CHALLENGES OF INTERNATIONALIZATION OF BANKING OPERATIONS BY KENYA COMMERCIAL BANK LIMITED

BY

GACOKI ROSE WANGECI

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

UNIVERSITY OF NAIROBI

NOVEMBER, 2014

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………………………………..

GACOKI ROSE WANGECI

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

Signature…………………………Date…………………………………

ELIUD O. MUDUDA

DEDICATION

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

ACKNOWLEDGEMENTS

This research proposal 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 proposal, thank you for your unconditional grace.

To my supervisor Eliud O. Mududa; I extend my sincere gratitude for his guidance, suggestions, corrections, criticisms, patience and his 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.

TABLE OF CONTENTS

ABSTRACT

The innovation of financial products, regulatory reforms, information technology, and growth in international trade has propelled the development of banks within the international financial system. Therefore, the banking activities are increasingly becoming international. However, internationalization of bank operations in Kenya and globally has been facing various challenges. This study therefore sought to determine the challenges involved in the internationalization process of banking operations by KCB. This research study used a case study design as it only focused on Kenya Commercial Bank. The study used both primary and secondary data. In the collection of primary data the study used interview guides. The interview guide was administered to 3 international business managers and 3 operations managers from KBC branches in Moi Avenue, Tom Mboya and Biashara Street. The secondary data was collected from various sources like journals, internet, textbooks, and magazines and paper presentations at conferences. The validity of the research instruments was established by seeking opinions of experts in the field of study especially the supervisors. Since data that was obtained in this study was qualitative, content analysis was used in the analysis. Data was then presented in a prose form. The study established that the challenges that Kenya Commercial Bank was facing include market risk as a results of stiff competition, poor information communication technology, poor infrastructure, international fraud, legal challenges, liability to foreignness, transparency and corruption, state of local economy, stability of currency, financial resources, inflation level, taxation level, entry mode, timing of entry, language, religious belief, organizational changes, availability of skilled labor, involvement of labor unions, employment regulations and nature of legal system and laws. This study concludes that the most common challenges facing Kenya Commercial Bank in its internationalization of operations can be categorized into market challenges, political challenges, legal challenges, economic challenges, geographical challenges internal challenges and cultural challenges. This study therefore recommends that commercial banks should fully comply with the requirements of the host country and engage with the regulators and other public bodies regularly. The study recommends that managers of commercial banks be enlightened on the opportunities that exist in untapped and prospective global markets for profit growth and satisfaction purposes. Further, Through experience, research and statistics international commercial banks should evaluate critically the market conditions to avoid being trapped in unfavorable market.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

An increasing number of companies from the emerging markets have been forced by globalization to internationalize. Globalization characterizes the integration of international markets for services, goods, investment, technology and labor (Gordon, 2011). Globalization is the integration of world economies through the removal of barriers to movement of trade, people, technology and capital. Globalization has improved expansion of businesses beyond national borders, a process referred to as internationalization, which leads to increasing involvement in international business (Hejazi & Santor, 2010).

Any company seeking to be an industry leader in the twenty-first century must not focus on domestic market leadership only, but must also focus on global market leadership (Griffin and Pustay, 2010). Ekai (2010) and Guracha (2008) justified that global competition for African businesses is not an option but an economic priority. In order to remain pertinent in the global market, Kenyan firms need to compete globally. Similarly, in order to create a globally and vibrant competitive financial sector as highlighted in the Vision 2030 for the financial services, the local Kenyan banks need to internationalize. The Kenya government needs to not only aim at attracting foreign investors, but also promote internationalization of indigenous firms.

Firms operate in an environment, which consists of controllable and uncontrollable forces. The uncontrollable factors affecting the operating environment of international business along with Gordon (2011) are physical forces, socio-cultural forces, economic forces, legal forces, financial forces, political forces, labor forces and ecological forces. The controllable forces as pointed out by Rugman and Verbeke (2004) are the factors of production and the organizational activities. Management of organizations has some command over the controllable elements unlike the uncontrollable ones. The international business environment is progressively changing and becoming more challenging. Technological innovations, increased competition and globalization at both the national and international level have hastened the changing business environment. Consequently, in international business, firms must deal with the domestic environment, foreign environment and international environment (Fornes & Butt-Philip, 2011). The interactions between the domestic and foreign environment forces and between the foreign environmental forces of two countries when an associate in one country does business with customers in another consist of the international environment (Griffin & Pustay, 2010).

