INTERNATIONALIZATION OF COMMERCIAL BANKS IN KENYA

BY:

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DECLARATION

This research project is my original work and has not been presented for award of a degree at the University of Nairobi or any other university.

Signature……………………………Date………………………………..

Reg. No: D61/73150/2012

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

Signature…………………………Date…………………………………

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DEDICATION

I wish to dedicate this project to my family who encouraged me when writing this project.

ACKNOWLEDGEMENT

This research project in its present form has been made possible by God and a number of people to whom I am greatly indebted and to whom I would like to express my gratitude for giving me the strength and grace to get through this project, thank you for your unconditional grace.

To my supervisor Prof Evans Aosa; I extend my sincere gratitude for his guidance, suggestions, corrections, criticisms, patience and her constant encouragement throughout the period of writing this research proposal.

To my family and friends ; I extend my heartfelt gratitude to my mother for her continuous prayers and encouragement, my father for encouraging me to believe in myself and my sisters and brothers for their constant encouragement.

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ABSTRACT

This study was conducted on the internationalization of commercial banks in Kenya which was the key objective of this study. Commercial Banks have also developed strategies to enable them internationalize and maintain a competitive edge in the market Internationalization has helped Kenyan commercial banks to do a significantly better job of providing what customers are looking for thereby enabling the bank to earn a competitive advantage. Internationalization is important for growth of companies in countries that allow free market model of business has attracted entry into new markets requiring tact and strategy. The research design involved a cross sectional survey adopted in all commercial banks in Kenya to give an insight of the internalization of banks in Kenya. Data was collected using a questionnaire that was administered through drop and pick later method. Percentages, frequencies, pie charts, mean and standard deviation were used to analyze internationalization of commercial banks in Kenya. The study found that local commercial banks are quite sluggish to internationalize their ventures. There are several explanations for this finding: The management of commercial banks in Kenya is largely autocratic and therefore major decision-making processes are limited to a few leaders; managers are lowly informed about how businesses internationalize they lack adequate skills; lack of definite investment incentives in the target foreign market and; poor financial capacity to expand their banking business. The study recommends that managers of commercial banks in Kenya should raise their entrepreneurial skills to a global level. This can involve things like performing market analyses and studying foreign cultures and business strategies employed by similar businesses in other countries. In doing so, the respective management panel or specific department should create atmosphere that facilitates exploration of international markets with great reap benefits for the bank in question. Further research on the same area can be done in commercial banks outside Kenya that are similar in terms of size and areas of intervention. Findings can be compared to assess if there areas of commonalities or unique factors. The findings of this study and application thereof are limited to commercial banks in Kenya. They may not be applicable directly to other organizations operating outside the Kenyan banking industry.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Increasing globalization levels have led to a number of measures, such as lower trade barriers and higher international integration. These measures have created the institutional and economic conditions for a growth strategy of firms from developed and developing countries. Presence in foreign markets is an important growth tool for companies, especially in the case of limited home market. This may happen due to lack of domestic demand, when the market is too small or the industry is to narrow.

Eclectic paradigm of Internationalization advantage involves transaction attribute. It stems from the fact that the factors constituting ownership advantage becomes a private good once transferred outside the boundaries of the firm. Internalization advantage applies to the case where the firm prefers to exploit its ownership advantage internally, rather than by licensing or any other collaborative mode in order to minimize the transaction costs associated with the inter-firm transfer of proprietary knowledge and capabilities (Dunning, 1977).

It is argued that MNCs from emerging economies do not hold the same property structure as those from well developed countries (Filatotchev et al., 2007). With this reality at hand, companies that operate in more mature home markets gain an advantage to compete abroad. Other factors may still influence the firm’s competitiveness, such as the education of the labor force and the access to capital. All of these factors make it difficult for a company from a least developed country to compete in a more globalized and d Commercial banks in Kenya have embarked to an initiative that undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. Internationalization of banks provides opportunities for banks to respond to the various challenges within its operating environment. Commercial Banks have also developed strategies to enable them internationalize and maintain a competitive edge in the market (Porter, 1985). Internationalization has helped Kenyan commercial banks to do a significantly better job of providing what customers are looking for thereby enabling the bank to earn a competitive advantage.

1.1.1 Internationalization Concept

Business expansion to international market requires tact and careful analysis. It is a proven fact that establishing business in a developing and or an emerging middle power is riskier than establishing the same in a developed country. When expanding business in foreign territories, foreign firms face different barriers resulting from difference in levels of geographic distance, psychological and cultural variations and institutional relationship between the country of origin and host countries of their investments. These barriers are often called “liability of foreignness” (LOF) (Madhok, 2012).

Even though there are existential obstacles to investing and expanding into a foreign territory, banks and other players in the business world have developed strategies of internationalization (Narula, 2011). Studies have been published about the relationship between the degree of internationalization and performance of firms (Glaum and Oesterle, 2007). Among other strategies, firms show a tendency of conducting R&D activities abroad in order to fit into the market as quickly as possible. There is however other traditional views that consider that firms would only do better if it reproduced their home business conducting methods in a foreign market (Pearce, 1992). Currently, researchers understand that MNCs seek complementary assets abroad to enlarge their ownership advantages (Hayashi and Serapio, 2006).

Although there as different standards between MNCs, studies have shown that both emerging MNCs and MNCs from developed countries seek to develop complementary strategies to expand their ownership advantages as espoused by Hayashi and Serapio, (2006). They used to follow an incremental strategy of internationalization, based on the psychic distance as determinant factor for market selection in the early stages, in particular, which means, that the process of gradually increasing commitment would still be expected to be the norm (Dunning and Lundan, 2009). There are also evidences about the role of social networks as a key factor of learning, developing new markets, and managing disadvantages related to the LOF.

With regards to motives driving MNCs, from a developed country into other countries market seeking, strategic assets-seeking, especially taking advantage of R&D centers or acquiring or merging with resourceful business partners have been found to be very crucial. For example, tapping into some strategic partners' complementary assets in order to exploit its own firm-specific advantages will be the norm rather than an exception (Hayashi and Serapio, 2008). However, it is rare that a MNC will adopt "a go alone strategy" in pursuit of the above motives. Often times, the firm's networks of relationships will be decisive in the achievement of such motives (Johanson & Vahlne, 2003).

Market entry strategies into an international market include the use of equity joint ventures, contractual joint ventures and wholly owned enterprises. This coursework looks at the important issues that affect set up of businesses in an international business. In a joint venture, two parties are brought together in order to take on a given project. The parties then invest in terms of time, money and effort. An equity-based joint venture can similarly be observed as a profit sharing arrangement that happens between two parties, or more, who contribute both the capital and the required expertise to start up a business venture. These types of arrangements are common in international businesses where there are merging markets. The market entrant brings in the product knowledge while the local partner comes with the advantage of local knowledge and other local advantages according to (Hodgetts and Luthans, 2000).

