

**EFFECTS OF FINANCIAL GLOBALIZATION ON  
COMMERCIAL BANKS IN KENYA LIMITED**

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## **DECLARATION**

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

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

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## **DEDICATION**

This research project is dedicated to my family and friends. Thank you for the love, support and always being there for me. God bless you.

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First and foremost I wish to thank the Almighty God.

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## **ABSTRACT**

Financial globalization refers to the integration of a country's local financial system with international financial markets and institutions. National Bank of Kenya Limited as a Government of Kenya owned financial institution has been affected greatly by the level of financial integration in Kenya. The objective of this study was to determine the effects of financial globalization on commercial banks in Kenya using the case of National Bank of Kenya Limited. This study used a case study research design because the unit of analysis was one organization. The study used primary data collected using an interview guide. The researcher interviewed senior management team because of their involvement in financial integration issues in the Bank. The study used content analysis to analyze the data collected from the respondents since it was qualitative in nature. The study established that National Bank of Kenya Limited was able to offer its customers international financial services through co-operations with a nexus of foreign partner banks. Financial integration made it easy for the Bank to transact in foreign currency and maintain adequate foreign currency denominated accounts for its transactions. The Bank was able to increase the efficiency ratios besides expanding its customer base as the customers felt more secure transacting with the Bank especially in the manner in which it handled their international cross border transactions. On the influence of financial integration and the stability of the Bank, financial integration had greatly promoted the stability of the Bank. It brought about a stronger market base for financial stability in the Bank. On the effects of financial integration at NBK, the Bank was able to borrow better technologies both in operating and information management. Financial integration had on the level of customer savings. Financial integration had improved the Bank's risk management. The study concludes that financial integration enabled the Bank to offer its customers international financial services through co-operations with a nexus of foreign partner banks. The study also concludes that financial integration made it easy for the Bank to transact in foreign currency and maintain adequate foreign currency denominated accounts for its transactions. The study further concludes that the Bank improved standardization in its operations as it was able to exchange best practices with international partners which have led to a reduction of costs and improved financial performance. The study further concludes that due to financial integration, the Bank diversified its investment portfolios through financial integration as the Bank did not just invest locally but overseas through well established financial integration. This study recommends that the Bank continues the integration and collaboration so as to benchmark its operations to international financial institutions for better future performance.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

The World business environment has changed dramatically through the globalization of economies, Regional integration, and removals of trade barriers have shaped the world as a global village (Schmukler and Vesperoni, 2004). The increasing globalization of business, the changing face of global political landscape, increased diffusion of political boundaries and the changing forms of governance structures for international firms motivated by innovations in the information technology necessities the need to focus on how international business firms undertake their business activities abroad (Schmukler, 2004). Globalization is often used to refer to economic globalization which involves integration of national economies into the international economy through transnational trade, foreign direct investment, capital flows, and migration (Mendoza and Quadrini, 2009). Economic globalization is a dynamic and multidimensional process of economic integration whereby national resources become more and more internationally mobile while national economies become increasingly interdependent. Globalization leads to reduction and removal of barriers between national borders, in order to facilitate the flow of goods, capital, services and labor.

This study was based on three theoretical perspectives: delocalization theory, development theory of globalization and the theory of divergency and convergency. There has been a significant delocalization in social and economic exchanges. Activities and relationship have been uprooted from local origins and cultures (Gourinchas and



Jeanne, 2006). But as delocalization goes well beyond this increasingly people have to deal with distant systems in order that they may live their lives. The development theory emerges from the global mechanisms of greater integration with particular emphasis on the sphere of communications and economic transactions. In this sense, the perspective is similar to the world systems approach. Developments in the life sciences and in digital technology and the like have opened up vast, new possibilities for production and exchange. Innovations like the internet have made it possible to access information and resources across the world and to coordinate activities in real time. Theories of divergence focus on issues of cultural variability and how those differences make a difference in how people enact, organize and make sense of their organization experience. An underlying premise of this theory is that in contemporary organizations, traditional national boundaries mean less and intercultural communication becomes more central and important.

The operating environment for commercial banks like any other organizations has become very dynamic. In order to cope with this dynamism, it is important that organizations develop appropriate strategies (Levine, 2001). The financial industry has witnessed increased integration of financial institutions across national borders. The recent deregulation of financial systems, the technological advances in financial services, and the increased diversity in the channels of financial globalization have been witnessed in many financial sectors across different nations. Financial globalization refers to the integration of a country's local financial system with international financial markets and institutions (Frankel, 2000). Integration takes place when liberalized economies experience an increase in cross-country capital movement, including an active

participation of local borrowers and lenders in international markets and a widespread use of international financial intermediaries (Mussa, 2000). This integration typically requires that governments liberalize the domestic financial sector and the capital account.

### **1.1.1 Concept of International Business**

International Business (IB) refers to business activities which involve cross border transactions of goods, services, resources between two or more nations (Joshi, 2009). It refers to all those business activities which involves cross border transactions of goods, services, resources between two or more nations. It also refers to all transactions that take place between two or more regions, countries and nations beyond their political boundaries that are commercial in nature (Daniels, Radebaugh and Sullivan, 2007).

These transactions include private and governmental, sales, investments, logistics, and transportation transactions. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction among others (Joshi, 2009). International business grew over the last half of the twentieth century partly because of liberalization of both trade and investment, and partly because doing business internationally had become easier.

### **1.1.2 Financial Globalization**

Financial globalization refers to the integration of a country's local financial system with international financial markets and institutions. This integration typically requires that

governments liberalize the domestic financial sector and the capital account. Several measures have been used to measure the financial globalization. However, most of the earlier empirical studies use measures of legal restrictions in the form of capital controls (*de jure* measures) on cross-border capital flows to assess the degree of financial openness. Such capital controls come in many varieties like controls on inflows versus those on outflows, quantity versus price controls, restrictions on foreign equity holdings among others.

According to other scholars (Collins, 2007; Prasad and Wei, 2007), quantity-based measures of integration based on actual flows appear to be the best available measure of a country's *de facto* integration with global financial markets. Financial flows/stocks also known as *De facto* measures of financial integration based on gross flows/stocks have been used to measure the levels of financial globalization in economies. While there is important information in both the *de jure* and *de facto* measures of financial integration, *de facto* measures provide a better picture of the extent of a country's integration into global financial markets and, for many empirical applications, this measure is more suitable.

### **1.1.3 Banking Industry in Kenya**

The banking sector plays a very crucial role in the economy by facilitating the flow of money from surplus units to deficit households. Thus banks receive money from customers and lend it out to customers in form of loans. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade (G.O.K, 2012).