1.1.1 Concept of International Business

International Business comprises all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. 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 (Hejazi & Santor, 2010).

Griffin and Pustay (2010) suggest that international business consist of business transactions between parties from more than one country, hence business activities that involve crossing national borders. International business contributes a substantial portion of gross domestic product (GDP) and it increases as the economy develops (Rugman & Verbeke, 2004). It involves international trade, foreign manufacturing and the developing service industry. The service industry includes transportation, banking, tourism, mass communication and construction. The financial service industry has globalized and is increasingly becoming competitive (Gordon, 2011).

Managers are under pressured intensely to increase the sales and profits of their firms. Indeed when faced by a mature, saturated market at home, firms begin to seek new markets across their borders, venturing into the regional market. Rugman and Verbeke (2004) reported that nine of the world’s 380 largest firms as truly global, 320 being home based and needing a regional, rather than a transnational solution to strategy and structure. Regional growth requires top management decision and large amounts of firm’s resources. At the same time, it is future oriented influencing long-term prosperity of the firm, multifunctional and multi-business consequences of the firm and considers the firms' external environment.

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. In terms of liberalization, the General Agreement on Tariffs and Trade (GATT) negotiation rounds resulted in trade liberalization, and this was continued with the formation of the World Trade Organization (WTO) in 1995. At the same time, worldwide capital movements were liberalized by most governments, particularly with the advent of electronic funds transfers. In addition, the introduction of a new European monetary unit, the euro, into circulation in January 2002 has impacted international business economically (Rugman & Verbeke, 2004).

1.1.2 Internationalization of Business Operations

Internationalization is a major dimension of the growth of a firm. Market liberalization and digitization are encouraging large corporations and the SMEs to operate beyond their national borders and compete with each other in foreign countries and new regions. During the past decade, popular terms used in the economic circles have been "globalization", "internationalization" and "liberalization". Issues related to globalization, internationalization and liberalization have received a great deal of attention in recent research. Qian and Delios (2008) provide evidence from 18 member countries of OECD that suggests Small and Medium Enterprises (SMEs) are internationalizing more rapidly than in the past and provides evidence of small firms that became involved in international business activities almost from inception. Generally, most of these SMEs are generating earnings in the global markets more than in the home countries.

Cavusgil, Knight and Riesenberger (2008) describe internationalization as the expansion of firms abroad, a process that is developing significantly. The outcome of continual learning and commitment to foreign markets equally describes internationalization. A firm can penetrate a particular foreign market via exporting, direct investment or contractual agreements. The strategic drivers for internationalizing firms are markets, labor, natural resources, value chain control, financial incentive and technology (Rugman & Verbeke, 2004).

Homegrown firms internationalize to attain access to new customers, to improve their competitiveness, to capitalize on core competencies and to spread their business risk. Firms must counter the challenges of internationalization in order to have viable businesses (African Banking Corporation, 2011). Indeed, when crossing the border, specific advantages achieved from emerging markets firms multinational companies (MNCs) can give them exploit opportunities in other emerging markets, or create a framework directed towards developing the resources to acquire and manage assets in other countries (Fornes & Butt-Philip, 2011). Contractor, Kundu and Hsu (2003) postulated that internationalization is good for firms and leads to better performance.

Planning and decision making process of an internationalizing firm encompasses the financial and human resources available. Companies plan and decide the choice of market, the target customers, the timing of entry and mode of entry. This includes product positioning, the business model, promotion, the pricing and the distribution channel (Fornes & Butt-Philip, 2011). It is essential for organizations venturing across borders to properly plan and decide their markets and mode of entry to facilitate competitiveness.

1.1.3 Challenges of Internationalization of Business Operation

Commercial Banks fall under services; where several literatures have been written on internationalization of financial services. Fornes and Butt-Philip (2011) discuss challenges for internationalization of services and observe that: first, customers tend to prefer core services from their own country, from countries of similar culture to their own, and from economically progressive culture. In addition, customers prefer domestic services because of strong nationalistic beliefs and feelings; customer patriotism or conservatism may restrain them from buying services of foreign origin. Further, cultural elements, such as religious beliefs, materialism, language, education, the family structure, gender role, manners, customs, and time orientation, are closely intertwined with national culture (Griffin & Pustay, 2010). Additionally, a strong association exists between information content and socio-cultural values. The differences in socio-cultural, technological, legal and governmental aspects may necessitate the use of different services for the delivery of information content (Ubreziova, Bujnakova & Majorova, 2009).