1.1.2 The Banking Sector in Kenya

Commercial banks in Kenya have undergone major changes since the market liberalization in the 1990s. The banks have had annual profit efficiency of average 65.6 % between 1995 and 2004. The studies that came up with this data indicated that banks had suffered a decline in profits because of the oligopolistic nature of the commercial banking sector in Kenya. The reforms that have been taking place in the financial sector have not fully stimulated the macroeconomic factors that drive growth in the commercial banks, (Meso and Kaino, 2008). There has been of late competition among most players in the banking sector in the country. Banks have adopted new technology and have introduced new products that are targeting different market segments.

This segmentation is projected to see the banking sector in the country taking an improvement in its business operations. In the early 90s, commercial banking sector in Kenya only targeted high-income earners. The banks have now made forays into the population segment with low-income earners (Mathuva, 2009). Even though the banking sector has worked well in improving its customer base in the country, there is still need to do more to improve on profits. The banks have to do more to tap into the virgin market where most of the population in the countries neighboring Kenya does not have access to banking services. Expanding into international market is one of the ways that the banks have tried to tap into the market.

1.2 Research Problem

Globalization has increased competition in businesses that operate in countries that embrace open market structures. Internationalization is important for growth of companies in countries that allow free market model of business. However, entry into new markets requires tact and strategy. Operating in a new country means that an organization has to come up with modalities that will help it to fit into the new structure. This includes understanding the marketing model, the social variables of the new country, the economy of the country, the political stability, the human resource structure, the supply chain and the company laws in the new country. Companies have to look critically at these factors before putting in place entry strategies in a new country.

Commercial Banks in Kenya have embarked on internationalization processes since most countries in the East Africa region eased trade barriers among their borders. As financial sector, banks have different factors that influence their strategic alignment towards internationalization. The financial market is affected by different elements while making strategies for market entry into a new country. Understanding of these factors is essential for financial health of banks once they have settled into a new market. If the factors are identified and critically evaluated, a bank can make appropriate strategies that help in internationalization process.

Knill and Lehmkuhl (2002) did a study to investigate factors that influenced internationalization of businesses. In the analysis, the author looked at political and economic factors that could determine the strategies that firms could put in place in order to fit well into new markets. In the analysis, the authors listed individual disposable income of the citizens of a country, the political stability, the tax laws and company laws as the major contributing factors that influence strategy making while entering into new countries for business expansion.

Boojihawon and Acholonu (2013) did a study on Internationalisation process of African banks. The study took an overall approach. However, in order to understand the factors that influence how Kenyan banks internationalize to enter into new markets, a study of the local banks is essential.

Ohaga (2004) did a study to find out factors that influenced strategy making in Kenyan Banks. The study was purposed to analyze these factors against the changing environmental needs of the financial markets. In the findings, the author reported that the longevity of time that a bank has been in operation determines the strategies that it can adopt. As well, the ownership of the bank was a determining factor to the strategies that banks adopted in Kenya. Some of the strategies mentioned by this study included mergers and acquisitions, improved distribution channels, geographical diversification, diversification into non-traditional banking products, consolidation, customer base diversification, the increased emphasis on non-interest income, changed their business orientation and adoption of 'Judo Strategy' .

Waweru and Kalani (2009) did a similar study whose aim was to find out the strategies that banks in Kenya in order to deal with effects of financial crisis. The study also looked at the factors that these banks used to determine the methods of responding to the crisis. The economic performance and outlook of the country was found to be the major factor that influenced the strategies with which the banks responded to banking crisis.

Gakumo (2006) looked at the generic strategy among the commercial banks in Kenya. This analyzed the factors which determine the strategies that banks adopt in Kenya. In the studies, it was found out that of the respondents, 40% applied differentiation, 15% applied focus while 5% applied cost leadership. A further 40% of the commercial banks were stuck in the middle. This implied that that they fail to develop their strategy in at least one of the three directions (Porter1980). This will come up with first hand information about internationalization of banks in operating Kenya and the factors influencing the same. What is the internationalization process of the commercial banks in Kenya?

1.3 Research Objective

The objective of this research was to establish the internationalization process of commercial banks in Kenya.

1.4 Value of the study

The results of this study were useful for various stakeholders. The banking sector, the government of Kenya, researchers and other stakeholders in the money market business will benefit in the results of the study. The result was used in putting in place strategies that will help increase market base of banks thus increasing their productivity and profitability.

The banking sector was the main beneficiary of this study. The data collected will reflected the true situation on the ground. The company used study findings to come up with ways of improving on how they deal with internationalization strategy making processes. Strategies that improve operations of banks in new markets were useful to the banking sector in the country.

The research findings were useful for further research. Researchers who wish to do more studies about internationalization strategies will use the information to do literature review for future studies. As well, these results can be useful for researchers who wish to test hypothesis concerning internationalization and the strategy of market entry. The government of Kenya will benefit from the study because it can use the findings to influence the factors that enhance quick foreign direct investment by banks from outside the country.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, a review of the factors that influence strategy making in internationalization will be discussed. This will include a review of published research, textbook work and other articles that have established information about the factors under discussion. Empirical review of similar work done by other researchers will also be discussed in the chapter.

2.2 Theoretical Foundation

Internalization theory centers on the notion that firms aspire to develop their own internal markets whenever transactions can be made at a lower cost within the firm and will continue until the benefits and costs of further internalization are equated to the margin (Buckley and Casson, 1993). Internalization can involve a form of vertical integration bringing new operations and activities, formerly carried out by intermediate markets, under the ownership and governance of the firm especially when natural markets are imperfect or missing. Internalization of transactions beyond national borders leads to the creation of the multinational enterprise. Antecedent to market internalization is a process of information gathering and assessment, through which management determines the best foreign expansion approach.

The eclectic paradigm, also known as the OLI Paradigm, is based on internalization theory and tries to explain the different forms of international production as well as the selection of a country for FDI (foreign direct investments). According to Dunning (1980), internationalization of economic activity is determined by the realization of three types of advantages. First, ownership advantages which are specific to the company and related to the accumulation of intangible assets, technological capacities or product innovations. Secondly, there are internalization advantages that stem from the capacity of the firm to manage and coordinate activities internally in the value-added chain. These are related to the integration of transactions into multinational hierarchies through FDI. Third, location advantages referring to the institutional and productive factors present in a particular geographical area. These arise when it is better to combine products manufactured in the home country with irremovable factors and intermediate products of another location.

