

**THE INTERNATIONALIZATION PROCESS OF COMMERCIAL  
BANKS IN KENYA**

**BY**

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OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE  
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## DECLARATION

I declare that this research paper is my original work and it has not been presented for award of any degree in this or any other university.

Sign..... Date.....

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D61/71577/2008

This research project proposal has been submitted for examination under my approval as supervisor of the candidate

Sign..... Date.....

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To God be the Glory; great things He has done.

I thank my supervisor, Prof. Ogutu for his guidance throughout the project. My gratitude also is to the faculty members of the School of Business, Mombasa Campus for their support throughout the course.

Much appreciation goes to the respondents; for their cooperation.

To my family and friends; I am forever grateful for the encouragement and support.

## **DEDICATION**

This project is dedicated to my parents; for teaching me to the value of hard work, education and the principle of putting God first in all my endeavors.

## **ABSTRACT**

Internationalization of business is the expansion of a firm's activities into foreign markets. It is a business strategy influenced by internal and external forces; proactively or reactively such as profit, growth goals, economies of scale, sale of seasonal products, opportunities in foreign markets and competitive pressures. The banking industry in Kenya has 44 commercial banks which have operations in foreign markets; some are foreign owned while a good number of the local banks have internationalized into several countries. In the process of internationalization firms adopt different models such as the Uppsala model, Network models, Vernon's product life cycle model, Eclectic model and Born global and Born again global models. The expansion of business into foreign markets faces cultural challenges that cut across national, business environment and organizational cultures. The operating costs increase, firms may have insufficient funds to invest in the foreign markets and they face unfair competition from firms in the foreign markets. The bulk of studies on internationalization have focused on developed economies; while studies on Kenyan banks have focused on strategy. This study focuses on the internationalization of commercial banks in Kenya, with the objective of determining the processes adopted and challenges encountered. The research was done by carrying out a cross sectional survey on a population of 21 internationalized banks. The findings of the study indicate that the banks commonly applied the Uppsala, Born global and Born again global models. The main challenges are cultural differences and increased operational costs in the foreign markets. The recommendations of the study are for the banks to consider the influence of the external business environment. The recommended are for further research on the impact and management of cultural challenges.

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## **ABBREVIATIONS AND ACRONYMS**

CBK – Central Bank of Kenya

GDP – Gross Domestic Product

NIC – National Industrial Credit Bank

SACCOs – Savings and Credit Cooperative Society

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

Internationalization of business is the process of increasing involvement of enterprises in international markets. The network approach (Johanson & Mattsson 1988), defines internationalization as a process in which relationships are continuously established, developed, maintained dissolved with the aim of achieving the firm's objectives. It is the multidimensional process of increased incorporation of inward and outward company activities outside the borders of a home country (Pfajfar 2009).

Research and studies have resulted in various internalization theories such as the process models, the eclectic models, the network approach models. The process models take the assumption that internationalization is a cumulative process of increasing international knowledge and resource commitments in incremental steps as in the Uppsala model (Johanson & Vahlne 1977). In the eclectic model, Dunning (1993) considers environmental factors to be important and concludes that internationalization is as a result of rational decision making within a firm. While the process and eclectic models solely focus on large firms; in the network approach, Johanson & Mattsson (1988) includes medium firms and assumes a second degree approach to internationalization whereby subsidiaries' control over important resources and the importance of inward activities are pertinent considerations.

Internationalization is a deliberate expansion strategy for firms as is the case in the Kenyan banking sector; foreign as well as indigenous banks operate in international markets. International banks such as Barclays Bank, Standard Chartered Bank and Citigroup have established operations in Kenya. Kenya Commercial Bank, Equity Bank and Diamond Trust have internationalized into the East African region. These developments form the interest and foundation of this study on internationalization of commercial banks.

### **1.1.1 Internationalization Process**

The process will be appreciated by understanding such aspects as; the theoretical models which document the steps, the forces or motives of internationalization, the challenges encountered in process of internationalization and the benefits of internationalization.

Pfajfar (2009) illustrates that internationalization process has been dynamic in line with the trends in international business such as abundance of products, new technologies, new customer segments and movement of production. Aharoni (1966) studied the process from a longitudinal view; from his findings further research has been undertaken leading to development of the process models. The Uppsala model (Johanson & Wiedersheim – Paul 1975) is the initial process model based on a study of Nordic manufacturing firms; with further revisions (Johanson & Vahlne 1977, Johanson & Mattsson 1988) making it the most commonly referred to model. The I - Models relate to firms of all sizes with the assumption that internationalization is a learning process associated with innovation or new ideas (Bilkley & Tesar 1977). The eclectic model (Dunning 1988) considers the importance of the environment on the internationalization process. The network models (Johanson and Mattsson 1988, Welch, Wilkinson & Young 1996) explain the

internationalization process for SMEs and the importance of inward activities. In the 1990s the predominantly traditional models have been challenged by the “born global” (Knight & Gavusgil 2004) and “Born – again” (Bell, McNaughton & Young 2001) models which found that a difference in the pace and degree of internationalization as some firms internationalized rapidly by skipping some stages of the traditional models.

There are internal and external forces of internationalization; internal forces are from within the firm where the firm has control while the external forces relate to the environment and the firm has no control. Proactive internal forces include profit and growth goals, managerial urge and economies of scale while reactive internal forces include excess capacity, overproduction and sale of seasonal products. The proactive external forces are the opportunities presented by the foreign markets; reactive external motives include competitive pressures, proximity to international customers, psychological distance and unsolicited foreign orders (Pfajfar 2009).

The internationalization process faces cultural, regulatory, foreign market trade barriers, host country government policy as well as economic challenges. The firm’s ability to handle these challenges will determine the success of the internationalization process and the gains which include increased profitability, tax benefits and prestige which is advantageous especially in the tendering process.

### **1.1.2 Banking Industry in Kenya**

The banking industry comprises of institutions engaging in financial services. In Kenya, it is a regulated industry governed by various Acts including the Companies Act, the Banking Act and the Central Bank of Kenya Act.

The growth of this industry in terms of assets, deposits, profitability and product diversification has placed it among the key contributors to the Kenyan economy. The Kenya National Bureau of Statistics 2012 report indicates that the financial services industry achieved the highest GDP growth rate of 7.8% in 2011 as per Table 1.1 – Growth rate of GDP by industry. This sector was the fourth highest source of Kenya’s GDP growth in 2011 as per Table 1.2 – Sources of GDP growth, 2008-2011.

The banking industry can be classified on the basis of the clientele served and products offered to include into retail banks, commercial banks, cooperative banks, investment banks, specialized banks and central banks. Retail and commercial banks offer basic financial services of savings and lending to individuals and businesses for profit, cooperative banks are essentially aimed at providing cheap credits to their members, investment banks offer financial and investment consulting services to individuals, companies and governments, specialized banks provide financial aid to industries, heavy turnkey projects and foreign trade while central banks are the monetary and financial policy regulatory banks in a country. These categories are represented in Kenya by such banks as Barclays bank of Kenya, Savings and Credit Cooperative societies (SACCOs), African development Bank and the Central Bank of Kenya (CBK) respectively. In Kenya the banking industry comprises of 44 commercial banks, 9 deposit taking microfinance institutions and 109 forex bureaus as per CBK statistics (Appendices 2-4).