The environment in a new country differs from the firm's home country owing to a number of variations in geography, people, climate, religion, institutions, culture, language or (Cuervo-Cazurra et al., 2007). Firms venturing beyond national borders face risks and uncertainties. Gordon (2011) observed that economic and cultural impediments are evident in foreign market selection. Service companies face higher limitations in a more developed market than a less developed market. Cultural inhibitions on the other hand include the language, human resource incompatibility, religious beliefs and attitudes towards business in the new market. State of the economy in the new country, level of taxation, stability of its currency and inflation are the economic inhibitions in a foreign market.

Foreign market risk is an intrinsic challenge facing internationalizing firms. It includes liability to nationality or foreignness of the firm which could be government based such as a host country government blocking the foreign firm in doing business or consumer based such that the host customers have their own prejudice against the nationality of the firm influencing its foreign firms business. Liability of infrastructure whereby a firm can opt to purchase an existing structure, lease or construct in the new country (Cuervo-Cazurra et al., 2007). Government regulations, political stability and government bureaucracy influence the decision by firms to enter the foreign market and its site location.

1.1.4 Banking Industry in Kenya

Commercial banks in Kenya are licensed and regulated by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The CBK falls under the Ministry of Finance docket (Waweru & Kalani, 2009). It is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. By August 2011, CBK had licensed 43 commercial banks and 1 mortgage finance company. Of these, 31 are locally owned and 13 foreign (CBK, 2014).

The indigenous banks are home grown, or those banks that started operations in Kenya that are locally owned or have government participation. Thirty commercial banks and one-mortgage financial institution are indigenous. Of the locally owned banks, three have significant shareholding by the Government and State Corporations while 27 are private financial institutions (Banking in Kenya, 2013).

The Kenyan banking sector has seen developments in legal and regulatory framework through the operationalizing of the Proceeds of Crime and Anti-Money Laundering Act in 2009, issuance of guidelines in agency banking, and rolling out of the credit information sharing mechanism. The sector has continued to grow in assets, deposits, profitability and innovation of products and its offerings (Alan, et al,. 2003). The strategy of expanding the branch network, both within Kenya and in the greater East African region, automation of service needs and globalization challenges has enhanced the growth. The Kenyan banking sectors' continued expansion into the East African region will foster its growth momentum. Equally, the sector is expected to play a pivotal role in financing initiatives key to propel Kenya to a middle-income country as envisaged in the Vision 2030 (Bank Supervision Annual Report, 2010).

1.1.5 Kenya Commercial Bank Group Limited

Kenya Commercial Bank Group, also known as KCB Group, is a financial services organization based in the African Great Lakes region. The Group's headquarters are located in Nairobi, Kenya, with subsidiaries in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda. KCB Group has the widest network of banking outlets comprising over 222 branches and over 400 automated teller machines in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda. In March 2011, media reports indicated that the group was pursuing expansion plans into the Democratic Republic of the Congo, Ethiopia and Zambia.

The history of KCB dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later (in 1904), the Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda (Banking in Kenya, 2011). The next major change in the Bank's history came in 1958. Grindlay's Bank merged with the National Bank of India to form the National and Grindlay's

Bank. Upon independence the Government of Kenya acquired 60% shareholding in National & Grindlay's Bank in an effort to bring banking closer to the majority of Kenyans (Arbaugh, Camp & Cox, 2006).

The KCB bank in 1972 acquired Savings & Loan (K) Ltd to specialize in mortgage finance and in 2010 S&L merged with KCB providing access to mortgage finance through the bank's wide branch network. To provide banking services and promote cross border trading KCB subsidiary, KCB Bank (Tanzania) Limited was incorporated in Dar-es-Salaam and opened 11 branches. Currently, KCB Group has the widest network of banking outlets comprising over 222 branches and over 400 automated teller machines in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda (KCB, 2013). KCB Group embarked on a restructuring process which the Board instituted early 2011, with the aim of improving KCB bank from a Good bank to a Great bank. Kenya Commercial Bank Group has 2 branches in Burundi, 175 branches in Kenya, 11 branches in Rwanda, 20 branches in South Sudan, 11 branches in Tanzania and 14 branches in Uganda. The stock of KCB Group is traded on the Nairobi Stock Exchange. The stock is cross listed on the Uganda Securities Exchange, the Rwanda Stock Exchange and on the Dar es Salaam Stock Exchange under the symbol KCB.