2.3 Internationalization of Firms

The term internationalization has different definitions. Fletcher (2001) defines internationalization as a process of business activities across the borders of home country with an increasing degree in operations. It can therefore be seen as exchanging of resources across national borders. In order for any organization to do internationalization, it has to make incremental adjustments to the changing conditions within a firm and the operating environment. Internationalization has its antecedents that are either internal or external. Internationalization strategies include compilation of objectives, plans and policies in order to achieve goals in a foreign market. Firms will therefore select certain strategies that go in line with their own objectives of operating in an international market. In overall objectives, firms always strategize to get new competitive advantages in a foreign market while securing the existing ones.

Internationalization has two paths that should be followed. First, the organization has to select the market that it is seeking to enter. A firm's market knowledge, which will reflect how the firm learns about the opportunities and challenges in a particular market, will influence its decision to enter a particular market. Current activities in the market will influence the decisions of some firms to commit resources into the market in an incremental fashion (Johnson and Vahlne, 1990).

The second path is to formulate strategies that will help it to make forays into the selected foreign market. Any strategy formulated must be geared towards achieving the organizational goals. Strategy formulation includes the ownership structure, the pricing, the human resource practice to be adopted, the leadership style to be adopted and employment policies. All these strategies are affected by different factors in the foreign market and in the organization.

Internal factors that influence the strategies towards internationalization are varied. They include international experience by the company. Other company characteristics, such as a management’s willingness to engage company size monetary commitment to international activities .These could be seen as ownership advantages in adapted from Zaheer (1995).

External factors include incentivizing factors, such as governmental support to internationalization cost reduction potential (Dunning, 1990). Domestic competitiveness overseas competitiveness and dis-incentivizing factors in market entry barriers, such as tariff barriers, market risks, activities of competitors in a market, lack of market knowledge and lack of governmental incentives and internationalization advantages (Buckley and Casson, 1976).

The process of internationalization has been formalized in the research with the stages approach, the contingency approach, and the network approach. It’s also known as learning approach when explaining rather than describing the patterns of becoming international (Fletcher, 2001). Internationalization increases in the dimensions of commitment, knowledge and time (Bebito et al, 1999). Companies are well established in the homemarket and internationalization is seen as an evolutionary process. Companies are moving away from the home market towards geographically and psychologically close markets.

Internationalization also means a changing state. The growth of the firm provides a background to internationalization and to some degree the concepts of internationalization and growth are intertwined (Buckley and Ghauri, 1999). However, some features are unique to internationalization or, at least, there are significant degrees of difference between growth at home and growth internationally.

Existing research has focused on organizations' internationalization mainly from the point of view of the firm's international activities or operations by applying product, operation, and market analyses (Luostarinen, 1979), or network analyses (Johanson and Mattson, 1993). There is a tendency in small firm research to view the process of internationalization as evolutionary, through which companies become increasingly committed to, and involved in, international activities, but at a certain point can also become inverted and result in de-internationalization (Calof and Beamish, 1995). In Nordic countries the internationalization of firms has traditionally been defined as "the process of increasing involvement in international operations.

In a network context, Johanson and Mattsson (1993) described internationalization as a "cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives of the firm". This view, however, seems somewhat fragmented as it focuses exclusively on relationships. Assuming that organizations operate within their natural context, the view of Johanson and Vahlne (1990).They define internationalization as the “process of developing networks of business relationships in other countries through extension, penetration, and integration.

In their definition, Lehtinen and Penttinen (1999) try to summarize the fundamental characteristics of the internationalization process based on the Nordic research findings. Their definition also covers two concepts occasionally applied in the context of internationalization, namely international orientation and international commitment. International orientation refers to a firm’s general attitude towards internationalization, thus representing an evaluative dimension. Reid (1981) defined it as a measure of the perceived difference between foreign markets and the home market space along economic, cultural, political, and market-strategic dimensions.

International commitment is basically associated with the requirements of the operation modes chosen and the size of international business. The latter seeks to position firms somewhere between the extremes of no involvement in domestic firm and full commitment of a firm with a realized foreign direct investment.

Generally, the overall research focus has shifted from the definition and analyses in terms of international activities to the resources needed for internationalization. With reference to the resource-based perspective, Ahokangas (1998) proposed a definition of SME internationalization in terms of resources within the natural context. An internationalizing firm can be viewed as mobilizing unique and interdependent resource stocks that enable and contribute to the firm's internationalization activities within its natural context. This definition thus implies that internationalization is "the process of mobilizing, accumulating, and developing resource stocks for international activities", regardless of the actual content of the international activities themselves.

In terms of the individual firm, the basis of internationalization research can be found in the behavioral theory of the firm proposed by Cyert and March (1963) as well as in different decision-making theories. From a market perspective, trade theories can also provide a lens on internationalization research.

Havnes (1994) argued that any of the models of small firm internationalization could be seen as presenting either a market, firm or entrepreneurship perspective. The market perspective of internationalization has mainly been restricted to studies on internationalization or the diversification strategies of large firms. These are conceived within the context of strategy research with roots in economics (Dunning, 1980).The firm perspective, which includes the stage models of internationalization, provides the bulk of available literature on firms' internationalization, whereas the number of studies based on the entrepreneurship perspective is much less (Cavusgil, 1980).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section discussed the research design, target population and sample size, data collection methods and data analysis and presentation.

3.2 Research Design

A cross sectional survey was adopted. This design collects data in order to make an inference about a population of interest at a given point in time. These give a snapshot of a population that is being studied. This will give an insight of the internalization of banks in Kenya.

Survey research was used to quantitatively describe specific aspects of a given population. These aspects often involve examining the relationships among variables. Second, the data required for survey research are collected from people and are, therefore, subjective. Finally, survey research uses a selected portion of the population from which the findings can later be generalized back to the population.

3.3 Target Population

The target population for this study was all commercial banks operating in Kenya. There are 44 banks out of which 31 are locally owned and 13 are foreign owned. Some of the banks ventured in international market where they have forayed for new business opportunities. This expansion has been due to increased competition in the local scene and open market policies by regional organizations (Allen et al, 2012).

Commercial Banks operating in Kenya have ventured out into the COMESA and the rest of Africa as a way of increasing market share and more business opportunities. If the listed population will be accessed, it will be possible to get answers to the research questions. The factors affecting strategic internationalization plans and decisions will be understood well if the target population will be studied.

3.4 Data Collection

This research used a structured questionnaire as a form of data collection instrument. Questionnaire is a qualitative research data collection tool that makes use of questions and answers between the interviewer and the interviewee. Here, the data collection is personal where the researcher has a direct personal contact with the subject being studied. This technique of data collection has its advantages and its disadvantages according to Groove, (1997). Questionnaires are completed based on what the interviewee says. They are more personal and the interviewer is able to have a deep understanding of the implications of answers given by the interviewee.

