challenges of Globalization to the Commercial Bank of Africa

Globalization has brought significant change in the banking sector. These changes have brought most benefits to the sector though the benefits are intertwined with million challenges. They include the adoption of mobile banking, use of debit cards to the use of customer base as indicated by an interviewee from the business development department. Results from the operations department shows that globalization has facilitated innovative products in the banking sector such as the mobile banking and internet banking. Nevertheless, these new ideas have their challenges such as fraudster vulnerability where new technology is used to hack banking systems and as a result, banks have incurred huge losses. Some of these challenges have been addressed by innovative ideas such as the development of debit cards that are VISA enabled and can be used in any part of the world to increase availability of the service, security and convenience to customers. These debit cards are also used in shopping with the use of a special machine thus providing safety and convenience to the client.

The result from the human resource department shows that globalization has drove down staff turnover but new strategies have been put in place to address the problem. For instance, the bank has adopted hiring of talented staff and adoption of engagement of

staff in effective communications. In the credit department, result shows that globalization has affected loan portfolio positively in terms of security and loan maturity. In the ICT department, globalization has come with massive changes that are posing many challenges due to their nature of evolving now and then.

In the business development department, the main challenge brought about by globalization was inadequate experienced personnel with the relevant skills to address the challenges. At the time of the study, the bank had a well-laid plan on how to improve technology and improve knowledge and skill of their employees. Globalization has made it difficult for companies to operate and those that have not embraced globalization have ended up closing down their business operations. There is a great need to embrace globalization changes in order for companies to survive. For instance, CBA survived the 2008/09 global financial crisis because the bank had adopted several globalized mechanisms such as M-Shwari products. CBA continues to reap the benefits of globalization through enjoyment of great returns. This is made possible by strategies adopted in post crisis economy. They include the company's five strategic plan composed of:

1. Investing in new core banking platform
2. Establishing a shared service center
3. Refreshing their brand
4. Launching new and innovative products
5. Creating new organization structure
6. Expanding to cover five East African countries

7. Building the balance sheet to 114 billion and achieve an operating profit of Kes 7.5 billion by 2012

Through these strategies, the bank has been able to acquire new customers at the same time retaining the old customers. The bank is currently opening new branches for a wider market coverage and customer satisfaction. With technology, there are high chances of default on loan when people improvise ways of corrupting the system. Moreover, the advanced technology can be a challenge to users hence prolonging time spent on recovery especially for the credit department. According to the respondent in the ICT department operation of the new gadgets was the only major challenge experienced.

4.3.2. The Impact of Globalization on Commercial Bank of Africa

Adoption of globalization strategies led to realization of changes and great benefit even with challenges success was evident. For instance, the information from the development department shows that the structural changes were geared towards realization of banks mission statement. Data from the operation department shows that changes in operation and the new products were in line with customer needs. For example the introduction of Core banking platform also known as T-24 was put in place. There was a change in corporate image. Introduction of shared service center and release of the T-24 upgrade. The T-24 was introduced in Tanzania and the extended Multi-company environment for attractive value propositions for high net worth segment. Group organization structure put in place, universal email group and the realization of the 115 billion-group balance sheet. All these were success realized from adoption of the globalization strategies.

From the finance department it was established that the 2008/09 global financial crisis highly affected the general performance of the bank. The bank has been growing profit at a negligible margin and this led to a longer time taken before realizing the Kes 114 billion balance sheet. The ICT sector of the bank changed its infrastructure to enhance efficiency and effectiveness of its employees and this was geared by the technological revolution that the banking sector has been experiencing.

The business development department has endeavored to implement some technologies such as Internet banking and mobile money transfer to enable customers enjoy the adoption of new technology in the bank. The operation department has been faced by challenges associated by stiff competition brought about by the globalization. This department has come up with two five-year operational plans that kicked off in 2008. The first plan was scheduled between 2008 and 2012. The second plan is scheduled for 2013 to 2018. This later plan is branded as the 4G plan. It comprises of four areas of focus. These include: service excellence, innovation, effective engagement and growth.