1.2 Research Problem

Internationalization of firms is the ability companies have to upsurge their business dimension internationally in a way that is systematic (Cavusgil et al., 2008). Gordon (2011) vindicated that a multinational company (MNC) can internationalize to follow its clients and seek new market opportunities. In the service industries, client-following behavior is inclined to have a greater incidence of occurrence (Qian & Delios, 2008). Information and client knowledge is the most significant input of banking activities.

The innovation of financial products, regulatory reforms, information technology, and growth in international trade has propelled the development of banks within the international financial system (Hejazi & Santor, 2010). Therefore, the banking activities, Kenyan financial institutions included, are increasingly becoming international. International standards and practices introduced through internationalization of financial systems can facilitate countries to build a quality, efficient and robust financial system.

However, internationalization of bank operations in Kenya and globally has been facing various challenges. First the business environment in the foreign country differs from their home country (Musyoka, 2011). In addition, banks face various risks and uncertainties that can be attributed to economic, cultural and political factors. Cultural impediments include the human resource incompatibility, language, religious beliefs and attitudes towards business in the new market. State of the economy in the new country, stability of its currency, level of taxation and inflation are the economic impediments in a foreign market. Other challenges include foreign market risk, government regulations, government bureaucracy and political stability (Hayashi & Serapio, 2006).

Various studies have been conducted on internationalization both Globally and locally. Globally, Zhang (2008) did an analysis on the Motivations for the Internationalization Operation of China's Commercial Bank and established that internationalization has developed as the main feature of current world economy, among which the internationalization development of the commercial bank constitutes a very important part. In addition, Guillen (2009) did a study on internationalization of retail banking in Spanish banks in Latin America. He found that the Spanish banks are exhibiting asset-seeking, asset exploiting, and oligopolistic behaviors. Further, Gurmeet and Naz (2010) did a study on issues faced by SMEs in the internationalization process in Fiji and Samoa and established that there is a problem in evaluating the nature of issues affecting internationalization of SMEs.

Research done on internationalization locally focused on the agricultural industry and small and medium enterprises (SMEs). For instance, Guracha (2008) researched on the influence of political risk factors on internationalization decisions of horticultural exporting firms in Nairobi and established that during internationalization decision-making process, political risk factors influence horticultural firms, and that the political factors need to be analyzed before choosing the mode of entry and the mode of investment. On the other hand, Ekai (2010) studied challenges to the internationalization of Kenyan small and medium enterprises (SME). He noted that SMEs face a number of challenges when internationalizing, including relation to the country they deal with, affecting the industry in which they operate. In the banking industry, Mulatya (2012) did a study on the factors that determine internationalization process of Commercial Banks in Kenya and established that proactive and reactive motivation, internal and external change agents and barriers to internationalize were core in the internationalization process. It is against this background that this study sought to fill the research gap by answering the research question: what are the challenges facing the internationalization of banking operations in Kenya Commercial Bank limited?

1.3 Research Objective

The objective of this study is:-

1. To determine the challenges involved in the internationalization process of banking operations by KCB.

1.4 Value of the Study

To future scholars the study adds more information to the body of knowledge on internationalization of business operations. In addition, future scholars also benefits from the study, by adopting the recommendations that enables them advance research in addressing internationalization of indigenous Kenyan firms in the banking industry and other industries as well.

To the banking industry in Kenya this study increases knowledge in relation to internationalization of banking operations as it highlights the challenges that the commercial banks face while establishing their investments across Kenyan borders. This benefits both the banking and non-banking industries.

To the central bank of Kenya, policy makers and the government of Kenya, this study provides information that can be used to formulate policies to govern and regulate internationalization of bank operations in Kenya. The findings of this study can also be used to formulate policies to protect investors and stakeholders in the banking industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Internationalization of firms is a means of building globally competitive organizations. A government exposing its economy to competition from domestic and multinational companies is more likely to have internationally competitive firms. These firms will eventually explore opportunities abroad having accrued the necessary competitiveness in the home market (Fornes & Butt-Philip, 2011). This chapter explains the critical review of literature discussing internationalization in international business, the concept of internationalization, the global banking industry, foreign market entry and international competition.