As opposed to surveys, a structured questionnaire gives the interviewer the opportunity to probe and ask follow up questions. It is also possible for researchers to understand the interior feelings of the respondents. Structured questionnaires also have their disadvantages. There could be complications when planning to meet with the respondents. Coding the data collected from questionnaire can be time consuming especially if the interviewee missed some information while filling in the questionnaire. The researcher will give out questionnaire to selected respondents from the selected firms.

3.5 Data Analysis

The data from the completed questionnaires was entered into a computer for analysis. Analysis of data will used measures of central tendency and measures of dispersion. Arithmetic mean, mode and median was used to analyze the results. Central tendency is a central value for a probability distribution.

Measures of dispersion are used to describe the spread of data. Mean is obtained by summing up all the measurements and dividing by the number of observations in a given data set. Median is used to rank values relative to one another. Mode is the most frequent data set.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This study was carried out to determine the internalization of commercial banks in Kenya. Data was collected from, operations manager and human resource managers who were in charge of internalization functions in the respective banks. The findings are presented next.

4.2 Response Rate

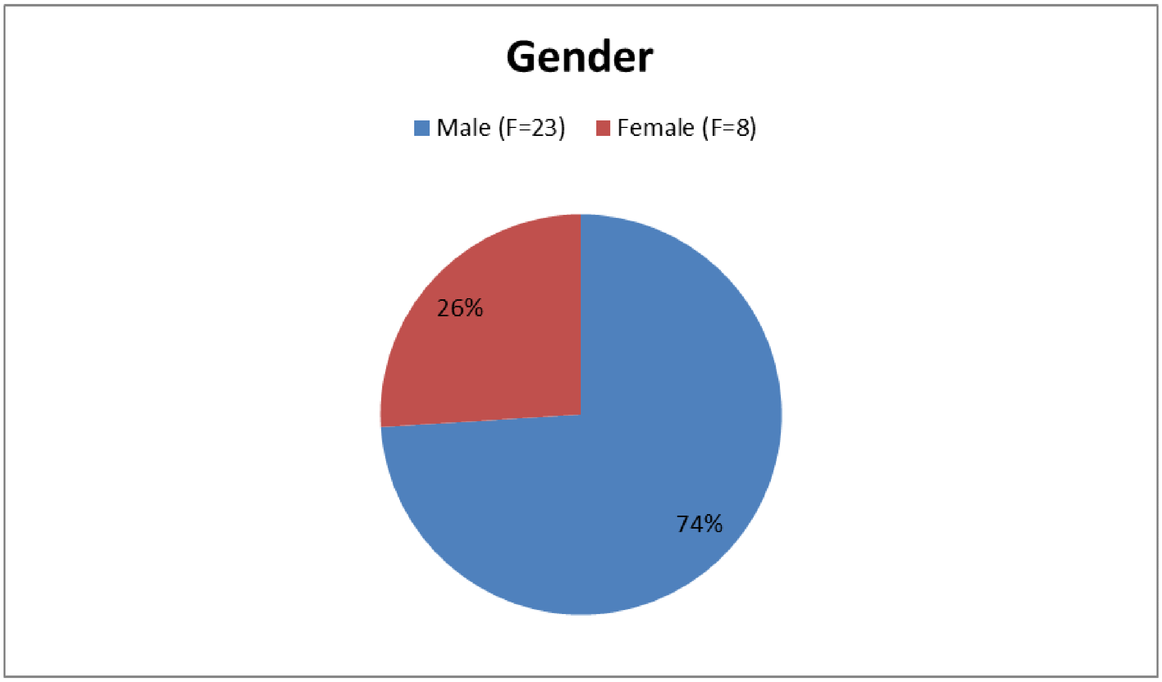
A total of 43 questionnaires were distributed to commercial banks through their headquarters based in Nairobi. Out of the 43 questionnaires, 31 were returned to the researcher. This represents a response rate of 72%. This percentage was considered sufficient for this study. The 28% who never returned the questionnaires cited busy schedules as the main reason for lacking time to fill them.

4.3 Demographic Profile of Respondents

4.3.1 Gender

The study examined gender of the respondents in commercial banks in Kenya to determine whether there was relationship between internationalization of commercial banks and gender. In reference to the objective of the, the researcher intended to find out whether the respondents had similar views on strategic factors influencing internationalization of commercial banks in Kenya.

Figure 4.1: Gender of the Respondent



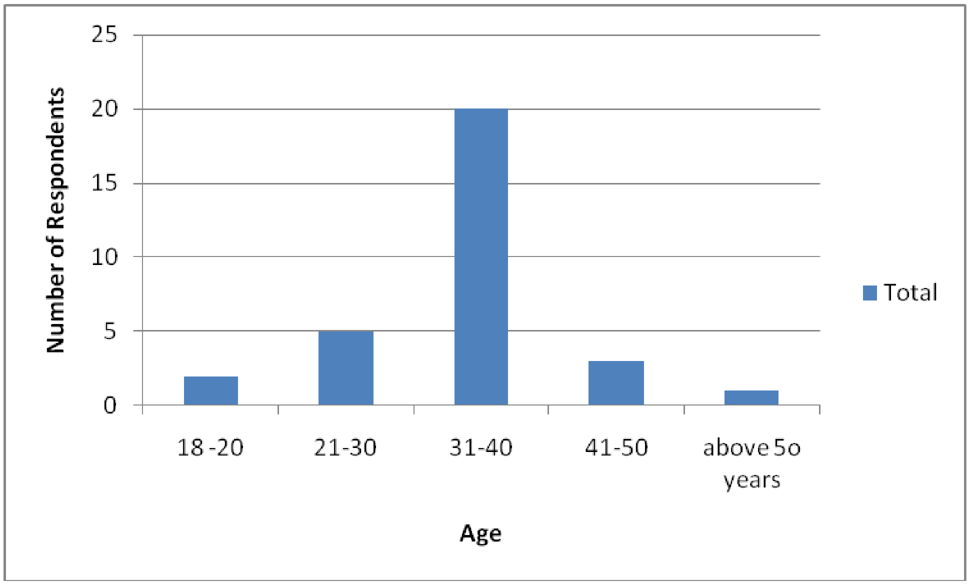
Source: Field work

It was also evident from the findings of the study that most of the managers who participated in the study are males as represented by 74% of the respondents as illustrated in the pie chart above. This is a clear indication that most commercial banks in Kenya have more male managers than females.