### **1.1.3 Commercial Banks in Kenya**

The statistics by the Central Bank of Kenya indicate that there are 44 commercial banks operating in Kenya; 13 out of these are foreign owned while 31 are locally owned.

The Nairobi business directory 2012 lists the top 10 banks operating in Kenya as; Kenya Commercial Bank Limited, Barclays Bank of Kenya, Standard Chartered Bank Kenya, Equity Bank Limited, Citibank Kenya, CFC Stanbic Bank Limited, Cooperative Bank of Kenya, Diamond Trust Bank Kenya Limited, African Banking Corporation Limited and NIC bank. These banks are the major players in the Kenyan banking industry and are listed on the Nairobi Securities Exchange with the exception of Citibank and African Banking Corporation. These banks are also the most profitable and have the highest growth rates. Equity Bank limited, Kenya Commercial Bank Limited, Barclays Bank Limited and Standard Chartered Bank reported the 2012 Profit before Tax (PBT) as KES.17.42Billion, KES.17.2Billion, KES.13.02Billion and KES.11.6 Billion respectively.

These top Kenyan banks have adopted internationalization as a deliberate business strategy; informed by varied reasons including competition, market opportunities, profitability and customer expectations. These reasons are the factors that influence the internationalization decision. A study carried out on by the Erasmus Research Institute of Management (ERIM) on internationalization of banks found 3 groups of incentives that influence the decision to internationalize: Extrinsic, Bank intrinsic and Sector intrinsic. Extrinsic incentives include “following clients” strategies to foreign export markets and differences between countries economic growth, financial development and regulation. Bank intrinsic incentives include optimizing competitiveness, economies of scale and profitability. Sector intrinsic incentives represent common ground between extrinsic motives and intrinsic motives such as the relative position a bank wants to attain relative to competitors, achieved by market power (Slager, 2000).



The growth in number of Kenyan banks into international markets is slow in comparison to foreign banks that have internationalized into the Kenyan market. The foreign banks operating in Kenya form 25% of the overall banks; while about 20% of the 31 local banks have internationalized. The internationalization of the Kenyan banks is currently limited to the East African markets. This study will seek to establish the challenges encountered in the internationalization process which may be the cause of the slow growth of the Kenyan banks.

## **1.2 Research Problem**

Internationalization is important to a firm as it makes it profitable, competitive and stable. There are opportunities as well as threats to business operations due to the dynamic nature of business environment, globalization, technological advancements and increased consumer knowledge. There are new markets, increased demand and efficiency in production; there is increased competition. The firms that will sustain their stability must adopt the internationalization process.

The banking industry in Kenya is home to international banks such as Barclays, Standard Chartered and Citibank. The internationalization of indigenous Kenyan banks has been adopted as a growth and expansion strategy with such banks as Kenya Commercial Bank, Equity bank and Diamond Trust bank venturing into the international markets. The commercial banks that are internationalized are the most competitive and profitable and are the top ten Kenyan banks. The banks have been able to retain their customers across East African market thus creating a lasting brand.

The study of the internationalization process is not new; Johanson & Vahlne (1977) based the Uppsala model on a study of firms in the manufacturing industry in Sweden.

Carneiro, Da Rocha & Da Silva (2008) studied the internationalization of Brazilian service firms. Parada, Alemy & Planellas(2009) in their study on Internationalization of retail banking focus on Spanish banks, Kowalewski (2009) studies the Economic determinants and entry modes of foreign banks into central Europe. These studies have generally addressed the internationalization process of manufacturing, service and banking industries in developed western economies. In the recent past there is increased interest on developing economies including service industries in Kenya. Studies have been carried out on various aspects of Kenyan banks. In regard to internationalization; Mwangi (2012) researched on the application of Porter's model of competitive advantage of nations to the internationalization on Kenyan banks.

The proposed study will expand knowledge of internationalization of Kenyan service firms with a focus on the commercial banks by seeking answers to the questions; which internationalization processes have the commercial banks adopted? What challenges have the commercial banks encountered in the internationalization process?

### **1.3 Research Objectives**

- i. To determine the internationalization processes adopted by commercial banks in Kenya.
- ii. To establish the challenges encountered in the internationalization of commercial banks in Kenya.

## **1.4 Value of the Study**

This study will contribute valuable knowledge in the field of International business studies. It is hoped that the findings of this study will avail hitherto unavailable material that will be useful to academicians as reference in the study of internationalization theories applicable to commercial banks.

The study will be useful to policy makers in the banking sector as it is expected to suggest aspects of the internationalization models that are specific to commercial banks.

The recommendations of the study will inform the decisions on the internationalization process to be applied by Kenyan banks venturing into international markets. It is expected that the study will gather information that will influence government policy to create a favorable business environment which promotes internationalization of firms in the banking industry.

The findings of this study will be significant in guiding managerial practice in the banking sector. It is hoped that the study in achieving its stated objectives; will suggest the internationalization processes best suited for the Kenyan banking sector and formulate strategies of dealing with the challenges of internationalization.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter discusses the theories of internationalization which form the foundation of this study. The chapter focuses on the theoretical framework with the aim of creating an understanding of the foundation upon which the concept under study is based. It further outlines the empirical framework based on a review of previous studies carried out on internationalization of commercial banks.

#### **2.2 Theoretical Foundation and Process**

Theoretical framework is the structure that supports theories relating to the study in question; it is a description of theories that explain the research problem; it connects the researcher to the existing knowledge. Theories are formulated to explain, predict and understand phenomena and to challenge and extend existing knowledge within the limits of the critical bounding assumptions (Torraco, 1997). The theories relating to the internationalization process include the Uppsala model, the Network model, the product Life Cycle, The eclectic model, the Transactional Cost Analysis Model and the Born Global Models.

##### **2.2.1 The Uppsala Model**

The Uppsala model (Johanson and vahlne, 1977) is based on a study of four manufacturing companies; Volvo, Sandvik, Atlas Copco and Facit. Johanson and Vahlne found that these firms had entered the foreign markets in small incremental steps, rather

than large production investments at one point; based on two variables of market knowledge and market commitment. Firms will first internationalize into countries where they have greater market knowledge and that are closer to them in terms of psychic distance. "...first enter markets that are culturally and geographically proximate to the home market and gradually expand into countries characterized by successively greater cultural and geographical distance" pg 120 – enriched Uppsala model. The level of market commitment grows as market knowledge rise and uncertainty declines. The model has four stages of growth in the levels of resource commitment in foreign markets as irregular export activities, export via independent sales representative, establishment of overseas sales subsidiary and establishment of foreign manufacturing subsidiaries.