2.2 Theoretical Framework

Concerning the theory of the overseas expansion of transnational banks, there are two branches, internalization theory and eclectic theory. Based on the hypothetical premise of enterprise's maximum profit and incomplete market, the internalization theory thinks that with the adoption of market internalization, the bank aims at eliminating the defect of the market, thus to gain the profit brought by the internalization itself. On the other hand, the eclectic theory takes the view that the advantage of ownership constitutes the condition for the competition between transnational bank and local banks. And the transnational bank can create the short term advantage through the obvious products distinction, and the long term advantage through the predictable products distinction. Location advantage is the necessary but not the sufficient condition of internationalization.

2.2.1 Internalization Theory

Internalization theory originates from Kos's Enterprise Theory and Location Theory and it takes two hypotheses, enterprise's maximum profit and incomplete market as its premise. In the theory, knowledge advantage becomes one kind of product, which can be exported to other countries. And as a result of the information asymmetry, it's difficult to set prices on these intermediate products, and thus the incomplete external market occurs. Under such circumstances, it’s hard for enterprise to defend its rights and interests while transferring intermediate products. And the enterprise cannot allocate its resources through market to ensure its maximum profit, either. While through forming the internal market for intermediate products, enterprise can reserve the controlling power over them and avoid their spread in order to catch the advantage (Fornes & Butt-Philip, 2011).

The research of internalization theory reveals that the line features of a transnational bank dominate its motivations of overseas expansion, that is, by making use of its internalization advantage, a transnational bank can reduce the transaction cost. However, the internalization advantage can only explain bank’s motivation for expansion, while it cannot give an explanation on why the bank chooses to expand its business abroad, as it can also set up the branch organization at home without going abroad to internalize its advantage. In addition, internalization theory does not research on the choosing standards of external market (Griffin & Pustay, 2010).

2.2.2 Eclectic Theory

When doing research on transnational enterprise theory, Dunning (1977) refers to the industrial organization theory, location theory, and internalization theory, and he then proposed the eclectic theory. The framework of this theory puts forward the conclusion that there are three factors, i.e. ownership advantage, location advantage, and internalization advantage, that will dominate transnational enterprise’s overseas direct investment.

By applying Dunning’s eclectic theory, Gray (1981) first explains the development of transnational enterprise. He lists out the location advantage and internalization advantage of transnational bank and makes an explanation on this economics phenomenon. However, he also thinks that the eclectic theory is too complicated and too general. And Dunning (1981) realizes that the location factor cannot account for why foreign-funded bank can rival local banks in the competition. Cho (1983) extends the application of the theory in the field of transnational bank trade. He holds the view that transnational bank can gain the short term advantage through the remarkable products distinction, and the long term advantage through perceptible products distinction. However, none of them made attempt to confirm the theory by substantial evidence. In addition, there are no sufficient examples to show the efficiency of this theory, either.

Internalization theory and eclectic theory are the mainstream of bank's overseas expansion theories. The former one is based on meticulous hypotheses and can be applied extensively, while the latter one, when applied to explain the transnational bank, seems more systematic and direct, and also easy to use. In a word, both the internalization theory and eclectic theory explain some aspects of the impetus mechanism for bank's transnational operation from different angles, which serve as the guidance for the research on the internationalization of operation of domestic banks.

2.2 Internationalization of Business Operations

Griffin and Pustay (2010) postulate that international business consist of business transactions between parties from more than one country, hence business activities that involve crossing national borders. International business contributes a significant portion of gross domestic product (GDP) and it increases as the economy develops. It involves international trade, foreign manufacturing and the growing service industry. The service industry includes transportation, tourism, banking, construction and mass communication. The financial service industry has globalized and is increasingly becoming competitive (Gordon, 2011).

Managers are under intense pressure to increase the sales and profits of their firms. Indeed when faced by a mature, saturated market at home, firms begin to search for new markets across their borders, venturing into the regional market. Rugman and Verbeke (2004) reported that nine of the world's 380 largest firms as truly global, 320 being home based and needing a regional, rather than a transnational solution to strategy and structure. Regional growth requires top management decision and large amounts of firm's resources. At the same time, it is future oriented affecting long-term prosperity of the firm, multifunctional and multi-business consequences of the firm and considers the firms' external environment.