4.3.3 Effects of Globalization on the Banks Expansion Strategies

The study established from the development department that globalization should be appreciated as a medium through which the banking institution should embrace growth and development. Globalization and technology has brought greater customer satisfaction through efficient and effective delivery of services. Money transactions within an economy have increased through the adoption of globalization and technology by banks thereby increasing business transactions. By embracing globalization, the bank has

redefined itself to a new brand thus serving more people and expanding customer satisfaction.

4.4 Strategic Responses to Challenges of Globalization

4.4.1 Bank Reputation

It was discovered that from the development department, the creation of a department that mainly focuses on the bank's status was of essence. The department resulted to improving the logo and implementation of the 4G plan.

4.4.2 Funding

The information obtained from the operation department shows that the bank had laid down a plan to increase funding and meet the customers' expectation. The bank has adopted the 4G plan starting by service excellence that constitutes speed, convenience, customized solutions relationships, accuracy, passionate, respect, and extra-ordinary knowledgeable staff.

4.4.3 Managing Change

The bank has done many structural changes like employment of new staff and management training. Trade among nations using comparative advantages promotes growth that is attributed to strong correlation between openness to trade flows and effect on economic as growth and economic performance.

4.4.4 Performance appraisal

In the Human Resource department, the study discovered that the department had adopted several mechanisms to keep their employees as competitive as possible. The

employees were trained to adjust with the changes of globalization. The changes include performance appraisal, frequent training at all levels to keep them equipped with the most current technique in the market. The department also adopted one of the plans in the 4G plan that is effective engagement of staff. It included engaging staff in effective communication, sustainable win-win community engagement and regulatory thought leadership.

4.5 Measures to Combat these Challenges in Various Departments

From the study, it is evident that training through seminars for employees was a vital undertaking that helped the bank to equip its human with the required skills to survive in the global economy. This strategy enabled the bank to spearhead the success attained especially surviving the global financial crisis. Another measure was that the bank searched for alternative ways of raising funds for various projects especially the first phase of the 4G plan.

The ICT department is experiencing good success with the launch of Mshwari phone money transfer service. This is also one of the measures and innovations done to combat challenges aimed towards realizing the major goal of the bank. The other measure is the adoption of group strategy, which involved driving CBA's customer value proposition through effective engagement, service excellence, strategy innovation and growth. The bank also adopted several strategic objectives including enhancing financial performance, improving brand image, increasing financial inclusion, increasing customer satisfaction and improve service delivery.

4.6 Discussion

From the data analysis, it is evident that globalization had both benefits and challenges to Commercial Bank of Africa. Globalization has come with new technology that has made the management establish the new structures for their enhanced operation. Through globalization, the bank discovered one of its unique products for money transfer and mobile banking. These new technologies enabled the bank to undertake different changes in its operation structure in order to remain competitive in the market. However, the technologies have come with an advanced form of fraudulent activities that costs the bank a lot of money. The bank has been able to reduce the cost incurred in managing human resource as the new technology has enabled the bank reduce its human resource while maintaining efficiency. Through globalization and technology, it is now easier for the bank to audit credit customer before giving out loans. This helps to minimize default risk to the bank. The same technology enables fraudster to fake documents therefore stealing a lot of money from the bank. According to the analysis, globalization has come with both benefits and demerits. In terms of correlation analysis the positive effects positively correlates with the coming of globalization. The negative effects negatively relates with globalization. We can therefore conclude that globalization was beneficial to the banking sector.

4.6.1 Strategic Responses to the Challenges and Benefit of Globalization to CBA

Despite the challenges, the bank has come up with measures to deal with the challenges. It has increased training of its staff to enable them handle the most complex technology. For the effective management of technology the bank has established a dedicated department to deal with all the complexity associated with new technology. The success of the department is established in the discovery of a unique mobile banking project.

The other strategic response is the adoption of the 4G plan starting from 2013. The plan is projected to go for five years where it is projected that the bank will be able to cover a sizeable market niche constituting of five countries and a profit amounting to 400 billion.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Globalization has had many effects on the Commercial Bank of Africa. While some of the effects are positive, others are negative. As analyzed in the previous chapter, this chapter summarizes the main findings from the respondents, concludes as well as makes recommendation based on the view of the researcher.