Johanson and vahlne, in 1990 listed situations when firms may opt not to follow the establishment chain as; firms endowed with large resource pool, in homogeneous markets with stable conditions and an experienced firm can generalize the experience from similar markets and apply in new markets. They introduced two clarifications; particularly the industrial network perspective and the concepts of advantage package and cycle that relate to organizational capability and organizational learning perspective. The internationalization process is not only driven by experiential knowledge but also by "...relationships to other bodies in the foreign markets" Johanson & Vahlne (1990:17). They further state that: "An extension of the internalization process to take into account the network aspect should consequently make the concepts' commitment, knowledge, current activities and commitment decisions as multilateral rather than unilateral as in the original model. That is the process is also inter-organizational and not just intra-organizational." Johanson & Vahlne (1990: 19).

### **2.2.2 The Network Models**

The network model (Johanson and Mattson, 1988) is developed on the Uppsala model; it recognizes the influence of external organizations on the internationalization process. It comprises the dimensions of the degree of internationalization of the firm as well as the market "...allows multilateral influences on the internationalization decision making of the firm." (Johanson and Mattson 1988). Johanson & Vahlne(2009) recognize that; the business environment is a network rather than a neoclassical market with independent suppliers and customers, outsidership to the relevant network rather than the psychic distance is the cause of uncertainty and new knowledge is developed in relationships. The revised model of internationalization includes trust building and knowledge creation to the change mechanisms.

Based on business network research, Johanson and Vahlne (2009) argue that markets are networks of relationships in which firms are linked to each other in various, complex patterns. Therefore being a member of the relevant network influences success of the internationalization process.

Some findings of empirical studies on the role of networks in the internationalization of firms include; Network relationships have an impact on foreign market selection as well as on the mode of entry. These were the findings by Coviello and Munro (1995, 1997) in their studies of software firms. Inter-organization relationships of suppliers affects the patterns of internationalization; as found by Martin, Swaminathan and Mitchell (1998) in a study of the international expansion of Japanese suppliers of automotive components. In 2006 Coviello developed a model of "how" networks evolve during the early phase as this had not been addressed by the other researches whose focus was on the influence of

networks on internationalization. She shows that insidership into a new market, even before the foundation of the firm is instrumental to the specific internationalization process at hand.

Johanson and Vahlne focus on business networks as a market structure on which the internationalizing firm is embedded. They found that successful internationalization requires reciprocal commitment between the firm and its counterparts in the foreign market (Johanson & valve, 1990)

### **2.2.3 Vernon's Product Life Cycle**

Vernon's (1966) analysis of the internationalization process is based on the stages of introduction of a new product, growth, maturity and decline that a product undergoes.

According to the model a new product undergoes through the product life cycle in the country of origin and the comparative advantage increases after maturity and standardization stage; at which point the product is ready for export. Once a new product has reached the maturity stage and has been standardized in its country of origin; it is ready for export to other developed countries. The developed countries easily acquire the production knowhow and start producing the same product in the country for their consumption thus decreasing the need for import of the product from its country of origin.

At this growth stage the original country now explores markets in the less developed countries. The product gets into the maturity stage where there is more advanced production techniques and greater competition. At this stage all developed countries are net exporters while the less developed countries are net importers of the product but

produce the product as well. The original innovator becomes a net importer as competitive advantage shifts to other developed countries.

The product reaches the standardized product stage and comparative advantage shifts to less developed countries; there is mass production with less skilled labour. At this point the innovator country and other advanced countries reduce their domestic production and increase imports from the less developed countries. This explains international investment as the same firm from innovation country could be the one moving production plants from advanced to less developed countries.

#### **2.2.4 The Eclectic Model**

This model is a further development of the internalization model; it was published by John Dunning and is also known as the OLI model. In this model Dunning (1981) introduces the three variables of Ownership advantages, Locational advantages and Internalization advantages as important factors in addition to the organizational structure in the process of internationalization. Ownership advantages include trademarks, production technique, entrepreneurial skills and returns to scale; Locational advantages refer to the business environment in reference to the existence of raw materials, production costs and tax incentives, while internalization advantages refer to the benefits of producing through partnership arrangements such as licensing or joint ventures.

The advantages are understood from the viewpoint of economic competitiveness, the model predicts that production will be established where these advantages can be enjoyed.



### **2.2.5 Born Global and Born Again Global**

The Born Global (Knight and Gavusgil, 2004) and the Born-again Global (Bell, McNaught and Young, 2001) are models that describe internationalization patterns in a manner that challenges the traditional models in regard to the speed and degree of internationalization. Born Global are firms whose orientation from their inception is geared towards internationalization; they thereafter attain a greater degree of internationalization within a short number of years, they are early and rapid adopters of internationalization. Bell et al., (2001) describe Born-again global as firms that are originally well established in their home markets and suddenly adopt rapid internationalization; they are rapid but not early starters of internationalization. The models focus on Small and Micro enterprises which achieve internationalization more rapidly than the stage models predict by jumping over some stages (Oviatt and McDougall, 1994).

### **2.3 Challenges of Internationalization**

The international markets are characterized by rapid changes in the business environment which creates a lot of challenges and uncertainty for internationalizing companies. The modes of internationalizing are also becoming increasingly diverse as the international activities increase. Firms encounter challenges from the political, economic, social, technological as well as legal environments in their home country; the same challenges exist in the foreign markets. Researchers in their studies of the internationalization

process have documented these challenges. The challenges may also emanate from within the internationalizing firm.

In the studies by Johanson and Vahlne(1977), psychic distance is defined as the factors preventing or disturbing the flows of information between a firm and the market E.g. Language, cultural, political, legal and educational systems. The psychic distance determines the levels of resource commitment i.e. the further the markets the lower the resources committed and vice versa. Firms may therefore face challenges internationalizing to countries that are far away in terms of psychic distance; their expansion may be limited to “nearby” markets.

Cultural challenges include national, business/industrial and company cultures. Hofstede defines culture as the collective programming of the members of one from another. Culture is learned, interrelated and shared. Firms venturing into international markets encounter national cultures that may differ from their own nation’s culture; they are therefore faced with the challenge of adjusting their organizational culture to be aligned with that of every nation where they have operations. Nations have cultures which are unique from country to country; the national culture shapes the business environment which in turn affects the organizational culture. Hofstede (1980) in his research found that national cultures are implicit, core, systematically casual, territorially unique and shared. The sharedness of national culture means that a unique national culture is assumed to be individually carried by everyone in a nation.

The political and legal environment combine the trade barriers of the home country, host country and international environment which presents challenges of tariff (tax) and non-tariff barriers such as quotas and embargoes. These barriers are put in place to protect the

domestic producers by reducing imports from foreign markets, maintain adequate supplies by reducing exports from the home country and to collect revenue.

The process of internationalization may face constraints emanating from the firm's intrinsic deficiencies in resources and capabilities. These constraints make internationalization a challenge for most firms (Oviatt and McDougall, 1994). An internationalizing firm will incur additional costs which it is not incurring in the home country and which are not incurred by the competing firms in the international market. Vernon (1997) states that the managerial costs involved with internationalization are usually higher than in the domestic context. These costs result from additional operations such as transport, communication and complexity costs.