4.3.2 Age Distribution

The researcher sought to find out whether age of the respondents influenced their views on internationalization of commercial banks in Kenya. The managers who were the respondents in this case were deemed to understand the internationalization processes of commercial banks in Kenya better. This is because of their vast experience having served in the organization for a reasonable amount of time. The age of the respondents is presented in the table 4.2 below:

Figure 4.2 Age Distribution



Source: Field work

Findings in figure 4.2 indicate that 20 respondents aged between 31-40 years, 5 of the respondents were between 21-30. I of the respondents aged above 50 years. This was an indication that most of the managers interviewed aged between 31-40 years.

4.3.3 Education Level

The researcher obtained responses from the respondents on their level of education in order to determine whether their qualifications had any connection with their views on the factors that influence internationalization of commercial banks in Kenya. The respondents were knowledgeable on matters dealing with internationalization process and the strategic factors that influenced internationalization of commercial banks in Kenya.

Table 4.1: Education Level

Level of Education	F	Percent
Postgraduate/University	3	9.68%
University	20	64.52%
College	5	16.12%
Secondary	3	9.68%
Total	31	100

From figure 4.3 above, 20 managers were university graduates, 5 had diplomas and 3 were post graduates.3 respondents had secondary certificates. This was an indication that most managers were well educated and understood internalization processes of commercial banks in Kenya.

4.3.4 Reporting level in the Organization

The researcher sought to examine the levels of reporting that the respondents reported to in commercial banks in Kenya. The reporting level is an indicator of the level of activity and its relationship with internationalization of commercial banks in Kenya. It is evident that the employees who reports to the executive directors have high levels of activity compared to employees reporting to divisional level.

Table 4.2: Reporting level

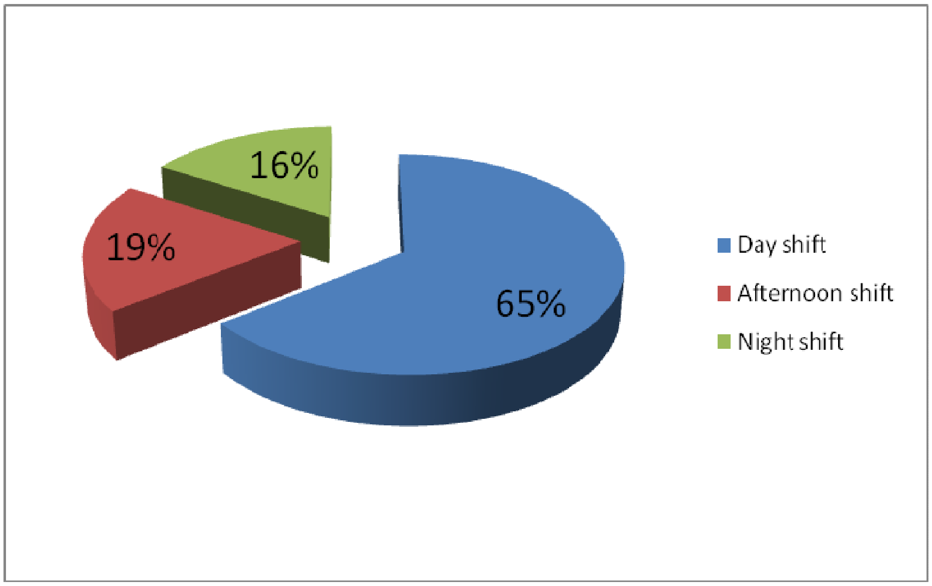
Reporting level	frequency	percent
Divisional Manager	10	32.57
Executive Director	14	45.16
Board	6	19.35
Others	1	3.22
Total	31	100

Findings in table 4.1 above confirm that 45.16% of the respondents reported to the executive director, 32.57% reported to the divisional manager while 19.35% reported to the board of directors.3.22% of the respondents indicated others. The findings suggest that most of the respondents reported to the executive director.

4.3.5 Time of Shift

The research explored the method of working used by commercial banks in Kenya. Most of respondents from worked in shifts which was a strong indicator that commercial banks operated twenty four hours. The figure 4.3 summarizes the mode of working that commercial banks spend internationalizing their processes.

Figure 4.3 Time of shift



Source: Field work

The findings in figure 4.4 indicate that 65% of the respondents worked during the day, 19% afternoon shift and 16 at night. This was an indication that most managers were scheduled to work in the day.

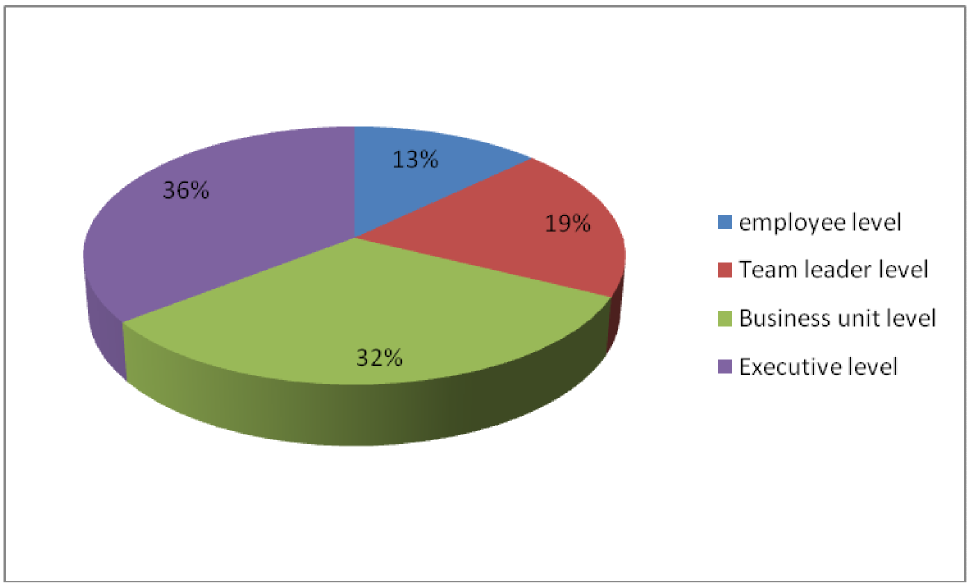
4.4 Internationalization of Commercial Banks in Kenya

The research obtained responses from senior managers from operations department and human resource departments in commercial banks in Kenya. The respondents were knowledgeable on the internationalization processes of commercial banks and the factors influencing internalization of commercial banks in Kenya. The findings are presented below:

4.4.1 Internationalization Process Unit

The research sought to determine the internalization processes utilized by commercial banks in Kenya. The managers were deemed knowledgeable on the processes of internationalization in various departments and the strategic internal and external factors that influenced the internalization processes of commercial banks in Kenya.