There are 44 commercial banks in Kenya as at 31st December, 2013, Central Bank of Kenya (C.B.K 2014). Licensing of financial institutions in Kenya is done by the Ministry of Finance through the Central Bank of Kenya, the Companies Act, and the Banking industry. In Kenya, the banks have come together under the Kenya Bankers Association (K.B.A) which serves as a lobby for the banks interest and also address issues affecting its members. Ideally, financial reforms and free market should spur the adoption of innovations that improve efficiency and provide a healthy balance between lending and deposit rates (Banking Act Cap 488, Pp 6, 10-12).

#### **1.1.4 National Bank of Kenya Limited**

National Bank of Kenya (NBK) is one of the commercial banks licensed by the Central Banks of Kenya, the country's banking regulator. NBK was incorporated on 19th June 1968 and officially opened on Thursday November 14th 1968. At the time it was fully owned by the Government. The objective for which it was formed was to help Kenyans get access to credit and control their economy after independence. In 1994, the Government reduced its shareholding by 32% (40 Million Shares) to members of the public. Again in May 1996, it further reduced its Shareholding by 40 million Shares to the public. The current Shareholding now stands at National Social Security Fund (NSSF) 48.06%, General Public – 29.44% and Kenya Government 22.5%. During the 34th AGM held on 25th April 2003 the bank increased its Share Capital by Kshs. 6 Billion i.e. from Kshs. 3 Billion to Kshs. 9 billion through the creation of 1,200,000,000 non-cumulative preference Shares of Kshs. 5 each. These Shares are at the disposal of the

National Bank Board who would offer them in accordance with the Bank's articles, the CMA rules and the Companies Act (NBK, 2014).

It is a large financial services provider in Kenya, serving individuals, small-to-medium companies and businesses (SMEs) and large corporations. Headquartered in Nairobi, the bank owns one subsidiary company: NatBank Trustee and Investment Services Limited. As of December 2013, National Bank of Kenya's asset base was valued at approximately US\$780 million (KES 67.1 billion), with shareholders' equity valued at about US\$121.4 million (KES 10.55 billion). In May 2013, National Bank of Kenya was ranked number twelve, by assets, among the forty-four licensed commercial banks in the country at the time (NBK, 2014).

National bank of Kenya offers various types of trade finance products to assist customers tender, perform for contracts, expand business activity and provide working capital. The bank's range of innovative and flexible products and solutions offered are to facilitate international trade and minimize risks, ensuring that your international transactions are quick and trouble-free. The Bank has a team of dedicated, highly experienced and knowledgeable personnel with sound expertise in Trade Finance. The products offered in trade finance include letter of credit, documentary collections, import documentary collections, export documentary collections, negotiation of export bills, bills of avalisation, pre and post import financing, bank guarantees, pro forma/ invoice financing and local purchase order financing (NBK, 2014).

In May 27 2014, National Bank of Kenya has unveiled a new brand image as part of a new strategy aimed at transforming it into one of the top tier banks in the country in the

next five years. To signal its commitment in breaking with the past, the bank unveiled a new logo, adopting yellow and brown colours as opposed to the green hue its brand had long been associated with. Unveiling the new look was aimed at growing the Bank's turnover from Sh8 billion in 2012 to Sh31 billion by 2017 and become a diversified commercial bank with balanced corporate and retail businesses. The bank has over the years relied mainly on business from government institutions and a strong retail focus. But going forward, the bank seeks to aggressively strengthen its play in the Corporate and Institutional and Small-and-Medium Enterprise (SME) segments. To achieve this, NBK plans to open 30 new branches by 2017 and boost its agency banking network to 2,000 agents. To fund growth as envisaged in the 5-year transformation plan, National Bank sought to raise more than Sh10 billion in additional capital through a Rights Issue in the first quarter of 2014 (NBK, 2014). The proceeds from the cash call was aimed at beefing up the capital base to support the ambitious balance sheet growth and to invest in revamping and expanding its infrastructure. National Bank also has plans to expand into the East African region by launching operations in South Sudan, Uganda, Tanzania and Somalia (NBK, 2014).

## **1.2 Research Problem**

Advances in communication, information, transportation and trading technology have helped web together nations into interconnected and interdependent communities (Sliburyte and Ostaseviciute, 2009). Financial globalization, in combination with good macroeconomic policies and good domestic governance, presents conducive environment for economic growth. From previous observations, countries with good human capital

and governance have tended to do better at attracting foreign direct investment (FDI), which is especially conducive to growth. The influx of international corporations not only brings positive advantages regarding global financial transactions but has more effects on an economy. For instance, in the short term, poor countries would become poorer and unemployment rates may soar as multinationals apply automation on their processes thus reducing the need for unskilled and uneducated workers, thereby raising unemployment levels. However, in the long run the case may be different as some may emphasize that the multinational corporations raise education levels as well as the financial health in developing countries.

National Bank of Kenya Limited as a Government of Kenya owned financial institution has been affected greatly by the level of financial integration in Kenya (NBK, 2014). The number of foreign owned financial institutions has grown in Kenya which are mainly increasing competition on the international business front. In order to remain competitive, it is important that National Bank of Kenya reviews the effects that financial globalization has had on its operations so as to formulate relevant policies to spur its international transaction business base.

Several scholars have reviewed the concept of globalization and financial system integration. For instance, Levy-Yeyati and Willias (2005) examined financial globalization in emerging economies by reviewing what financial globalization is all about. The findings shows that whereas financial globalization had indeed fostered domestic market deepening in good times, it had yielded neither the dividends of consumption smoothing in line with limited portfolio diversification nor the costs of

amplifying global financial shocks. Kose, Prasad, Rogoff and Wei (2009) examined financial globalization from a reappraisal perspective. The findings show that existing macro-level approaches to testing the effects of financial globalization do not, and perhaps cannot, offer definitive answers. Locally, the existing studies ( Njeng'wa, 2009; Kanyongo, 2013, Muchai, 2013 and Njagi, 2010) have either looked at challenges of globalization to financial institutions or response strategies to globalization by financial institutions. None of these studies have reviewed the concept of financial globalization and its effects on financial institutions. This study therefore sought to fill this research gap by answering one research question: What are the effects of financial globalization on commercial banks in Kenya using the case of National Bank of Kenya?

### **1.3 Research Objective**

To determine the effects of financial globalization on commercial banks in Kenya using the case of National Bank of Kenya Limited.

### **1.4 Value of the Study**

The study would be valuable to a number of stakeholders. These would include: managers of national Bank of Kenya, the Government of Kenya through the Central Bank of Kenya on policy formulation concerning the level of financial integration and to researchers and academicians.