Firms in high-technology industries face the challenge of perceived risk relating to the additional level of threat to proprietary intellectual assets. This may result from the inability to define complete contracts and the lack of resources to defend legal rights thus encouraging opportunistic behavior by local competitors, who have a better knowledge of domestic regulations and rules.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the methods that were used to carry out the study, collect and analyze the data. It outlines the research design, the population of study, data collection and data analysis.

#### **3.2 Research Design**

The study applied a cross sectional survey carried out on the commercial banking industry in Kenya. A cross sectional study is an observatory study in which the researcher records information on the subject of study without manipulating the study environment. It is basically a snapshot of the population. Mugenda and Mugenda (2003) perceive a cross sectional study as a process of collecting data from members of a population in order to determine the current status of the population in regard to one or more variables. This was the appropriate method of study in this case as there was a time constraint, it avails descriptive data on the various aspects of internationalization that the study sought to establish.

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

The target population was 21 commercial banks with operations in foreign markets. According to the Central Bank of Kenya statistics as at 13<sup>th</sup> December 2011, out of the 44 commercial banks licensed to operate in Kenya, 13 are foreign banks while 20% of the local banks have operations abroad. According to Mugenda and Mugenda

(2003), when the population is small and located in a narrow geographic area, the target population is closely comparable to the accessible population.

### **3.4 Data Collection**

The study relied on primary data collected using a self administered questionnaire containing both open and closed ended questions. The sample questionnaire in Appendix 1 had three parts; Part A on demographic information of the respondents, Part B on the internationalization process adopted by commercial banks in Kenya and Part C on the challenges of internationalization.

The respondents were departmental heads, branch Operations Managers, supervisors; being the people with a deep understanding of the banks strategies as the formulators and implementers of the banks' strategies.

### **3.5 Data Analysis**

Data analysis is the process of organizing data to produce findings that can be interpreted by a researcher and used to draw conclusions on the population of study. The data collected in this study was recorded and edited from the responses of the questionnaire to produce statistical data.

The statistical data provided information on the determinants of the internationalization process, the internationalization processes applied by Kenyan banks and the challenges encountered in the process of internationalization.

The data was subjected to statistical analysis in order to establish the percentages, mean and mode relating to the various aspects of internationalization under study.

The findings were used to infer the appropriate internationalization processes applicable to Kenyan banks. These were presented in form of tables, pie charts and graphs.

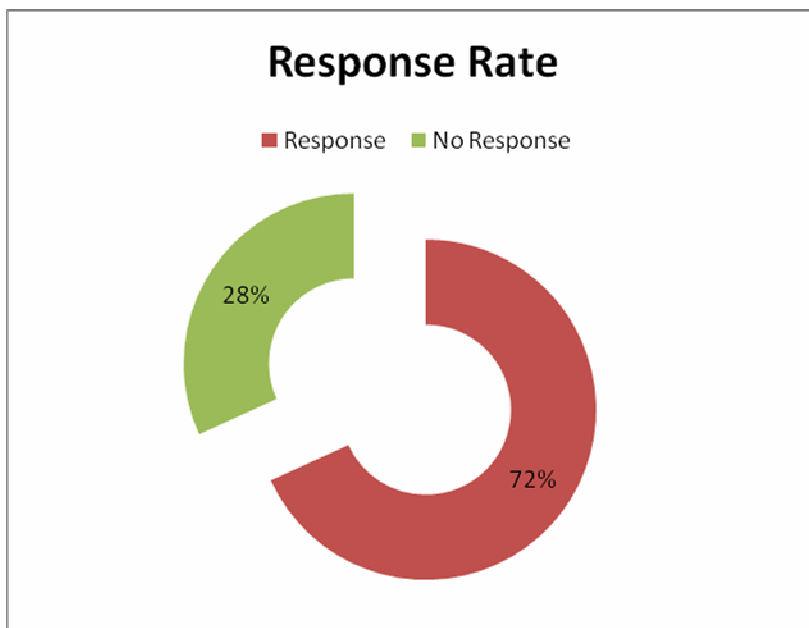
## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The study sought to understand the internationalization process of commercial banks in Kenya. This was achieved by investigating the process applied and the challenges encountered in the internationalisation of commercial banks in Kenya. This chapter focuses on data analysis, interpretation and presentation.

##### 4.1.1 Response Rate



**Figure 4.1 Response Rate**

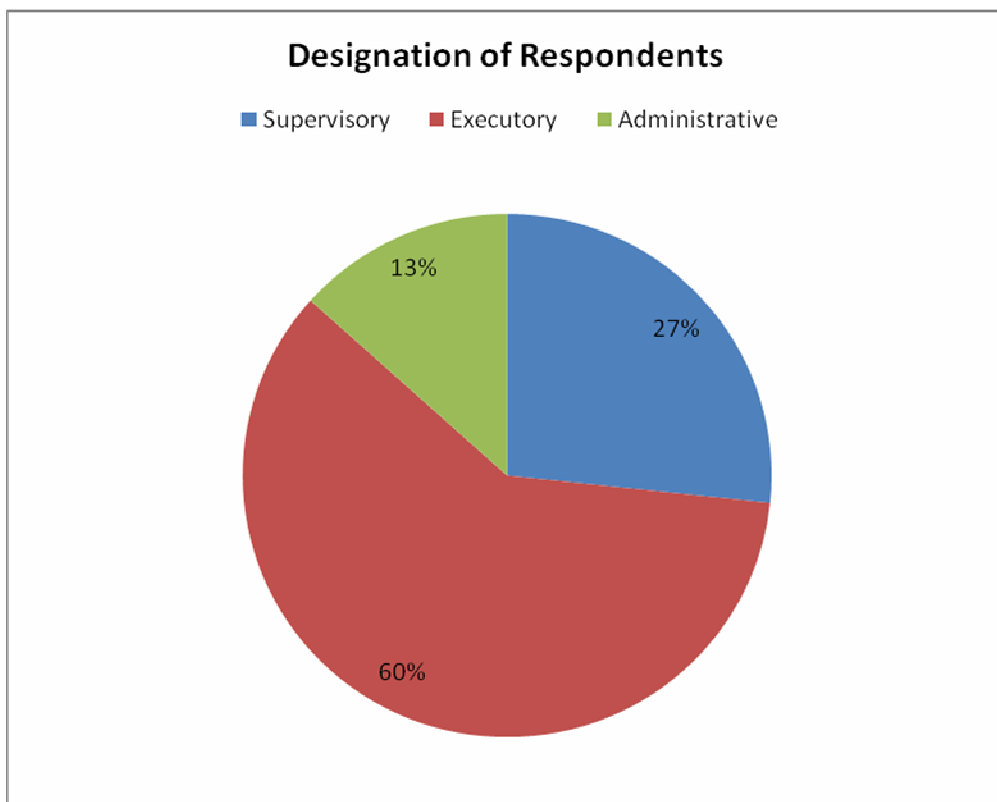
The researcher targeted responses from 21 banks being the population of study out of which 15 responses were obtained. This represents a 72% response rate. According to

Mugenda (2003) any response of 50% is adequate for analysis and reporting while that of 70% and over is very good.

## 4.2 Demographic Information

The researcher sought to know the designation and job experience of the respondents in order to establish the reliability of the information obtained.