Figure 4.4 Internationalization Unit



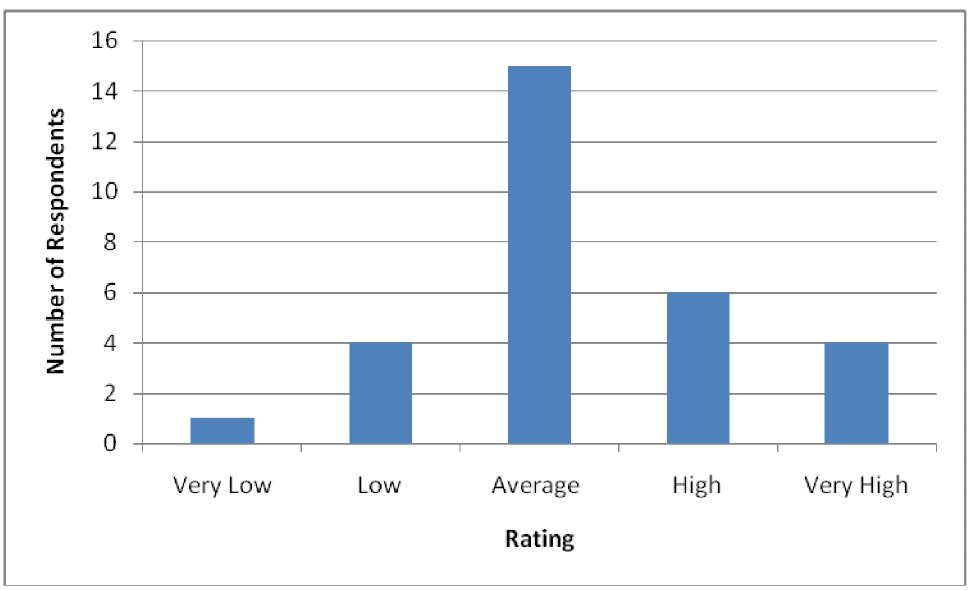
Source: Field work

From figure 4.5 above, 36% of the respondents indicated that executive level function was directly involved with the internationalization process, 32% of the respondents noted that business unit level was involved with internationalization process while 19% of the respondents felt that team leader level was directly involved with internationalization process. This was an indication that executive level function was directly involved with internalization process.

4.4.2 Management Commitment to Internalization Process

The researcher sought to determine the level of managers' commitment on internalization processes of commercial banks in Kenya. From the objective of the study which was to determine whether commercial banks internationalize their processes, the researcher intended to find out the extent of commitment by the management in internalizing their processes based on the activities and the roles the management played to ensure that internationalization was successful. The findings have been summarized in the figure 4.5 below

Figure 4.5 Management Commitment to Internalization Process



From the findings illustrated in figure 4.6, 15 respondents indicated that the management was committed to internalization process. Six respondents were of the view that management commitment to internalization was high. There was tie between 4 respondents who had opposite opinion, 4 respondents felt that the management was committed while the other 4 felt that it was not committed.2 respondents felt that management commitment to internalization was very low. The findings established the management was committed to internalization of commercial banks in Kenya

From the findings the study established that the management recruited competent employees who are qualified for the job. The management also provided financial capital which was significant in internal strategic internalization processes.

4.4.3 External Strategic Factors in International Process

The respondents were asked to indicate on external strategic factors in international process using a scale as follows; 1 = Not important 2 = Less important 3 = Average importance 4 = Very important 5 = highly important. The study sought to determine whether external strategic factors contribute to internationalization of commercial banks in Kenya

Table 4.3: External Strategic Factors in International Process

Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Mean	Std. Deviation
Political Environment in foreign countries	0.6%	3.8%	40.0%	33.9%	21.7%	4.0	0.94
Legal processes	0.6%	1.3%	44.9%	30.0%	23.2%	3.8	1.08
Sociological set up of the country	0.1%	0.6%	34.0%	31.7%	33.6%	3.7	0.79
GDP of the new country	0.2%	0.5%	42.1%	20.1%	37.1%	3.6	1.03
Labor supply in the country	0.1%	20.4%	22.3%	38.9%	18.3%	3.9	0.89
Average	0.32%	5.32%	36.66%	30.9%	26.8%	3.8	0.946

Source: Fieldwork

From above findings in table 4.3 above, 55.6% of the respondents agreed that the political environment in foreign countries was an important external factor in internationalization of commercial banks in Kenya. The findings found legal processes highly influenced internationalization of commercial banks in Kenya. This was supported by 53.2% of the respondents. It was also found that sociological set up and GDP were significant external strategic factors that positively impacted on internationalization of commercial banks in Kenya. These statements are supported by 65.3% and 57.2% of the respondents. On the other hand, 57.2% of the respondents cited that labor supply in the country as an external strategic factor influenced internationalization of commercial banks in Kenya. 22.3% of the respondents were undecided while the remaining 20.5% disagreed with this statement. On a 5 point scale the mean score of the responses was 3.8 which indicated that most of the respondents agreed external strategic factors in international process highly contributed to the internationalization of commercial banks in Kenya.

4.4.4 Internal Strategic Factors in International Process

The respondents were asked to indicate about internal strategic factors in international process using a scale as follows; 1 = Not important 2 = Less important 3 = Average importance 4 = Very important 5 = highly important. The study sought to determine whether internal strategic factors contribute internationalization of commercial banks in Kenya.

Table 4.4: Internal Strategic Factors in International Process

Statement	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree	Mean	Std. Deviation
Familiarity in business	0.6%	20.4%	33.4%	33.9%	11.7%	4.0	0.94
Expansion policy of the bank	0.6%	1.3%	34.9%	40.0%	23.2%	3.8	1.08
Availability of financial capital	0.1%	0.5%	44.0%	41.8%	13.6%	3. 7	0.79
Availability of human capital	0.3%	0.4%	22.1%	48.1%	29.1%	3. 6	1.03
Average	**0.4**	**5.65**	**33.6**	**40.95**	**19.4**	**3.8**	**0.946**

Source: Fieldwork

From above findings in table 4.4 above, 45.6% of the respondents agreed that familiarity of the business was an important external strategic factor in internationalization of commercial banks. The findings established that expansion policy of the bank enhanced internationalization of commercial banks. This was supported by 63.2% of the respondents. It was also found that availability of financial capital highly was an internal strategic factor in internalization process of commercial banks. This statement was supported by 55.4% of the respondents.77.2% of the respondents indicated that availability of human capital as an internal strategic factor led to internationalization of commercial banks while 22.1% of the respondents were undecided and the remaining 0.7% of the respondents disagreed. On a 5 point scale the mean score of the responses the findings showed that internal strategic factors contributed to internationalization of commercial banks in Kenya this was achieved through opening more branches locally and internationally, online banking, mergers and acquisitions.

4.5 Discussion

From the findings it was evident that quite a number of commercial banks internationalize their processes and operations. However not all commercial banks were successful in these processes. It was found that those banks whose management was committed to internationalization were found to have a competitive edge against their competitors.