First, the study would be important to researchers and academicians because it would serve as a source of reference on financial globalization effects in Kenya besides extending the existing literature on this subject. The study would further assist



researchers by suggesting areas of further research where they can extend the level of knowledge.

The study would also be valuable to the Government of Kenya in the formulation of policies concerning financial liberation and integration with international financial systems. This study would thus inform policy formulation concerning the management of financial system integration in Kenya.

The study would also be valuable to managers of the National Bank of Kenya in the management of financial integration because it has a bearing on the financial performance of the Bank. Through this study, the managers would learn the effects of financial globalization on the Bank so as to formulate appropriate policies to grow the Bank.

The study would also extent the knowledge on theories explaining international trade and globalization at large. Through the findings of this study, the level of knowledge on the transaction cost analysis theory and open systems theory would grow and its relationship with financial globalization brought to the fore.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter comprises of the critical literature and the variables used in the study. It begins by looking at the theoretical framework of financial globalization and its effects on financial institutions, their proposition and implication.

#### **2.2 Theoretical Foundation of the Study**

The study is founded on three theories including delocalization theory, the development theory and the theory of divergence focus. These theories are discussed below:

##### **2.2.1 Delocalization Theory**

Castells (1996) has argued persuasively that in the last twenty years or so of the 20th century a new economy emerged around the world. He characterizes it's a new brand of capitalism that has three fundamental features. Productivity and competitiveness by and large a function of knowledge generation and information processing ; firms and territories are organized in networks of production , management and distribution ; the core economic activities are global that is, they have the capacity to work as a unit in real time or chosen time , on a planetary scale (Castells, 2001). Many of the activities that previously involved face-to-face interaction or that was local are now conducted across great distances.

There has been a significant delocalization in social and economic exchanges. Activities and relationship have been uprooted from local origins and cultures (Gray, 1999). But as

delocalization goes well beyond this increasingly people have to deal with distant systems in order that they may live their lives. Banking and retailing, for example have adopted new technologies that involve people in less face-to-face interaction. Customer information in a Bank is in a call centre many miles away although not everything is global. Most employment for example is local or regional but strategically crucial activities and economic factors are networked around a globalized system of inputs and outputs (Castells, 2001). Whatever happens in local neighborhoods is increasingly influenced by the activities of people and systems operating many miles away. For example, movements in the world commodity and money markets can have a very significant impact upon people's lives across the globe. People and systems are increasingly interdependent. The starting point for understanding the world today is not the size of US GDP or the destructive power of its weapon systems but the fact that it is so much more joined together than before (Mulgan, 1998).

### **2.2.2 Development Theory of Globalization**

The development theory emerges from the global mechanisms of greater integration with particular emphasis on the sphere of communications and economic transactions. In this sense, the perspective is similar to the world systems approach. However, one of the most important characteristics of globalization process position is its focus and emphasis on cultural aspects and their communications worldwide (Tomlinson, 1999). In addition to the technological, financial and political ties, globalization scholars argue that modern elements for development the interpretation are the cultural and economic links among nations. In this cultural communication, one of the most important factors is the

increasing flexibility of technology to connect people around the world ( Kaplan ,1993, Gough ,1992).

As we have already noted, a particular feature of Globalization is the momentum and power of the change involved. Its the interaction of extraordinary technological innovation combined with world – wide, reach that gives today's change its particular completion (Hullon & Giddens, 2001).

Developments in the life sciences and in digital technology and the like have opened up vast , new possibilities for production and exchange . Innovation like the internet have made it possible to access information and resources across the world and to coordinate activities in real time. Earlier, we saw Castells making the point that productivity and competitiveness are by and large a function of knowledge generation and information processing. For countries in the vanguard of the world economy , the balance between knowledge and resources have switched so far towards the former that knowledge has become perhaps the most important factor determining the standard of living – more than land , than tools and than labour. Today's most technologically advanced economies are truly knowledge based (World Bank, 1998).

### **2.2.3 Theory of Divergence and Convergence**

Theories of divergence focus on issues of cultural variability and how those differences make a difference in how people enact, organize and make sense of their organization experience. An underlying premise of this theory is that in contemporary organizations, traditional national boundaries mean less and intercultural communication becomes more central and important. Metaphors associated with divergence theories after emphasis the

energy, creativity and options enabled by allowing differences to flourish in a global workplace, for example, the global marketplace (Contractor 2002; Gannon, 2001; Mitrofl, 1987).

Divergence theories, grounded in issues of practical rationality (Habermas , 1984) focus on human interpretation and experience of the world as a meaningful and inter-subjectivity constructed . Communication is the essence of culture and organizational effectiveness is rooted in the ability of people from different cultures to work together. Divergence theory identifies key dimensions of cultural variability such as power distance .Many researchers in organization behavior, management and communication rely heavily on those theories to explain how managers can create cultural synergy, improve work satisfaction, facilitate team effectiveness and manage differences (e.g Badz,1993; Harris & Moran ,1999; Stage ,1999) in workplaces that are increasingly multicultural and dispersed across time and space.

In contrast theories of convergence focus on how and why organizations are becoming similar worldwide (Bartlett & Gheshal, 1989; Hickson, Hinings, Mcmillan , Schwitter, 1974) . The convergence literature refers to a set of imperatives embedded in the global economy that result in similar organizational structuring across nations even when cultural differences are recognized the theories to minimize these differences and emphasize the similarity of structural adaptation.

### **2.3 Benefits of Financial Globalization**

The potential benefits of financial globalization will likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries

with international financial markets (Mussa, 2000). In the present integrated financial system environment, the international financial system is far from being perfectly integrated. Evidence shows persistent capital market segmentation, home country bias, and correlation between domestic savings and investment (Frankel, 2000). The recent deregulation of financial systems, the technological advances in financial services, and the increased diversity in the channels of financial globalization have had massive effects on financial system development of developed countries (Obstfeld and Rogoff, 2000).

### **2.3.1 Development of Financial System**

The main benefit of financial globalization for developing countries is the development of their financial system, what involves more complete, deeper, more stable, and better-regulated financial markets. A better functioning financial system with more credit is key because it fosters economic growth (Levine, 2000). Financial globalization implies that new type of capital and more capital are available to developing countries. Among other things, new and more capital allows countries to better smooth consumption, deepens financial markets, and increases the degree of market discipline. Financial globalization also leads to a better financial infrastructure, what mitigates information asymmetries and, as a consequence, reduces problems such as adverse selection and moral hazard.