5.2 Summary of Findings

The main objective of this study was to assess the strategic responses of Commercial Bank of Africa to the challenges brought about by globalization. Globalization has come with many benefits to both firms and the consumer but with many challenges. The conclusion of this study is mainly based on the findings that the researcher collected from the bank. Some of the benefits that CBA enjoys from globalization are that globalization led to opening of the boarder for business fraternity within Eastern Africa. Now CBA has been able to move beyond Kenya. It has already established some branches in Tanzania. Other benefits are within the organization as discussed below.

The study determined that the current statement of the bank had not been reviewed for the past five years though a plan had been laid to review it by the time this study took place. The change was in line with the changes in customer needs brought about by the globalization. For instance, the vision statement in the plan was “To be a Respected and Significant Financial Services Business Partner in Africa”. The bank vision was to ensure

that there is a change between the customer and bank relations. From this point, the customer would no longer be perceived as a customer but as a business partner by the bank. This would come with great benefits to both the bank and the client. There were little efforts to effect these changes. The study found that this was due to lag in realization of the previous set goals. That is the goals set in 2008/2012 plan of the bank. At the overall review, the bank was behind schedule in terms of achieving the set goals. This state was attributed to challenges arising from globalization and the 2008 global financial setback. As the study found out, there was a dire need to implement fully these changes in all the departments.

In the business, development department the change that CBA affected was geared towards the achievement of the banks mission as found out by the study. In the operation department, the bank's change in structure especially for the past five years has been in line with the dynamic needs of customer. For example, there has been a great need for money transaction within the economy for the last few years. This need is expected to increase dramatically as the technology in the business sector is increase at a high rate. Companies in the financial sector are competing to snatch these opportunities for maximum profit since consumers are going for the easiest and most efficient way to transfer money safely. CBA having understood this particular need, created a product that perfectly suits these needs. The product is known as the Mshwari, which is a unique product of the CBA in coordination with Safaricom. The consumer is able to save and withdraw cash at the most convenient time. In addition, the product allows consumer to borrow from the bank without filling loan application forms as in other banks. This is one of the most advanced strategy of the CBA all enabled by technology and globalization.

In the credit department, the bank is moving to automation and the process of loan advancement has changed from manual to the Nero System, which is Bank fusion of universal banking. In the ICT department, the bank changed the infrastructure to enhance efficiency and effectiveness of its employee service to customer. This was facilitated by technological evolution experienced in the bank and the country as a whole.

5.2.1. Impact of Globalization to CBA

The bank has experienced several benefits and challenges due to globalization. For instance, the business development department has employed several technologies such as internet banking and mobile banking. This has come because of innovation due to competition brought about by globalization. Globalization has forced the firm to be more innovative in order to remain competitive enough to claim a sizeable market niche. Globalization has also resulted to a more risky way of doing business like the internet banking and therefore more precaution is required in the transaction. In the credit department, globalization has had both negative and positive impact in the loan portfolio. For instance, the bank has been able to conquer the credit market through the M-shwari credit facility operated by a mobile phone. This product enables the bank to lead to millions of customer s around Kenya at a low interest cost therefore encouraging many people to borrow. The credit is easily available and no security is required. This helps the bank to cover the informal and Juakali sector, which lacks collateral.

In the human resource department, there have been some instances where some employees move to other banks in that has embraced globalization. Changes have been effected in the department and as found in the research, the bank is employing more and

more staff who are experienced and better equipped with techniques suited to realize the banks goals. In the finance departments, there has been financing of large fixed investments (new branches) and new technology in order to put the bank in the same category with other prominent banks and also to cover as large market gap as possible.