This was achieved through taking account of external and internal strategic factors of international process. The findings revealed that those commercial banks whose management was committed in internationalization process were successful. It was found that internationalization of commercial banks is affected by various strategic factors both internally and externally that commercial banks need to address.

4.5.1 Comparison with Theories

In relation to the theory of electric paradigm, Dunning (1980) indicated that internationalization of economic activity is determined by the realization of three types of advantages. First, ownership advantages which are specific to the company and related to the accumulation of intangible assets, technological capacities or product innovations. Secondly, there are internalization advantages that stem from the capacity of the firm to manage and coordinate activities internally in the value-added chain. These are related to the integration of transactions into multinational hierarchies through FDI. Third, location advantages referring to the institutional and productive factors present in a particular geographical area. The above statements seems to agree with the findings of this study, it is evident that a firm should strategize, through location, assets, technology in order to meet sufficient capacity to Internationalize its operations.

Internationalization theory states that firms should take into consideration external and internal strategic factors and how they affect their business if they aspire to develop and expand a competitive global market in a cost effective manner this seem to agree with the findings as presented by Acholonu (2013) who indicated that commercial banks who management was committed in internalization process were successful. The findings revealed that internationalization of commercial banks was affected by various strategic factors both internally and externally which had both negative and positive effect on the firm depending.

4.5.2 Comparison with other Studies

From the study findings it was evident that internal and external strategic factors contributed to internationalization of commercial banks in Kenya. This finding concurs with a study conducted by Knill and Lehmkuhl (2002) who found that political and economic factors that could determine the strategies those firms could put in place in order to fit well into new markets.

In reference to Mathuva (2009), the study found that even though the banking sector has worked well in improving its customer base in the country, there is still need to do more to improve on profits. The banks have to do more to tap into the virgin market where most of the population in the countries neighboring Kenya does not have access to banking services. Expanding into international market is one of the ways that the banks have tried to tap into the market.

Firms should take into consideration external and internal strategic factors and how they affect their business if they aspire to develop and expand a competitive global market in a cost effective manner this seem to agree with the findings as presented by Acholonu (2013) who indicated that commercial banks that management was committed in internalization process were successful. The findings revealed that internationalization of commercial banks was affected by various strategic factors both internally and externally which had both negative and positive effect on the firm depending.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study comprised one main objective to determine the level of internationalization of commercial banks in Kenya. This chapter presents the summary of findings, conclusions drawn from the findings, policy recommendations and recommendations for further studies. The chapter also highlights the limitations of the study.

5.2 Summary of Findings

From the findings, managers were of the middle age (30-43 years). This meant that they were educated and were familiar with the concept of internationalization of commercial banks in Kenya, and too, they understood the direction the study was driving to. It was found out that most of the respondents either directly or indirectly reported to executive directors in their distinct workplaces. Such directors, according to over 60% of the respondents, were almost exclusively involved in making of major business decisions this means that major decisions such as internationalization, in this context, were left to the respective directors.

Most of the employees at commercial banks were found to work only during daytime and this means that major banking transactions were limited to daytime. The findings further indicated that most banks in operate internationally at business unit level. In other words, there are no very many merging activities internationally. Similarly, the commercial banks are quite resilient in their production processes and have not well engaged in opening up international branches.

However, the findings indicate that different commercial banks in Kenya are committed to the internationalization process. For example, some banks have several branches in the near neighboring countries. In the meantime, although commercial banks only operate internationally at business unit level, some banks have lately integrated e-banking services. As a competitive strategy, several managements of local commercial banks have expressed their interest in seeking international market share. From the findings, several managements of the leading commercial banks are on the verge of a mission to study some of international business strategies employed globally.

Based on the study findings, it is clear that Kenyan commercial banks are minimally represented internationally. But, as the various respondents indicate, different managements are quite committed to the internationalization process. The answers the respondents gave depicted a remarkable commitment to internationalization. Using an ordinal rating from very low commitment to very high commitment, the commitment to internationalization was as follows.

Only 6% of the respondents indicated very low commitment to internationalization. 9% indicated low commitment while 16% indicated average commitment. 54% of the banks were shown to have high commitment and only 14% indicate very high commitment. From this, it is safe to conclude that most commercial banks in Kenya have a high commitment to internationalization of their premises.

Although quite prospective and hypothetical, it may be that commercial banks in Kenya are fearful of lack of incentives while investing outside and perhaps think of internationalization process as a big risk to their respective businesses. Alternatively, the principle of internationalization can help a great deal explain, at least, why Kenyan commercial banks express high commitment to internationalization but move slowly.

The common principle in internationalization of any enterprise requires that the enterprise in question has surety that there will be absolute benefits in internationalization process. Along with this reasoning, it is possible that local banks, though aggressive to grasp international market, are hindered by some factors. These factors, both internal and external are summarized as below;

One of the key internal factors affecting internationalization potential of local commercial banks is the level of familiarization with working in a foreign country. The research has shown that the manpower of the local commercial banks, like most other local enterprises, is lowly exposed or experienced in terms of exploring and understanding potential international markets. The second factor is the fiscal capacity of the local commercial banks to invest outside the country. According to various respondents, most local commercial banks have not yet exhausted local market because they are financially incapacitated. Third is the expansion policy of the commercial bank in question. The expansion policy of a particular bank determines the decisions on various investments to make and thus serves as a hindrance depending on its specific nature.

While many of the commercial banks in Kenya have expressed their desire and/or intentions to explore the external market, there are some external factors that affect their next move in this context. These include uncertainty in political environment of foreign countries, relevant legal procedures in foreign countries as regards starting of new businesses, the socio-economic nature of the foreign country, and the availability of labor in foreign countries.

According to research findings, almost all the commercial banks (85%) aspire to internationalize their premises. However, various respondents have indicated that such factors as financial incapacity and uncertainty that absolute benefitting from internationalization will occur have led to the slow move by local commercial banks, in this context.

5.3 Conclusion

This study has shown that local commercial banks are quite sluggish to internationalize their ventures. There are several explanations for this finding: The management of commercial banks in Kenya is largely autocratic and therefore major decision-making processes are limited to a few leaders; managers are lowly informed about how businesses internationalize they lack adequate skills; lack of definite investment incentives in the target foreign market and; poor financial capacity to expand their banking business.

Internationalization of commercial banks calls for management commitment and working together to internationalize commercial banks in Kenya. The findings revealed that those commercial banks whose management was committed in internationalization process were successful. It was found that internationalization of commercial banks is affected by various strategic factors both internally and externally that commercial banks need to address.