Another the primary potential benefits of financial globalization are the development of the financial sector, enhancing the provision of funds for productive investment opportunities. Financial globalization helps improve the functioning of the financial system through two main channels. First, financial globalization increases the availability of funds. Second, financial globalization improves the financial infrastructure, what

reduces the problem of asymmetric information. As a consequence, financial globalization decreases adverse selection and moral hazard, what enhances the availability of credit

### **2.3.2 Raising the growth rate**

Financial globalization helps raise the growth rate in developing countries through a number of channels. Some of these directly affect the determinants of economic growth through augmentation of domestic savings, reduction in the cost of capital, transfer of technology from advanced to developing countries, and development of domestic financial sectors. Indirect channels, which in some cases could be even more important than the direct ones, include increased production specialization owing to better risk management, and improvements in both macroeconomic policies and institutions induced by the competitive pressures or the "discipline effect" of globalization.

Financial integration allows capital-poor countries to diversify away from their narrow production bases that are often agricultural or natural resource-dependent, thereby reducing macroeconomic volatility. Trade and financial integration could together allow for enhanced specialization which could make middle-income developing countries more vulnerable to industry-specific shocks and thereby lead to higher output volatility. If financial integration takes the form of heavy reliance on external debt, it could expose developing countries to world interest rate shocks and, thus, to higher output volatility.

### **2.3.3 Financial Liberalization and Competitiveness**

Financial globalization leads to financial liberalization which can lead to financial crises when it is not well managed (Tesar and Werner, 1998). If the right financial infrastructure is not in place or is not put in place while integrating, liberalization followed by capital inflows can debilitate the health of the local financial system. If market fundamentals deteriorate, speculative attacks will occur with capital outflows from both domestic and foreign investors (Obstfeld and Rogoff, 2000). Moreover, international market imperfections, such as herding, panics and boom-bust cycles, and the fluctuating nature of capital flows can lead to crises and contagion, even in countries with good economic fundamentals.

Financial globalization has enables borrowers and investor including households to borrow abroad. By borrowing abroad, firms and individuals can relax their financial constrains to smooth consumption and investment. Firms can expand their financing alternatives by raising funds directly through bonds and equity issues in international markets and thereby reducing the cost of capital, expanding their investor base, and increasing liquidity. As argued by Feldstein (2000), borrowing countries not only benefit from new capital but also, in the case of FDI, they benefit from new technology, know-how, management, and employee training.

In developed countries, increased competition has lead banks and other non-bank financial firms to look for expanding their market shares into new businesses and markets, attracting customers from other countries, what allows them to diversify risk (International Monetary Fund, 2000). This increased competition has taken place mainly



in developed countries and was brought about by decreasing costs due to deregulation and technical improvements. Deregulation has meant that banks could enter business that had been off limits for example; like securities, insurance, and asset management (Frankel and Schmukler, 2000). Non-bank financial institutions have been slowly competing with traditional banks, facilitating the securitization of finance, offering financial services traditionally exclusively provided by banks, adopting new financial risk calculation methods, and penetrating traditional banking activities in credit markets, such as syndication of loans and bridge loans via new structured financial instruments (Crockett, 2000). The liberalization of the regulatory systems has opened the door for international firms to participate in local markets. The privatization of public financial institutions provided foreign banks an opportunity to enter local financial markets. Macroeconomic stabilization, better business environment, and stronger fundamentals in emerging markets ensured a more attractive climate for foreign investment (Burnside, Eichenbaum, and Rebelo, 2001).

#### **2.3.4 Crises in a Financial System**

Financial globalization can also lead to crises in a financial system of an economy if there are imperfections in international financial markets. As a consequence, open countries are more prone to crises regardless of their fundamentals (Obstfeld, 1998). The imperfections in financial markets can generate bubbles, irrational behavior, herding behavior, speculative attacks, and crashes among other things. Imperfections in international capital markets can lead to crises even in countries with sound fundamentals and can also deteriorate fundamentals. For example, if investors believe that the exchange rate is

unsustainable they might speculate against the currency, what can lead to a self-fulfilling balance of payments crisis regardless of market fundamentals. Imperfections can as well deteriorate fundamentals. For example, moral hazard can lead to over borrowing syndromes when economies are liberalized and there are implicit government guarantees, increasing the likelihood of crises, as argued in McKinnon and Pill (1997).

If a country becomes dependent on foreign capital, sudden shifts in foreign capital flows can create financing difficulties and economic downturns. These shifts do not necessarily depend on country fundamentals (Bordo, Eichengreen, Klingebiel and Martinez Peria (2001). Calvo, Leiderman, and Reinhart (1996) argue that external factors are important determinants of capital flows to developing countries. In particular, they find that world interest rates were a significant determinant of capital inflows into Asia and Latin America during the 1990s. Economic cyclical movements in developed countries, a global drive towards diversification of investments in major financial centers, and regional effects tend to be other important global factors. Frankel and Rose (1996) highlight the role that foreign interest rates play in determining the likelihood of financial crises in developing countries.

The effects of capital flows on financial development take place because new sources of funds and more capital become available. New source of funds means that borrowers not only depend on domestic funds, they can also borrow from foreign countries willing to invest in domestic assets. The capital available from new sources means that market discipline is now stronger both at the macroeconomic level and at the financial sector level, as now local and foreign investors enforce market discipline on private and public

borrowers. Foreign capital is particularly effective in imposing this kind of discipline given its footloose nature; foreign capital can more easily shift investment across countries. Domestic capital tends to have more restrictions to invest internationally.

More capital leads to a deepening and increased sophistication of financial markets, including an increase in the sources and uses of financing, and expands the scope of products, instruments, and services available to nationals. As a consequence, borrowers and lenders have more financial opportunities; more assets and liabilities of domestic borrowers and investors become available and transacted. An increased number of instruments and investors allows better risk diversification within and across countries. By issuing to global investors, borrowers can lower their cost of capital, in part because international investors are more diversified and, therefore, ready to pay higher prices for domestic equity and bonds. Foreign direct investment brings not only capital but also new technology, know how, and management and employee training all of which contribute to increase productivity and foster economic growth.

### **2.3.5 Improved Financial Infrastructure**

Financial globalization tends to improve the financial infrastructure. An improved financial sector infrastructure means that borrowers and lenders operate in a more transparent, competitive, and efficient financial system. In this environment, problems of asymmetric information are minimized and credit is maximized. Financial globalization can lead to a greater competition in the provision of funds, which can generate efficiency gains. Second, the adoption of international accounting standards can increase transparency. Third, the introduction of international financial intermediaries would push

the financial sector towards the international frontier. Fourth, Stulz (1999) argues that financial globalization improves corporate governance; new shareholders and potential bidders can lead to a closer monitoring of management. Fifth, Crockett (2000) argues that the increase in the technical capabilities for engaging in precision financing results in a growing completeness of local and global markets. Sixth, Stiglitz (2000) argues that the stringent market discipline imposed by financial globalization has consequences not only on the macro-economy, but also on the business environment and other institutional factors.