### 4.2.1 Designation of the Respondents



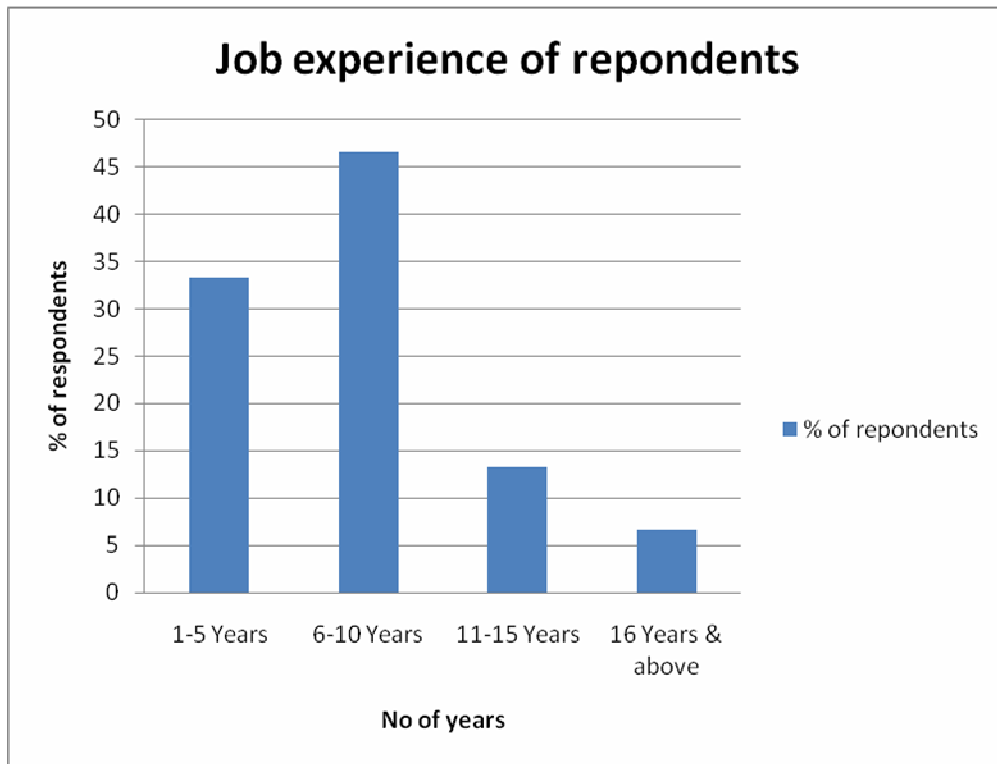
**Figure 4.2 Designation of respondents**

The respondents were bank managers at supervisory, executory and administrative levels i.e. operations managers, branch managers and head office unit heads. The response was 27%, 60% and 13% respectively. This indicates that the respondents were knowledgeable



with a deep understanding of the banks' strategies and were in a position to give reliable information sought by the researcher.

#### 4.2.2 Job experience of the Respondents



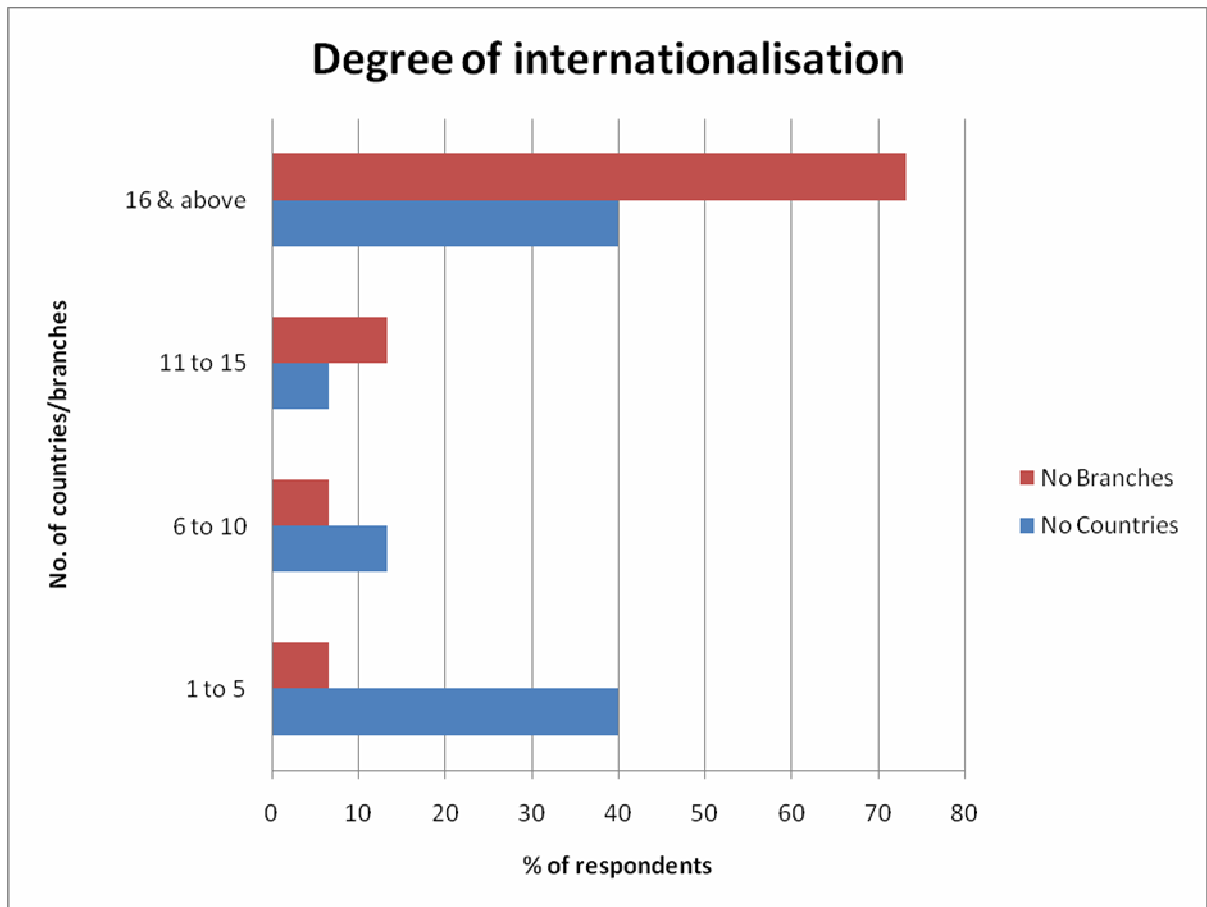
**Figure 4.3 Job experience of the respondents**

The researcher classified job experience of the respondents as 1-5 years, 6-10 years, 11-15 years and 16 years and above; the response was at 33%, 47%, 13% and 7% respectively. This indicates that the respondents had sufficient experience in the banks to represent reliable information on the internationalisation process.

### 4.3 Internationalization Processes

The study sought to determine the internationalization processes adopted by the Kenyan banks. The researcher sought to identify the degree of internationalization achieved by finding out the number of foreign countries and branches the banks had established, the reasons for internationalization and the steps undertaken in to achieve internationalization.