2.3 Challenges of Internationalization of Business Operations

Commercial Banks fall under services; where several literatures have been written on internationalization of financial services. Fornes and Butt-Philip (2011) discuss challenges for internationalization of services and observe that: first, customers tend to prefer core services from their own country, from countries of similar culture to their own, and from economically progressive culture. Second, customers prefer domestic services because of strong nationalistic beliefs and feelings; customer patriotism or conservatism may restrain them from buying services of foreign origin. Third, cultural elements, such as religious beliefs, materialism, language, education, the family structure, gender role, manners, customs, and time orientation, are closely intertwined with national culture (Griffin & Pustay, 2010). Fourth, a strong association exists between information content and socio-cultural values. The differences in socio-cultural, technological, legal and governmental aspects may necessitate the use of different services for the delivery of information content.

Fifth, the decision on the entry mode relies on the “serviceness” of the offering and the degree of consumer/producer interaction. Sixth, services require better pricing and distribution structures. Seventh, services cannot be standardized like goods since they are performances and often involve some level of the human element. Eighth, quality excellence is a cornerstone in building competitive advantage hence; the challenge is in the weights of different quality dimensions that may vary across different cultures. Ninth, lack of reliable market data hence, experience and knowledge of market research is required (Segal-Horn, 2002). Tenth, increased tradable competition is observed from both developed and developing countries. The globalization of the service sector has not been restricted to advanced economies alone. New competitors are emerging from less advanced economies which are showing signs of growth in the service sector (Fornes & Butt-Philip, 2011).

Barriers in the internationalization process may be divided into three groups: general market risks, commercial risks and political risks. The importance of these risks needs not to be overemphasized, and various risk-based management strategies are opened to firms and may include: avoid exporting or moving to high-risk markets, diversify overseas markets and ensure the firm is not over-dependent on one single market, insure risk when possible, and structure export business so that buyers bear most of the risk. According to Hejazi and Santor (2010), over one-third of the exporting craft firms have stated that they encounter problems once they entered the export markets. The most common problem was connected with the choices of a reliable distributor or network, followed by difficulties in promoting the product and matching the competitors' prices.

2.3.1 Cultural Challenges

Cultural environment include values, beliefs, customs, languages and religions. Unlike in the domestic markets where cultural tastes are shared, in the international markets, cultural differences require serious considerations as they affect taste and consumption trends. There is a general agreement among researchers that firms prefer to invest in markets exhibiting near and similar cultures to the home country (Rugman & Verbeke, 2004). However, some firms will successively enter markets at an increasingly cultural distance from the home country due to specific competitive advantages.

According to Thompson et al. (2007), when a company is operating in the international markets where various cultural issues are at play certain specific organization cultures, if not checked, may act as bottlenecks. Cultural similarities encourage confidence and enhance universality of tastes that make products more appealing to the target foreign market. When planning the transformation to multinational status, it is important to identify such cultures and attempt to change them (Thompson et al., 2007). But Qian and Delios (2008) differs. He argues that changing routines and cultures can be difficult; instead he says that an organization should be restructured and people placed in new roles and relationships from which new cultures will develop to match cultures prevailing in the international arena. Some of the most important organizational cultural beliefs are: belief in supremacy of customers, superior quality of products, being the best and importance of details among others (Thompson et al., 2007).

Madura and Fox (2007) also refer to culture as routines which give an organization or society a competitive advantage over other organizations or societies. Pearce and Robinson (2007) define culture as the set of important assumptions, often unstated, that members of an organization or community share in common. It is an intangible, yet ever present, theme that provides meaning, direction and the basis of action. Culture can be looked at as the culture of the organization and the culture of the target foreign market.

To be successful in international business, managers must understand the cultures of target host country and learn how to adapt to them (Pearce and Robinson, 2007). The main challenge is how to broaden their cultural perspective, adapt new cultures and make decisions that reflect the needs and the desires of those cultures (Rugman and Hodgetts 2006). This can be achieved by understanding the elements of culture - i.e. language, religion, values, attitudes, customs & manners, material goods, aesthetics and education. Guracha (2008) argue that for an organization to be successful, both in the domestic and international markets, there must be a fit between the organization's strategy, structure, systems, staff, skills, shared values and style. This wholesome unity he refers to as organization structure. Heino (2008) argues that organization culture and values held by managers and other employees within the organization are key influences on strategies of internationalization and are thus central driving considerations to strategy creation for internationalization process.