Foreign bank entry is another way through which financial globalization improves the financial infrastructure of developing countries. Mishkin (2001) argues that foreign banks enhance financial development for at least three main reasons. First, foreign banks have more diversified portfolios as they have access to sources of funds from all over the world, what means that they are exposed to less risk and are less affected by negative shocks to the home country economy. Second, foreign entry can lead to the adoption of best practices in the banking industry, particularly in risk management but also in management techniques, what leads to a more efficient banking sector. Third, if foreign banks dominate the banking sector, governments are less likely to bail out banks when they have solvency problems. A lower likelihood of bailouts encourages a more prudent behavior by banking institutions, an increased discipline, and a reduction in moral hazard. The World Bank (2001) discusses this topic in greater depth

Regarding foreign bank entry, Claessens, Demirgüç-Kunt and Huizinga (1998) argue that the competitive pressure created by foreign banks lead to improvements in banking

system efficiency in terms of lower operating costs and smaller margins between lending and deposit interest rates. Demingüç-Kunt, Levine, and Min (1998) contend that foreign bank entry tends to strengthen emerging markets' financial systems and lower the probability that a banking crisis will occur. Goldberg, Dages and Kinney (2000) study the case of Argentina and Mexico and conclude that diversity in ownership appears to contribute to greater stability of credit in times of crisis and domestic financial system weakness. But they also argue that bank health, and not ownership per se, is the critical element in the growth, volatility, and cyclicity of bank credit.

#### **2.4 Effects of Financial Globalization on Financial Sector Development**

Trade liberalisation in financial services can contribute to the strength and weakness of financial sectors through main channels namely, capital flows, capacity building and efficiency enhancement (Kono and Schuknecht, 1998). Financial services trade liberalisation (FSTL) can affect financial stability via its effects on capital flows. It is presumed that FSTL allows the use of broad range of financial instruments and the presence of foreign banks can contribute to more stable capital flows.

Financial globalization can lead to the development of the financial system. A well functioning financial sector provides funds to borrowers (households, firms, and governments) who have productive investment opportunities. As discussed in Mishkin (2003), financial systems do not usually operate as desired because lenders confront problems of asymmetric information, which can lead to adverse selection and moral hazard.

Financial globalization can help improve the functioning of the financial system through two main channels. First, financial globalization can increase the availability of funds. Second, financial globalization can improve the financial infrastructure, what can reduce the problem of asymmetric information. As a consequence, financial globalization can potentially decrease adverse selection and moral hazard, enhancing the availability of credit.

Financial globalization can lead to financial crises in an economy. When a country liberalizes its financial system it becomes subject to market discipline exercised by both foreign and domestic investors. When an economy is closed, only domestic investors monitor the economy and react to unsound fundamentals. In open economies, the joint force of domestic and foreign investors might generate a crisis when fundamentals deteriorate. This might prompt countries to try to achieve sound fundamentals, though this might take a long time. Furthermore, investors might over-react being over-optimistic in good times and over-pessimistic in bad ones, not necessarily disciplining countries. Therefore, small changes in fundamentals, or even news, can trigger sharp changes in investors' appetite for risk.

The effects of capital flows on financial development take place because new sources of funds and more capital become available. New sources of funds mean that borrowers not only depend on domestic funds, they can also borrow from foreign countries willing to invest in domestic assets. The capital available from new sources means that market discipline is now stronger both at the macroeconomic level and at the financial sector level, as now local and foreign investors enforce market discipline on private and public

borrowers. Foreign capital is particularly effective in imposing this kind of discipline given its footloose nature; foreign capital can more easily shift investment across countries. Domestic capital tends to have more restrictions to invest internationally.

Financial globalization makes it is feasible that the best practices and methods of financial supervision spread around the world and improves corporate governance. Morck and Steier (2005) point out that, contrary to the United States, most of the capitalist countries have corporations with a pyramidal organization that belong to the richest families, therefore, the allocation of capital responds to these interest groups and their arrangements with the state. But, the arrival of external economic agents will confront bad decisions in allocation of capital of the interest groups, assessing firms and monitoring managers, and then they will improve corporate governance (Levine, 2002).

Financial globalization favors risk diversification. This is obvious on a global scale, because domestic economic agents can share risks with foreign agents in domestic and foreign financial markets. This way, in a peak time a country can lend to the foreigner, and in a recession, it can borrow, which helps to mitigate the impacts up and down on the income level, and in consequence, also in consumption and investment. Obstfeld (1998) argues that international risk diversification allows the world economy to move from a portfolio with low risk and low returns to one with higher risk and higher returns. Financial contracts that favor risk diversification will spread in all countries.

Financial globalization can lead to a greater competition in the provision of funds, which can generate efficiency gains. In addition, the adoption of international accounting standards can increase transparency among financial sector players. The introduction of

international financial intermediaries would push the financial sector towards the international frontier. Stulz (1999) argues that financial globalization improves corporate governance; new shareholders and potential bidders can lead to a closer monitoring of management. Crockett (2000) claims that the increase in the technical capabilities for engaging in precision financing results in a growing completeness of local and global markets. Tigli (2000) argues that the stringent market discipline imposed by financial globalization has consequences not only on the macro-economy, but also on the business environment and other institutional factors.

Foreign bank entry is another way through which financial globalization can improve the financial infrastructure of developing countries. Mishkin (2003) argues that foreign banks enhance financial development for at least three main reasons. First, foreign banks have more diversified portfolios as they have access to sources of funds from all over the world, what means that they are exposed to less risk and are less affected by negative shocks to the home country economy. Second, foreign entry can lead to the adoption of best practices in the banking industry, particularly in risk management but also in management techniques, what leads to a more efficient banking sector. Third, if foreign banks dominate the banking sector, governments are less likely to bail out banks when they have solvency problems. A lower likelihood of bailouts encourages a more prudent behavior by banking institutions, an increased discipline, and a reduction in moral hazard. The World Bank (2001) discusses this topic in greater depth.



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the methods that were used in collection or gathering of data pertinent in answering the research questions. The chapter covers the following sub-topics; research design, target population, data collection and data analysis procedures.

#### **3.2 Research Design**

This study used a case study research design because the unit of analysis was one organization which is National Bank of Kenya. According to Mugenda and Mugenda (2003), a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari (2004) notes that a case study involves a careful and complete observation of social units. It is a method of in-depth study rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and other interrelations (Mugenda and Mugenda, 2003). Data collected from such a study is more reliable and up to date.