#### 4.3.1 Degree of Internationalization

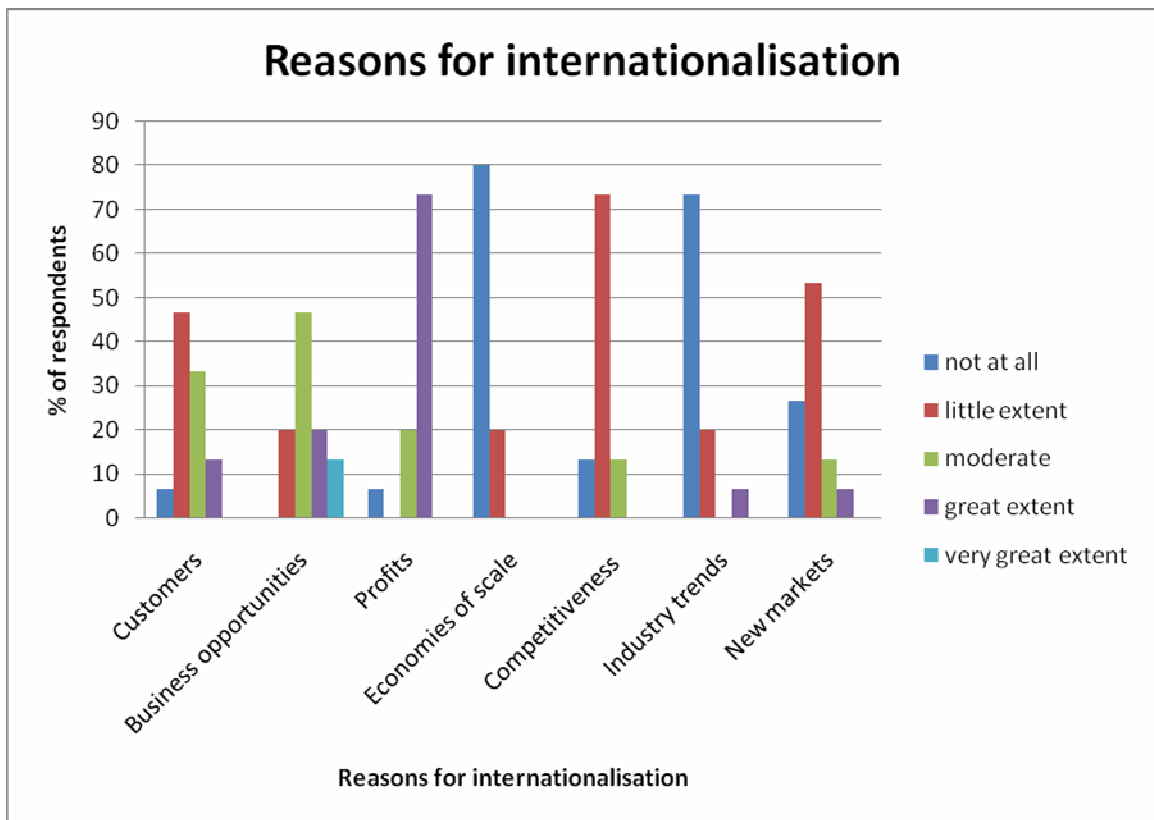


**Figure 4.4 Degree of internationalization**

The study established from the respondents that 40%, 13%, 7% and 40% of the banks had established operations in 1-5, 6-10, 11-15 and 16 and above foreign countries

respectively. It was also found that 7%, 7%, 13% and 73% of the banks had 1-5, 6-10, 11-15 and 16 and above branches respectively operating in the foreign countries. This indicated that commercial banks in Kenya have undertaken the internationalization process at a sufficient degree to support the research.

### 4.3.2 Reasons for Internationalization



**Figure 4.5 Reasons for internationalization**

The respondents were requested to indicate the reasons that influenced their bank's decision to internationalize into foreign markets. Majority of the respondents at 47% indicated that "to follow customers" influenced to a little extent, 47% indicated that "to utilize opportunities presented by favorable economic environment" influenced to a

moderate extent, 73% indicated that “to optimize profits” influenced to a great extent, 80% indicated that “to gain economies of scale” did not influence at all, 73% indicated that “to attain competitive edge” influenced to a little extent, 73% indicated that “to keep up with industry trends” did not influence at all while 53% indicated that “to seek new opportunities” influenced to a little extent. This indicates that the internationalization process of commercial banks in Kenya is influenced greatly by bank intrinsic incentives of profitability and extrinsic incentives of favorable business opportunities in the foreign markets. Extrinsic incentive of following customers, bank intrinsic incentive of optimizing competitiveness and sector intrinsic incentives of finding new markets also influence the decision to internationalize. These findings support the study by Slager (2000) that the internationalization process of banks is influenced by extrinsic, bank intrinsic and sector intrinsic incentives.

### 4.3.3 Process of Internationalization

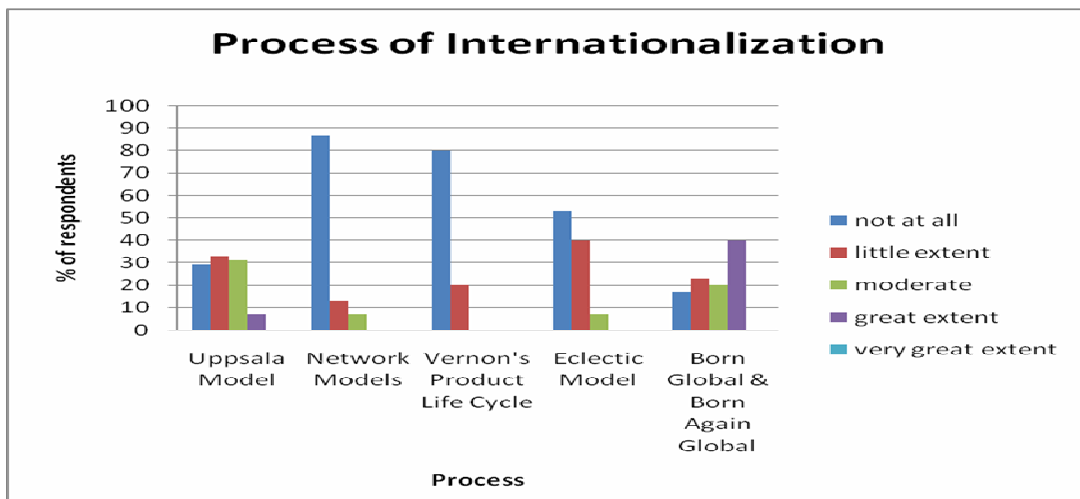


Figure 4.6 Process of internationalization

The researcher sought to identify the internationalization process applied by requesting the respondents to classify the extent to which their firm went through the select stages. The various stages characterized one of the internationalization process discussed earlier in this study.