Thompson et al., (2007) note that an appropriate and cohesive culture can be a source of competitive advantage for an organization as it promotes consistency, co-ordination & controls and reduces uncertainty while enhancing motivation and organizational effectiveness. On the other hand an incoherent organization culture can be a great bottleneck to the implementation of organizational strategies. The culture of an organization will need to be changed to match operating environments (Thompson et al., 2007). Madura and Fox (2007) noted that truly adaptive firms, with adaptive cultures, are awesome competitive machines. They produce superb products and services faster and better even when they have fewer resources. The rate of organizational learning is dependent on culture while the content of organizational learning fundamentally influences culture. Traditional organization structures, particularly in local enterprises like KenolKobil, were mainly hierarchical (Musyoka, 2011). In these kinds of structures, decision making is bureaucratic and slow. Any meaningful transformation process will almost often lead to the change of organization structure from hierarchical to somehow flat structures with several constructive interrelationships between roles (Johnson and Scholes, 2002). Various elements of culture significantly affect how business is conducted in various parts of the world. Geert Hofstede and Fons Trompenaars as quoted in Rugman and Verbeke (2004) undertook various studies to evaluate the linkages of elements of culture. They concluded that due to cultural influences businesses are conducted differently in different parts of the world.

2.3.2 Political Challenges

Politics as the art of governing is also important in promoting business and ensuring that local firms gain or maintain dominance in certain market areas (Gordon, 2011). Erramilli, (1990) notes that business is conducted in societies governed by political ideologies which are, almost always, intertwined with economic philosophy. Political systems dictate fundamental economic themes under their control. There are two main political systems namely democracy (rule by majority) and totalitarianism (rule by minority). According to Rugman and Verbeke (2004), political systems typically create the infrastructure within which the economic system functions through policies and regulations. Certain import regulations such as high tariffs or low quota limits can encourage investment. Also governments may enact laws that ban certain types of investment outright e.g Japan is contemplating discontinuation of nuclear energy (Fornes & Butt-Philip, 2011).

Political systems thus create the necessary environments that can promote or inhibit business and ensure sustained economic growth. Political leadership sets policies, regulations, concessions and ensures stability & security that impact directly on business performance (Hill, 2011). Political leadership normally ensures that local firms gain or maintain dominance in the domestic market while simultaneously propping them up against opposing barriers in the foreign markets (Gordon, 2011). Fornes and Butt-Philip (2011) observed that broadening political support is a critical, essential and conscious proactive step in major strategy implementation. According to Gordon (2011) implementation of strategic decisions like internationalization looks up to politics for three reasons: It is in the realm that managers must search to discover what purpose are deemed publicly valuable; second, political institutions grant managers resources they need to accomplish their operational functions and third, it is politics and law that public managers are both theoretically and practically accountable (Filatotchev et al., 2007).

At the organization level, stakeholder support is critical for transformation programs such as internationalization process. However, because of many stakeholders with varied interests and power, it is difficult to achieve universal support, leading to internal organization politics. Hill (2011) see organization politics as tactics that strategic managers and stakeholders engage in to obtain and use power to influence organization goals and transformation strategy and structure to further their own interests. In this political view of decision making, obstacles to change are overcome and conflicts over goals are settled by compromise, bargain and negotiation between managers and coalition of managers and by outright use of power. Filatotchev et al. (2007) recommended broadening political support for emerging new trusts as an essential and conscious proactive step in internationalization. Specifically, stakeholders who wield political power must support internationalization program if it is to succeed.

2.3.3 Legal Challenges

A market will be less receptive to international players if there is laxity, by the ruling political class, in enforcement of regulations. This may injure proprietary knowledge and ownership rights (Segal-Horn, 2002). Political stability represents the risk level a company will be exposed to in the foreign market. Stable political systems, even if they are frequently changed like in Japan and India, tend to encourage direct foreign investment. Unstable political system discourages direct investment. Similarity and volatility of general business regulation or practices, customer protection legislations are some of the other deterrent legal factors in internationalization (Griffin et al., (2010).They further note that political leadership, of either form, and their entrenched policies present one of the greatest challenges to internationalization of firms.