#### **3.3 Data Collection**

The study used primary data collected using an interview guide. The researcher interviewed senior management team because of their involvement in financial integration issues in the Bank. The executive management team had 12 members who formed the target population. The study selected 5 members for inclusion in the study. The interview guide enabled the researcher to collect qualitative data. This was used in

order to gain a better understanding and a more insightful interpretation of the results from the study.

### **3.4 Data Analysis**

Content analysis was used to analyze the data collected from the respondents since it was qualitative in nature. Kothari (2004) define content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. Kothari (2004) also explains content analysis as the analysis of the contents of documentary and verbal material, and describes it as a qualitative analysis concerning the general import of message of the existing documents and measure pervasiveness.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents and discusses the analysis of the data collected from the various respondents. The data was also analyzed using the procedures indicated in chapter three above. The data analyzed in this chapter is based on the interview guide questions which were presented to the respondents by the researcher. The data is presented in prose according to the thematic areas covered in the interview guide.

##### **4.1.1 Respondents' Profile**

Five senior managers of the bank were interviewed. These included risk and compliance manager, wholesale banking manager, consumer banking manager, human resources manager and the public relations manager. These respondents were selected upon because of their key position in the Bank which exposed them to strategy formulation and implementation hence were better placed to provide the data required to complete this study.

The interviewed had served the bank for varying periods of time ranging from two years to above fifteen years. The new senior management had mainly joined the bank recently to drive the change process especially after rebranding and refocusing the business of the Bank. However, the interviewees who had not served in the Bank for a long period of time came in from other well established commercial banks on the market. The interviewees had served in the banking industry for more than ten years with the longest

serving having served for 22 years indicating that they clearly understood the banking industry and issues to do with financial integration.

#### **4.2 Extent of Kenyan Financial Sector Integration**

The interviewees were requested to indicate the extent of Kenyan financial sector integrated with international financial markets and institutions. The respondents indicated that following the Government of Kenya's move to liberalize the financial sector in the year 1996, this presented an opportunity for the Kenyan financial sector integration. Four Kenyan banks (Kenya Commercial Bank, Equity Bank, Fina Bank and Commercial Bank of Africa) have opened branches in neighboring countries.

The interviewees indicated that the Kenyan financial sector was getting increasingly integrated because of the an increase in international commerce due to a removal of trade barriers, a reduction in transportation costs, and technological innovations which have raised the demand for international financial services. Another key factor promoting financial integration in Kenya included advancements in communication and information technology which allows banks to operate more efficiently on longer distances, to establish new distribution channels, and to create financial innovations. Additionally, a significant growth of securitization and of securities markets has changed the role of traditional banks and has forced the institutions to be located at several international financial centres.

For the case of National Bank of Kenya Limited, the respondents indicated that the Bank was able to offer its customers international financial services through co-operations with a nexus of foreign partner banks. The interviewees indicated that Bank had entered into

some sort of co-operations with international banks especially for its international transactions involving foreign currencies. This made it easy for the Bank to transact in foreign currency and maintain adequate foreign currency denominated accounts for its transactions. This also enabled the Bank to offer international financial services to its customers from a local office. However, for the future, the respondents indicated that the Bank envisions opening branches/subsidiaries across the East African Countries and finally in the whole African Continent.

#### **4.3 Influence of Financial Integration on International Business in Kenya**

The respondents were asked to indicate the level to which financial integration had influenced international business in Kenya. From the responses, the interviewees indicated that financial integration provided the Bank with efficiency in its operations and expanded its market power. Through financial integration, the respondents noted that the Bank was able to increase the efficiency ratios besides expanding its customer base as the customers felt more secure transacting with the Bank especially in the manner in which it handled their international cross border transactions. The respondents also indicated that the Bank enjoyed economies of scale due to high financial integration with international commercial banks. The Bank was also able to exchange best practices with international partners which have led to a reduction of costs and improved financial performance.

The respondents further noted that as a result of financial integration, the Bank has been able to promote international trade in the Country through its various financial services it arranges on behalf of its customers. Some of these facilities included lines of credit which enabled its customers to access huge amounts of credit which enabled them import and

export goods conveniently thus minimizing their operational costs. In addition, the respondents noted the Bank had facilitated growth of international business by making arrangements for letters of credit and having in place trade services which facilitated international business. The respondents noted that these were among the key services offered by the Bank to international customers and customers involved in international businesses.

#### **4.4 Influence of Financial Integration on Stability of the Bank**

The study sort to establish the influence of financial integration on the stability of the Bank. From the responses, the interviewees indicated financial integration had greatly promoted the stability of the Bank. The respondents noted that financial integration has brought about a stronger market base for financial stability in the Bank. Financial integration has brought about greater market liquidity, improved risk allocation and enhanced competitiveness of the Bank, all of which contribute to financial stability by allowing the Bank to better absorb and trade risks among its customers. The respondents noted that stability gains are particularly relevant for the Bank, where the brunt of regional trade and finance is denominated and settled in the dollar and other reserve currencies. Heavy dependence on the dollar has nurtured currency and maturity mismatches in the Bank, and the associated liquidity risks of the Banks have often translated into risks as the domestic financial markets has offered little scope for liquidity trade.

The respondents also indicated that the Bank has been able to manage its risks exposure through financial integration. The Bank has been able to diversify its investment

portfolios through financial integration. The respondents noted that the Bank did not just invest locally but overseas through well established financial integration. The respondents noted that financial integration enabled the Bank to access investments with better returns thus better financial performance of the Bank. In addition, the respondents noted that the Bank was able to take advantage of international investment opportunities thanks to financial integration.

#### **4.5 Effects of Financial Integration at NBK**

The interviewees were requested to indicate the influence of financial integration on financial infrastructure at NBK. From the responses, the interviewees indicated that the Bank was able to borrow better technologies both in operating and information management. For instance, the interviewees indicated that the current operating system was adopted from one of the international banking institution in the United States. With little customization, the system has been able to work well for NBK with little customization.

In addition, the Bank has also borrowed mobile banking platform from well established international commercial banks around. This has enabled the Bank in launching its mobile banking platform together with internet banking. All these have increased the Bank's delivery channels.

The interviewees were requested to indicate the influence of financial integration on the Bank's chances of taking on bad loans which would increase the level of their non performing loans. From the responses, the interviewees indicated that financial integration had greatly improved their level of nonperforming loans following the

exchange programs and international benchmarking with international collaborators. The interviewees indicated that financial integration had enabled the Bank improve its staff's capability to appraise loan applicants thus bringing about a reduction in the level of nonperforming loans.

The interviewees were requested to indicate the influence that financial integration had on the level of customer savings. From the responses, the interviewees indicated that the level of savings in the Bank increased as a result of increased financial integration. The interviewees noted that as a result of increased financial integration, more customers were attracted to the bank and moved most of their financial services to the bank thereby increasing the level of savings.