The Uppsala model is characterized by the existence of prior knowledge of foreign markets, starting internationalization by venturing into the foreign markets closer to the home country and entering foreign markets via representatives and subsidiaries. The respondents indicated that 29%, 33%, 31% and 7% of the banks did not apply at all, applied to a little extent, applied moderately and to a great extent respectively. This indicates that majority of the banks at 33 % applied the Uppsala model at some point in their internationalization process; this confirms that the findings initial research on internationalization by Aharoni (1966) and Nordic studies by (Johanson & Vahlne, 1975) form the foundation for development of subsequent models.

The influence of the external market and business environment, importance of network relationships, insidership to relevant networks and the use of pre-existing market information gained by other firms are the characteristics of the network models. The study established that 87% did not apply the network model, 13% applied to a little extent and 7 % applied moderately. This is consistent with the earlier findings of this research that the extrinsic and sector intrinsic incentives do not greatly influence the internationalization decision of the commercial banks in Kenya.

The respondents indicated that Vernon's product life cycle does not apply to 80% of the banks while only 20% applies to a little extent. The eclectic model did not apply to 53% of the banks but 40% and 7% applied at little and moderate extent respectively.

According to Dunning (1981) firms will internationalize to markets that offer ownership, locational and internalization advantages. This is supported by the significant 43% banks that applied to a moderate extent.

The findings of the study indicate that the born globals and born again globals model did not apply to 17% of the banks. It however applied to a little extent, moderately and to a great extent at 23%, 20% and 40% respectively, an indication that commercial banks in Kenya have the internationalization orientation as a strategy from inception making them early and rapid starters of internationalization; and that the banks that have originally established their market in Kenya have suddenly adopted rapid internationalization. This is in agreement with the research by Oviatt & McDougall (1994) which established that some firms internationalized rapidly by jumping over some stages.

#### **4.3.4 Challenges of Internationalization**

The researcher sought to identify the challenges faced by the commercial banks of Kenya. The challenges that affected the banks to a great extent at 53% and 47% are different national, business and organizational cultures and increased operational costs in the foreign markets. The respondents indicated the challenges of uncertainty caused by rapid changes in the business environment, differences in language, cultural, legal and educational systems and unfair competitive advantage affected their banks at 47%, 53% and 53% respectively.

The study showed that unstable political and economic environment, limited financial resources to commit in foreign markets and trade barriers did not present a challenge at all to 93%, 93% and 87% respectively.



## **CHAPTER FIVE**

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

#### **5.1 Introduction**

This chapter presents a summary of the results of the study on the internationalization process of commercial banks in Kenya. Based on the findings in chapter four, the study gives recommendations on what various stakeholders can adopt to improve the internationalization process of commercial banks in Kenya. The suggestion for further research is also presented.

#### **5.2 Summary**

The study found that commercial banks in Kenya have internationalized into numerous foreign countries at a rapid rate as indicated by the 73% having 16 and above branches in the foreign markets.

The study established the reasons that influenced the internationalization decisions of commercial banks in Kenya as firm profitability, favorable business opportunities in the foreign markets, following customers, optimizing competitiveness and finding markets.

The findings of the study indicated that the main internationalization processes applied were the Uppsala model, the born global and the born again global. The commercial banks have mainly internationalized to foreign markets closer to Kenya. It was also established that commercial banks initially established in Kenya and suddenly adopted the internationalization process rapidly. The study however deduced that the banks did



not apply the network, the product life cycle and the eclectic models in their internationalization process.

The findings of the study established the main challenges as uncertainty caused by the changes in the foreign markets' business environment, differences in language, cultural, legal and education systems, different national, business and organizational cultures and increased operational costs. Unstable political and economic environment, limited financial resources, trade barriers and threat to proprietary intellectual assets were found to present minimal challenges to the internationalization process of Kenyan commercial banks.

### **5.3 Conclusions**

The study concludes that the internationalization decision of commercial banks in Kenya has largely been influenced by bank intrinsic incentives and the influence of extrinsic as well as sector intrinsic incentives has little to moderate influence. The commercial banks success in the internationalization process is evident by the large number of banks that have established operations in foreign markets with the presence of many branches. The national, business and organizational cultural challenges were the most common as the banks venture into the foreign markets.

### **5.4 Recommendations**

The study recommends that the commercial banks should consider extrinsic and sector intrinsic for greater success in the internationalization process. The banking industry is dynamic and therefore commercial banks should adopt the internationalization process that will enable it to internationalize more rapidly by skipping some of the traditional

steps. The commercial banks should formulate strategies to understand the diverse national, business and organizational cultures of the international markets in order to mitigate against hampering of their internationalization.

### **5.5 Areas of Further Research**

The study recommends that further research should be done on the impact and management of cultural challenges encountered in the internationalization process. The study also recommends that a comparative study should be done on the internationalization process of foreign banks and indigenous banks operating in Kenya to determine the success factors.

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Kenya National Bureau of Statistics: Kenya Copyright 2012, Facts and Figures 2012

The Nairobi Online Business Directory (2012)

## APPENDICES

### Appendix 1: Questionnaire

#### SECTION A: Demographic Information

Please tick as appropriate.

1. Please indicate your designation

Supervisory/Operative [     ]

Middle/Executory     [     ]

Top/Administrative    [     ]

2. No of years worked in the position

1 - 5   [     ]     6-10   [     ]     11-15 [     ]   16 and above [    ]

#### SECTION B: Internationalization processes adopted by commercial banks in Kenya.

3. The process of internationalization involves expansion of business operations beyond the home country's geographical boundaries. Please indicate the number of foreign countries your bank has established operations.

1 - 5   [     ]     6-10   [     ]     11-15 [     ]   16 and above [    ]

4. Please indicate the aggregate number of branches your bank has established in the international markets.

1 - 5   [     ]     6-10   [     ]     11-15 [     ]   16 and above [    ]

5. To what extent did the following reasons influence your organization’s decision to internationalize into foreign markets? (Use a scale of 1-5, where 1=Not at all, 2=Little extent, 3=Moderate extent, 4=Great extent and 5=Very great extent)

<b>Reasons for Internationalization</b>	1	2	3	4	5
To “follow clients” whose operations are in the foreign markets					
To utilize opportunities presented by favorable economic and political environment in the foreign markets					
To optimize the firm’s profitability					
To gain economies of scale					
To attain competitive edge and position the bank over other industry players					
To keep up with the industry trends and remain relevant in the banking industry network					
To seek new opportunities away from a saturated and highly competitive domestic market					

6. Other Reasons (Please specify below)

.....

.....

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.....

7. The following are the stages firms go through as they internationalize. To what extent were the stages applied in your bank’s internationalization process? (Use a scale of 1-5, where 1=Not at all, 2=Little extent, 3=Moderate extent, 4=Great extent and 5=Very great extent)



<b>Stages of Internationalization</b>	1	2	3	4	5
The bank had prior market knowledge of the foreign markets.					
The bank started with the foreign markets closer to the home country in terms of cultural and geographical distance.					
The bank entered foreign market via representatives and later established subsidiaries after gaining adequate market knowledge					
The decision to internationalize was influenced by factors in the external market and the trends in the business environment.					
The bank's network relationships and being an insider in the relevant was instrumental in the success of the internationalization process.					
Pre-existing market information gained by other firms and business networks in the banking industry.					
The bank ventured into the foreign market to extend the life cycle of its innovations and standardized products that were past maturity stage.					
The bank was expanding its operations to foreign markets as a strategy of gaining new market for products and services that have been successful in the home market					
The bank internationalized into foreign markets that presented advantages related to strong brand name, economic incentives and strategic partnerships.					
The firm's internationalized rapidly due to its strategic orientation to internationalization from inception.					
The firm was well established in the home market and suddenly adopted a rapid internationalization strategy.					