The main forces behind globalization are technological advancement, political and economic stability and the international relations between countries, which have led to opening of boarder, constrains. This has led to a common market integration, which is beneficial to banking sector. In the case of technological innovation, chief among these driving forces of globalization include inventions that improve the speed of transportation and communication and lowering their cost. Some of the examples of this include the development of the jet engine and its universal use in aviation for transporting people and goods and the adoption of containerization in the international shipping. This creates more need for cash transaction to be faster and more effective to facilitate more business transactions. Massive investment in the road infrastructure has allowed large shares of trade to be carried by freight trucks.

A key driver of globalization has been the strategy adopted by the East African governments signing an agreement to eliminate trade barriers within the region. This will affect CBA in a great deal since financial transaction will increase tremendously and consequently people will need a bank that operates across borders. Therefore, globalization has led to free movement of labor within and between countries. This enhances skills of the employees due to exchange of techniques among employees. CBA

is in the best position to benefit from this, as it will be operating within five East African countries by 2018 according to their plan dated 2013 to 2018.

In the operation department, information shows that the bank has acquired a new system that meets the need of customer. The bank has increased customer base through efficient lending by means of M-shwari. In addition, the lending rates are low enough for a common person to be able to pay. This minimizes the chances of default. The bank has also partnered with other organizations such as Safaricom to keep trend of innovation. The bank has also employed qualified and trained personnel for sales and advertisement of the banks products. This helps in branding and building consumer confident. The bank has also created a number of adverts in the media to create product awareness, pricing and the bank continues to review prices in order to fit customers.

5.2.2 Challenges of Globalization

The study discovered that the personnel at the development department have inadequate skills to successfully tackle challenges arising from globalization. Another challenge arises on determining the tool to use to contain default of money borrowed through M-shwari. Globalization has led to many institutions closing down due to lack of competence but the CBA has been able to maneuver through even during the 2008/09 global financial crisis. The bank has been able to increase its asset base and increase returns over the five years despite of not achieving the predetermined targets. The bank through various innovative products like the M-shwari and T-24 has been able to acquire and retain new customers therefore enlarging customer base. The bank is setting new branches and at the same time moving across borders to Uganda and Tanzania so that the

consumer may access the services easily. In the credit department, some scrupulous customers have been able to default credit given through M-Shwari. Globalization has had both negative and positive impacts in the loan portfolio in terms of security and loan maturity.

Researchers have over the years identified the numerous challenges associated with globalization. These challenges have unsavory impact on the operation of organizations if they are not dealt with using proper mechanisms. Globalization brings competition both foreign firms as well as domestic firms that operate in a similar industry. The researcher observes that multinationals operating in other countries import new ways of doing businesses with the aid of the ever changing technology that alters how the business is done. Organizations endeavor to use equipment and work –processes that will improve the quality of their products or services. Total quality management (TQM) has thus become a household management model in most firms spearheaded by the demand for quality products services in global markets.

Innovative techniques that are properly articulated by an organization on its products services create competitive leverage since they yield uniqueness in the product line that may have a wider appeal to clients. To cap it all, organizations that swiftly attune their operations according to the changes in their operating environments are likely to gain competitive advantage as per Michael Porter's generic competitive strategies.

5.2.3 Measures to Overcome these Challenges in Departments in the

Bank

In the ICT department, the bank has put in place highly trained personnel who have advanced experience in order to steer banks operations in fluid techno-environment. They develop software best suited for customer satisfaction, install and run them to increase efficiency that is realized at the banks returns. The bank has acquired the latest technology equipment that combines with human capital for efficient solution of globalization challenges. In the finance department, use of bank fusion and universal banking which is a wide range of banking and financial services offered by financial organizations under a single roof through a variety of delivery channels. Moreover, financing large fixed investments (new branches) was another way, which the bank uses to overcome the challenges brought about by globalization.

5.2.4 Effects of Globalization on the Banks Expansion Strategies

The study found out that, in the business development department, globalization should be the medium through which bank should embrace growth and development rather than being a tool of drain and other negative aspects of globalization. Innovation in the banking sector has brought about additional transaction from personal banking to inter connected banking system. Upon adopting globalization and technology, CBA has redefined itself to give services to wide range of customers. This has occasioned the expansion of branches including branches across borders and therefore increased prospect profitability.