5.4 Recommendations

The study recommends that managers of commercial banks in Kenya should raise their entrepreneurial skills to a global level. This can involve things like performing market analyses and studying foreign cultures and business strategies employed by similar businesses in other countries. In doing so, the respective management panel or specific department should create atmosphere that facilitates exploration of international markets with great reap benefits for the bank in question.

Trade agreements between trading blocs precipitate growth and development. Having tripartite agreements between East African community and COMESA, the Kenyan government and indeed the regional government should formulate policies to precipitate internalization of commercial banks. These policies would leverage commercial banks to take advantage of the vast trading area.

The commercial banks should be given incentives by the Kenyan government to internalize. This enables the firms to gain a competitive edge while expanding their businesses hence improving their ventures both locally and internationally.

In order to have a vibrant economy as envisioned in the vision 2030.The Kenyan government needs to promote internationalization of local commercial firms while at the same time attracting investors. There is the need to outsource relevant information on business internationalization from experts in multinational enterprises. The findings of this study can be used to come up with ways of improving on how they deal with internationalization strategy making processes. Strategies that improve operations of banks in new markets will be useful to the banking sector in the country.

The study recommends putting in place strategies that will help increase market base of banks thus increasing their productivity and profitability. Finally, the study recommends that the government of Kenya should use the findings to take advantage of the factors that enhance quick foreign direct investment by banks from outside the country.

5.5 Limitations of the Study

It was such an uphill task for the researcher to convince the respondents to participate in the study. Commercial banks are known to work under very strict confidentiality in order to secure any unauthorized access to information. Most of the respondents agreed to participate on condition that the information will not be divulged to any other party other than for academic purposes only.

The findings of this study and application thereof are limited to commercial banks in Kenya. They may not be applicable directly to other organizations operating outside the Kenyan banking industry. It is therefore important to note that they can only be used for comparative purposes and not any direct application in another country.

5.6 Suggestions for Further Research

The growth of businesses beyond borders prompts the need to research commercial banks in Kenya that have internationalized. This research can be replicated on the local financial institutions in other industries that have institutionalized. This should provide knowledge on the reasons for internationalization and the measures to overcome the challenges encountered when internalizing in order to propel the Kenyan firms to succeed in the global economy.

Further research can be done to establish the factors that influence foreign companies to venture into Kenya or East Africa region and the challenges they face. Findings from this research will enlighten the Kenyan firms to improve their ways of doing things by ensuring that attain a competitive edge locally with prospects of doing well globally.

It would be interesting to carry out further research in commercial banks outside Kenya that are similar in terms of size and areas of intervention. Findings can then be compared to assess if there areas of commonalities or unique factors.

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APPENDICES

APPENDIX I: GENERAL QUESTIONNAIRE

Introduction:

This questionnaire is designed to generate information on about strategic factors affecting internationalization of banks in Kenya in order to put in place strategies that will help increase the success of internationalization of Kenyan commercial banks. All information volunteered will strictly remain confidential. Respondent identity will not be divulged.

SECTION A

Respondent Profile:

For Questions 1, 2, 3,4 & 5, kindly indicate your response in the "Brackets" **1.** Gender: i) Male [ ]   ii) Female [ ]
2. Age: i) 18-20 years [ ]   ii) 21-30 years [ ]   iii) 31-40 years [ ]   iv) 41-50 years [ ] v) 50+ years [ ]
3.Education Level: i) None [ ]   ii) Primary [ ]   iii) Secondary [ ]   iv) Tertiary [ ]   v) University [ ]
4. To which level in the organization do you report to? i) Division Manager [ ]   ii) Executive Director [ ]   iii) Board [ ]   iv) Others (Specify)……..…
5. Time of Your Shift: i) Day shift [ ]   ii) Afternoon shift [ ]   iii) Night shift [ ]

SECTION B

i) General understanding of Internationalization Process

6. a) Has your organization internationalized its business? **Yes** [ ]   **No** [ ]
6. b) In which region has your organization internationalized its business? i) East Africa Region [ ]   ii) COMESA Region [ ]   iii) Africa Union Region [ ] iv) Global Region [ ]
6. c) In how many countries does your organization run its business? Kindly indicate here:……………………………………….
6. d) Which unit or function of the organization is directly involved with international process? i) Employee level [ ]   ii) Team leader level [ ]   iii) Director/Business unit level [ ] iv) Board level i.e. CEO, Executive Director [ ]
6. e) What is the commitment of the management to international processes? i)Very low [ ]   ii) Low [ ]   iii) Average [ ]   iv) High [ ]   v) Very High [ ]
6. f) Kindly explain how management is committed to international process ……………………………………………………………………………………………………. ……………………………………………………………………………………………………

For Qs. 7, 8 and 9 please indicate the importance using scale; 1 = Not important 2 = Less important 3 = Average importance 4 = Very important 5 = Highly important

7. How important are the following external strategic factors in international process?

	1	**2**	**3**	**4**	**5**
i) Political Environment in foreign countries					
ii)The legal processes of setting up a business in a foreign country					
iii) The sociological setup of the country to invest into					
iv) The gross domestic product of the new country					
v) The labor supply in the country to invest into					

8. How important are the following internal strategic factors in international process?

	1	**2**	**3**	**4**	**5**
i) Familiarity in doing business in the new country					
ii) Availability of Human Capital					
iii) Availability of financial capital					
iv)Expansion policy of the bank					

Thank you for your time

APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA

1. Bank of Africa
2. Bank of Baroda
3. Bank of India
4. Barclays Bank
5. CFC Stanbic Bank
6. Chase Bank (Kenya)
7. Citibank
8. Commercial Bank of Africa
9. Consolidated Bank of Kenya
10. Cooperative Bank of Kenya
11. Credit Bank
12. Development Bank of Kenya
13. Diamond Trust Bank
14. Dubai Bank Kenya
15. EcoBank
16. Equatorial Commercial Bank
17. Equity Bank
18. Family Bank
19. Fidelity Commercial Bank Limited
20. Fina Bank
21. First Community Bank
22. Giro Commercial Bank
23. Guardian Bank
24. Gulf African Bank
25. Habib Bank
26. Habib Bank AG Zurich
27. I&M Bank
28. Imperial Bank Kenya
29. Jamii Bora Bank
30. Kenya Commercial Bank
31. K-Rep Bank
32. Middle East Bank Kenya
33. National Bank of Kenya
34. NIC Bank
35. Oriental Commercial Bank
36. Paramount Universal Bank
37. Prime Bank (Kenya)
38. Standard Chartered Kenya
39. Trans National Bank Kenya
40. United Bank for Africa[2]
41. Victoria Commercial Bank
42. ABC Bank
43. United Bank of Africa

Source:http://en.wikipedia.org/wiki/List_of_banks_in_Kenya (2013).