The interviewees were requested to give an indication on the influence of financial integration on the level of technological advancement at NBK. From the responses, it was clear that financial integration had positively affected the level of technological advancement at NBK. For instance, the interviewees indicated that the current operating system was adopted from one of the leading international banks and was working perfectly well with little customization. In addition, following increased integration, the Bank has been able to launch its mobile and internet banking facilities.

The interviewees were requested to indicate the influence of financial integration on interest rates at the Bank. The interviewees indicated that interest rates had stabilized in the bank thanks to financial integration which presented greater investment opportunities. The Bank does not solely rely on the local market but an expanded overseas market which has widened its investment portfolio.



The interviewees also indicated that financial integration had improved the quality of the loan book portfolio at the Bank. This followed the improved credit appraising staff's skills through exchange programmes and benchmarking the local credit scoring with the international banks. This led to better credit management thereby reducing the level of nonperforming loans.

The interviewees also noted that financial integration had improved the Bank's risk management. This was evidenced through the reduced level of nonperforming loans and better credit appraisal among staff. The level of nonperforming loans has had to be contained within the regulatory range by the Central Bank of Kenya.

The interviewees further noted that financial integration had uplifted employee skills especially through exchange programmes and frequent interaction between the employees of the bank and employees of international commercial banks collaborating with the Bank. This has also been evidenced by the reduction in the level of nonperforming loans following international benchmarking.

#### **4.6 Discussion of Findings**

The study established that financial integration had influenced international business in Kenya as it provided the Bank with efficiency in its operations and expanded its market power. These findings are consistent with those of Mussa (2000) who argued that financial integration would likely lead to a more financially interconnected world and a deeper degree of financial integration of developing countries with international financial markets. The Bank was able to increase the efficiency ratios besides expanding its customer base as the customers felt more secure transacting with the Bank especially in

the manner in which it handled their international cross border transactions. According to Frankel (2000), persistent capital market segmentation, home country bias, and correlation between domestic savings and investment. The Bank enjoyed economies of scale due to high financial integration with international commercial banks. The Bank was also able to exchange best practices with international partners which have led to a reduction of costs and improved financial performance. The Bank has been able to promote international trade in the Country through its various financial services it arranges on behalf of its customers. The Bank had facilitated growth of international business by making arrangements for letters of credit and having in place trade services which facilitated international business. Levine (2000) argues that the main benefit of financial globalization for developing countries is the development of their financial system, what involves more complete, deeper, more stable, and better-regulated financial markets.

On the influence of financial integration and the stability of the Bank, financial integration had greatly promoted the stability of the Bank. It brought about a stronger market base for financial stability in the Bank. These findings are consistent with the argument of Feldstein (2000) that improved financial integration improves financial efficiency among financial institutions. It also brought about greater market liquidity, improved risk allocation and enhanced competitiveness of the Bank, all of which contribute to financial stability by allowing the Bank to better absorb and trade risks among its customers. Heavy dependence on the dollar has nurtured currency and maturity mismatches in the Bank, and the associated liquidity risks of the Banks have often translated into risks as the domestic financial markets has offered little scope for liquidity

trade (Frankel and Schmukler, 2000). Financial integration enabled the Bank to manage its risks exposure through financial integration. It also enabled the Bank diversify its investment portfolios through financial integration as the Bank did not just invest locally but overseas through well established financial integration (Crockett, 2000).

On the effects of financial integration at NBK, the Bank was able to borrow better technologies both in operating and information management. Burnside, Eichenbaum, and Rebelo (2001) argue that financial integration allows technology to diffuse into developing countries. The Bank has also borrowed mobile banking platform from well established international commercial banks around. Financial integration had greatly improved their level of nonperforming loans following the exchange programs and international benchmarking with international collaborators. Financial integration had on the level of customer savings. The level of savings in the Bank increased as a result of increased financial integration. These findings are consistent with the argument by Chinn and Ito (2008) that increased financial integration improves financial performance of financial institutions. As a result of increased financial integration, more customers were attracted to the bank and moved most of their financial services to the bank thereby increasing the level of savings. Financial integration had positively affected the level of technological advancement at NBK. For instance, the interviewees indicated that the current operating system was adopted from one of the leading international banks and was working perfectly well with little customization. Interest rates had stabilized in the bank thanks to financial integration which presented greater investment opportunities.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to determine the effects of financial globalization on commercial banks in Kenya using the case of National Bank of Kenya Limited.

#### **5.2 Summary**

On the extent of financial integration in Kenya, the Government of Kenya's move to liberalize the financial sector in the year 1996, this presented an opportunity for the Kenyan financial sector integration. The Kenyan financial sector was getting increasingly integrated because of an increase in international commerce due to a removal of trade barriers, a reduction in transportation costs, and technological innovations which have raised the demand for international financial services. National Bank of Kenya Limited was able to offer its customers international financial services through co-operations with a nexus of foreign partner banks. The Bank had entered into some sort of co-operations with international banks especially for its international transactions involving foreign currencies. This made it easy for the Bank to transact in foreign currency and maintain adequate foreign currency denominated accounts for its transactions. This also enabled the Bank to offer international financial services to its customers from a local office.

On the level to which financial integration had influenced international business in Kenya, it provided the Bank with efficiency in its operations and expanded its market power. The Bank was able to increase the efficiency ratios besides expanding its customer base as the customers felt more secure transacting with the Bank especially in the manner in which it handled their international cross border transactions. The Bank enjoyed economies of scale due to high financial integration with international commercial banks. The Bank was also able to exchange best practices with international partners which have led to a reduction of costs and improved financial performance. The Bank has been able to promote international trade in the Country through its various financial services it arranges on behalf of its customers. The Bank had facilitated growth of international business by making arrangements for letters of credit and having in place trade services which facilitated international business.

On the influence of financial integration and the stability of the Bank, financial integration had greatly promoted the stability of the Bank. It brought about a stronger market base for financial stability in the Bank. It also brought about greater market liquidity, improved risk allocation and enhanced competitiveness of the Bank, all of which contribute to financial stability by allowing the Bank to better absorb and trade risks among its customers. Heavy dependence on the dollar has nurtured currency and maturity mismatches in the Bank, and the associated liquidity risks of the Banks have often translated into risks as the domestic financial markets has offered little scope for liquidity trade. Financial integration enabled the Bank to manage its risks exposure through financial integration. It also enabled the Bank diversify its investment portfolios through financial integration as the Bank did not just invest locally but overseas through

well established financial integration. It has enabled the Bank to access investments with better returns thus better financial performance of the Bank. In addition, the Bank has been able to take advantage of international investment opportunities thanks to financial integration.