5.2.5 Key Benefit of Bank Fusion Universal Banking

The first benefit of bank fusion is the improvement of operation in efficiency in the following areas: provision of a single integrated platform for all banking services, giving the bank a choice of components to deploy, automating manual activities; and reducing error rates. The second advantage is better revenue and cost management that is attained through flexible fee charging structures; elimination of errors via automation; and the reduction of operating costs. The third benefit is the reduction of risks thus allowing for flexibility, central limit system, supporting multilevel authorization and comprehensive reports.

Another benefit of universal banking is the improvement of customer service as it provides a total 360 degrees view of customer; delivery of immediate feedback through process analytics and the reduction of time to market for new products. Fifth is that bank fusion is robust and secure as it provides a proven technology, a proven track record and a uni-layered security mode. Finally, in the ICT department, globalization has led to the modernization of the banks infrastructure and this has led to customer satisfaction.

5.3 Conclusion

Globalization has occasioned free movement of business entities, workers, skills, goods and services across international borders. Globalization has affected Commercial Bank of Africa in both positive and negative ways. To begin with, it has come with technologies that are cost effective for the bank among which CBA applies to deliver value to its customers. These technologies help the bank to operate at minimal costs and help in effective money transactions. This makes the work of the bank easier. For instance, for

CBA to lend a huge amount of money to customer, they just search for the customers' information in a database to understand the credibility and ability of the customer to repay the loan. The technologies have enabled CBA to reduce the number of workers employed per year significantly and on the other side increasing the efficiency in service delivery. CBA has been able to expand and establish in foreign countries due to friendly user technology.

However it has affected bank negatively especially at initial stages where the bank had to purchase assets worth of millions in order to successfully install the technologies in place. This raised the operational cost because the bank had to employ expertise of the technologies and train their employee on the use of these technologies. In addition, customer had to deal with increased cases of fraud before the banks could discover ways of counteracting it.

In the business development department, it was determined that creation of department whose focus was to maintain the banks status as a good financial partner was crucial.

5.4 Recommendation for Policy and Practice

Recommendations made in this project are based on the gaps identified in the bank and are mainly based on the analysis in chapter four above.

First is that the bank should adopt technology and globalization in the entire department since they have great benefits to both the bank and the customer. Secondly, the bank should implement the 2013 to 2018 project immediately and focus on the realization of the goals of the project plan. The clients should adopt the vision and mission statement

immediately for a better perception of the bank. There should also be provision for funds for installation of the ICT related equipment. The ICT development should be given priority since it enhances operations and security.

5.5 Limitations of the Study

This study examined effects of globalization on CBA and the strategies that the bank utilized to overcome the resulting challenges. Many generalizations have been made in the study specifically to the bank. The study did not look into some aspects like the banks performance over the last few years. It would have arrived to a better conclusion with mathematical aspect in place about the banks performance to be able to relate with exactness the impact of globalization on the bank. The study was limited to one bank and used few sample.

5.5.1 Suggestion for Further Research

This study examined strategic responses by the Commercial bank of Africa to challenges brought about by globalization. It was limited to this particular bank. More studies can be done on other banks and assess whether they could have the same result.

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APPENDIX I: LETTER OF INTRODUCTION



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE.....

TO WHOM IT MAY CONCERN

The bearer of this letter Faith Wanjiku

Registration No. D61/62055/2010

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

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

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

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS



APPENDIX II: INTERVIEW GUIDE

HEAD OF DEPARTMENT:

1. How long have you served in the banking industry?
2. Has the Bank's mission been reviewed for the last 5 years?
3. Has the structure of the Bank been changed for the last 5 years?
4. Do you think Commercial Bank of Africa experiences the impact of globalization?
5. How would you describe globalization in relation to the success of your department?
6. How has international business influenced the bank's strategic response to challenges of globalization?
7. What are the main challenges faced by your department as a result of globalization?
8. What measures has your department put in place to combat these challenges?
9. How has globalization affected the Bank's expansion strategy?
10. How has globalization affected the Bank's products and services?

THANK YOU FOR YOUR CO-OPERATION