**SECTION C: The challenges of internationalization.**

8. To what extent did your bank encounter each of the following challenges in its internationalization process? (Use a scale of 1-5, where 1=Not at all, 2=Little extent, 3=Moderate extent, 4=Great extent and 5=Very great extent)

<b>Challenges encountered in the internationalization process</b>	1	2	3	4	5
Uncertainty caused by rapid changes in the business environment of the foreign markets.					
Unstable political and economic environment in the foreign markets					
Differences in language, cultural, legal and educational systems between the foreign market and home market					
Limited financial resources to commit to far away foreign markets					
Different national, business and organizational cultures					
Trade barriers such as quotas and embargoes					
Increased operational costs in the foreign markets					
Unfair competitive advantages of the local firms in the foreign markets					
Threat to proprietary intellectual assets					

9. Other challenges (Please specify below)

.....

.....

.....

## Appendix 2: List of Commercial Banks Operating in Kenya

### I. Institutions in Terms of Shareholding

#### a). Foreign owned institutions

##### i). Foreign owned not locally incorporated

- Bank of Africa (K) Ltd.
- Bank of India
- Citibank N.A. Kenya
- Habib Bank A.G. Zurich
- Habib Bank Ltd.

##### ii). Foreign owned but locally incorporated institutions (Partly owned by locals)

- Bank of Baroda (K) Ltd.
- Barclays Bank of Kenya Ltd.
- Diamond Trust Bank Kenya Ltd.
- K-Rep Bank Ltd.
- Standard Chartered Bank (K) Ltd.
- Ecobank Ltd
- Gulf Africa Bank (K) Ltd
- First Community Bank

##### iii). Foreign owned but locally incorporated institutions

- UBA Kenya Bank Limited

#### b). Institutions with Government participation

- Consolidated Bank of Kenya Ltd.
- Development Bank of Kenya Ltd.
- Housing Finance Ltd.
- Kenya Commercial Bank Ltd.
- National Bank of Kenya Ltd.
- CFC Stanbic Bank Ltd.

#### c). Institutions locally owned

- African Banking Corporation Ltd.
- Jamii Bora Bank Ltd.
- Commercial Bank of Africa Ltd.
- Co-operative Bank of Kenya Ltd.
- Credit Bank Ltd.
- Charterhouse Bank Ltd.
- Chase Bank (K) Ltd.
- Dubai Bank Kenya Ltd
- Equatorial Commercial Bank Ltd.
- Equity Bank Ltd.
- Family Bank Ltd.
- Fidelity Commercial Bank Ltd.
- Fina Bank Ltd.
- Giro Commercial Bank Ltd.
- Guardian Bank Ltd.
- Imperial Bank Ltd.
- Investment & Mortgages Bank Ltd.
- Middle East Bank (K) Ltd.
- NIC Bank Ltd.
- Oriental Commercial Bank Ltd.
- Paramount Universal Bank Ltd.
- Prime Bank Ltd.
- Trans-National Bank Ltd.
- Victoria Commercial Bank Ltd.

### II. Institutions listed on the NSE

- Barclays Bank of Kenya Ltd.
- CFC Stanbic Bank Ltd.
- Equity Bank Ltd.
- Housing Finance Ltd.
- Kenya Commercial Bank Ltd.
- NIC Bank Ltd.
- Standard Chartered Bank (K) Ltd.
- Diamond Trust Bank Kenya Ltd
- National Bank of Kenya
- Co-operative Bank of Kenya Ltd

**Table 1.1: Growth Rates of GDP by Industry**

Kenya Facts and Figures 2012

**GROWTH RATES OF GDP BY INDUSTRY**

Percentage

Industry	2008	2009	2010	2011*
Agriculture and forestry	-4.1	-2.6	6.4	1.5
Fishing	-13.2	3.8	2.7	3.1
Mining and quarrying	2.9	-4.5	9.7	7.1
Manufacturing	3.5	1.3	4.5	3.3
Electricity and water supply	5.3	-3.0	9.7	-2.6
Construction	8.2	12.7	4.5	4.3
Wholesale and retail trade, repairs	4.8	3.9	8.0	7.3
Hotels and restaurants	-36.1	42.8	4.2	5.0
Transport and communication	3.0	6.4	5.9	4.5
Financial intermediation	2.7	7.2	9.0	7.8
Real estate, renting and business services	3.7	3.0	3.2	3.6
Public administration and defence	0.6	1.6	2.3	2.5
Education	5.9	2.7	4.5	4.9
Health and social work	3.6	4.4	1.4	3.5
Other community, social and personal services	2.9	2.6	2.7	4.5
Private households with employed persons	2.0	2.0	2.0	2.0
Less: Financial services indirectly measured	-13.9	13.9	-5.7	5.2
<b>All industries at basic prices</b>	<b>1.1</b>	<b>2.6</b>	<b>5.7</b>	<b>3.8</b>
Taxes less subsidies on products	4.4	3.8	6.0	7.9
<b>GDP at market prices</b>	<b>1.5</b>	<b>2.7</b>	<b>5.8</b>	<b>4.4</b>

Source: Kenya Facts and Figures 2012 – P. 20

**Table 1.2: Sources of GDP Growth, 2008 - 2011**

Kenya Facts and Figures 2012

**SOURCES OF GDP GROWTH, 2008-2011**

Industry	Percentage			
	2008	2009	2010	2011
Agriculture and forestry	-64.0	-21.3	23.8	7.6
Fishing	-4.0	0.5	0.2	0.3
Mining and quarrying	0.9	-0.8	0.7	0.7
Manufacturing	22.6	4.8	7.7	7.3
Electricity and water supply	7.7	-2.5	3.7	-1.3
Construction	16.3	14.9	2.8	3.5
Wholesale and retail trade, repairs	30.8	14.6	14.3	17.4
Hotels and restaurants	-36.8	15.3	1.0	1.5
Transport and communication	23.4	28.0	12.7	12.7
Financial intermediation	6.6	10.0	6.2	7.3
Real estate, renting and business services	12.9	5.8	3.0	4.3
Public administration and defence	1.4	1.9	1.3	1.8
Education	22.1	5.9	4.6	6.5
Health and social work	5.2	3.5	0.5	1.7
Other community, social and personal services	6.9	3.6	1.7	3.8
Private households with employed persons	0.4	0.2	0.1	0.1
Less: Financial services indirectly measured	8.3	-3.9	0.9	-0.9
Taxes less subsidies on products	39.3	19.5	14.8	25.6
<b>GDP at market prices</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Kenya Facts and Figures 2012 – P. 22