On the effects of financial integration at NBK, the Bank was able to borrow better technologies both in operating and information management. The Bank has also borrowed mobile banking platform from well established international commercial banks around. Financial integration had greatly improved their level of nonperforming loans following the exchange programs and international benchmarking with international collaborators. Financial integration had on the level of customer savings. The level of savings in the Bank increased as a result of increased financial integration. As a result of increased financial integration, more customers were attracted to the bank and moved most of their financial services to the bank thereby increasing the level of savings. Financial integration had positively affected the level of technological advancement at NBK. For instance, the interviewees indicated that the current operating system was adopted from one of the leading international banks and was working perfectly well with little customization. Interest rates had stabilized in the bank thanks to financial integration which presented greater investment opportunities. Financial integration had improved the quality of the loan book portfolio at the Bank following improved credit appraising staff's skills through exchange programmes and benchmarking the local credit scoring with the international banks. Financial integration had improved the Bank's risk management. The level of nonperforming loans has had to be contained within the regulatory range by the Central Bank of Kenya. Financial integration had uplifted

employee skills especially through exchange programmes and frequent interaction between the employees of the bank and employees of international commercial banks collaborating with the Bank.

### **5.3 Conclusions**

Based on the findings and summary of findings above, the study makes the following conclusions. First, the study concludes that financial integration enabled the Bank to offer its customers international financial services through co-operations with a nexus of foreign partner banks. This increased the level of customer satisfaction and financial performance of the Bank.

The study also concludes that financial integration made it easy for the Bank to transact in foreign currency and maintain adequate foreign currency denominated accounts for its transactions. This promoted its ability to support its customers engaged in international business. The study further concludes that financial integration provided the Bank with efficiency in its operations and expanded its market power. The Bank was able to increase the efficiency ratios besides expanding its customer base as the customers felt more secure transacting with the Bank especially in the manner in which it handled their international cross border transactions.

The study further concludes that the Bank improved standardization in its operations as it was able to exchange best practices with international partners which have led to a reduction of costs and improved financial performance.

The study further concludes that financial integration had greatly promoted the stability of the Bank. It brought about a stronger market base for financial stability in the Bank. It brought about greater market liquidity, improved risk allocation and enhanced competitiveness of the Bank, all of which contribute to financial stability by allowing the Bank to better absorb and trade risks among its customers.

The study further concludes that due to financial integration, the Bank diversified its investment portfolios through financial integration as the Bank did not just invest locally but overseas through well established financial integration. It has enabled the Bank to access investments with better returns thus better financial performance of the Bank.

#### **5.4 Limitations of the Study**

The study was limited to National Bank of Kenya Limited which is a publicly quoted company with some level of Government ownership. Therefore, the findings of this study may not directly be applicable to other commercial banks especially international and other local ones since they have different formation and are at different levels in the financial integration.

Some of the respondents were afraid in providing the data fearing that the information provided may be used for other purposes other than academic. The researcher went about dealing with this limitation by assuring the respondents of the strict confidentiality of the information obtained which would only be used for academic study purposes. The respondents also raised the issue of anonymity which the researcher overcame by assuring them of the coding of each interview guide and use of pseudo names to avoid identification of the respondents.



### **5.5 Recommendations for policy specific to National Bank of Kenya**

Empirical evidence shows that National Bank of Kenya has integrated its operations with the international financial system. This includes collaborations with world financial institutions for better delivery of financial services to its customers. This has improved its operational efficiency by reducing the level of nonperforming loans and issuance of bad loans. This study therefore recommends that the Bank continues the integration and collaboration so as to benchmark its operations to international financial institutions for better future performance.

In order to realize the full benefits of financial integration, the study recommends that the Bank invests in its employee development as this is one way of reducing inefficiencies and increasing financial performance of the Bank. The study further recommends that the Banks increases integration as it improves its financial intermediation competitiveness by upgrading its operating systems.

### **5.6 Suggestions for Further Research**

It is generally believed that no research is an end in itself. What this research has achieved in this area of study is minimal thus requiring further research. From the knowledge gained from the study, the researcher recommends the following which should act as a direction for further research.

There is need to undertake further research in financial integration among insurance firms as they are important financial institutions which also engage in some form of integration. Across-section study should be conducted so as to make comparisons between various

financial integration among commercial banks and insurance companies. This would also promote the generalization of the findings.

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## **APPENDICES**

### **APPENDIX I: LETTER OF INTRODUCTION**

Wanda Mambori Atsiaya  
P.O. BOX 28657-00100  
NAIROBI.

To Whom it May Concern

Dear Sir/Madam,

**RE: COLLECTION OF DATA**

I am a Masters student in the School of Business, University Of Nairobi. As part of the requirement for the award of the degree, I am undertaking a research study on **“EFFECTS OF FINANCIAL GLOBALIZATION ON COMMERCIAL BANKS IN KENYA”**. I’m therefore seeking your assistance to fill the questionnaires attached. The attached questionnaire would take about ten minutes to complete. Kindly answer all the questions. The research results will be used for academic purposes only and would be treated with utmost confidentiality. Only summary results would be made public. No one, except the institution would have access to these records.

Should you require the summary, kindly indicate so at the end of the Interview. Your co-operation would be appreciated.

Yours sincerely,

**WANDA MAMBORI ATSIAYA**

## **APPENDIX II: INTERVIEW GUIDE**

### **EFFECTS OF FINANCIAL GLOBALIZATION ON COMMERCIAL BANKS IN KENYA**

1. What position do you hold at NBK?
2. For how long have you worked with NBK?
3. For how long have you worked in the Banking Industry?
4. To what extent is Kenyan financial sector integrated with international financial markets and institutions? Please explain.
5. In what ways has this financial integration influenced international business in Kenya?
6. In what ways has financial integration affected the stability of the National Bank?
7. In what ways has financial integration affected the level of competition for national bank in the Banking sector in Kenya?
8. How has financial integration affected information asymmetry for customers at NBK?
9. How has financial integration affected the financial infrastructure in Kenya?
10. How has financial integration affected the NBK's level of adverse selection and moral hazard in credit administration?
11. How has financial integration affected the level of customer savings at NBK?
12. How has financial integration affected the level of technological advancement at NBK?
13. How has financial integration affected interest rates charged by NBK?
14. How has financial integration affected the level of loan book at NBK?
15. How has financial integration affected the level of Non Performing loan portfolio at NBK?
16. How has financial integration affected the level interest income at NBK?
17. How has financial integration affected risk management at NBK?
18. How has financial integration affected the NBK's employee skills?