2.4 International Competition

Globalization has sophisticated business competitiveness. The linkages of international networks binding countries, institutions and people in an interdependent global economy (Glaum & Oesterle, 2007) have characterized the global competition. The increasingly borderless world, technological advancements and the rise of Brazil, Russia, India and China, known as the BRIC, has propelled global competition (Glaum & Oesterle, 2007).

Different industries have different patterns of international competition. Thompson et al., (2007) describe these patterns as multicountry competition and global competition. In multicountry competition, competition in one national market and another national market is not connected, implying that a company winning in one national market does not necessarily mean that it will fare well in another. In the banking industry in East Africa for example, the leading banking rivalry in South Sudan does not relate in any way to the rivalry in Uganda. Global competition exists when competitive conditions across national markets are strongly linked to form an international market. Here, the leading competitors' compete in many countries such that a firms' overall competitive advantage created from the home market affect its competitiveness in other countries (Hayashi & Serapio, 2006).

2.5 The Global Banking Industry

The global financial system is the collective financial institutions that facilitate and regulate flows of investment and capital worldwide. Cavusgil et al. (2008) justified that a global financial system is built on activities of banks, financial institutions and firms engaged in an ongoing international financial activity. The key players in the global financial system are finance ministries, national stock exchanges, commercial banks, central banks, the Bank for International Settlements, the World Bank and the International Monetary Fund (Hodgetts & Luthans, 2000).

The integration of the financial and monetary activities is growing globally due to the evolution of financial and monetary regulation worldwide, new technological development payment systems and Internet use, increasing global and regional interdependence of financial markets, and growing role of single currency system (Cavusgil et al., 2008). Revolution in communication, information processing and the growth in cross-border trade and capital flows has enhanced the evolution of international institutions and agreements (Cuervo-Cazurra, Maloney & Manrakhan, 2007). This is the same for international banking, where today, banks take and hold deposits in any currency, regardless of bank location. The speed and efficiency of transfer and settlement has increased leading to geographic location being irrelevant (Madura & Fox, 2007).

Therefore, commercial banks are important players in the global financial sector storing deposits and extending credit to firms, individuals and households. These institutions raise funds by attracting deposits, borrowing money across banks, or issuing financial instruments in the securities market or global money market. The national and local governments that are interested in ensuring solvency of their national banking system (Cavusgil et al., 2008) regulate the banks. Madura and Fox (2007) acknowledged that globalization in the banking industry has been attributed to the growing standardization of regulations around the world.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology of the study. It outlines how the study was carried out. The chapter presents the research design, the population, sampling frame, sample and sampling technique, data collection instruments, data collection procedure, pilot study and methods of data analysis.

3.2 Research Design

Research design refers to the method used to carry out a research. This research study used a case study design. A case study is a descriptive, exploratory or explanatory analysis of a person, group or event. According to Glicken (2008), case studies allow a lot of detail to be collected that would not normally be easily obtained by other research designs. The data collected is normally a lot richer and of greater depth than can be found through other research designs. This study only focused on Kenya Commercial Bank.

3.3 Data Collection

This study used both primary and secondary data. In the collection of primary data the study used interview guides. An interview guide is an aide memoire, a list of topics, themes, or areas to be covered in an interview. It is normally created in advance of the interview by the researcher and is constructed in such a way as to allow flexibility and fluidity in the topics and areas that are to be covered, the way they are to be approached with each interviewee, and their sequence, (Denscombe, 2007). The interview guide was administered on specific managers in the bank. These include 3 international business managers and 3 operations managers from KBC branches in Moi Avenue, Tom Mboya and Biashara Street. The secondary data was collected from various sources like journals, internet, textbooks, and magazines and paper presentations at conferences.

3.4 Validity

Validity was enhanced by having objective questions included in the interview guide. This was achieved by pre-testing the instrument to be used to identify and change any ambiguous, awkward, or offensive questions and technique as emphasized by Glicken (2008). The validity of the research instruments was established by seeking opinions of experts in the field of study especially the supervisors.

3.5 Data Analysis

Data analysis was done after data collection. Since data that was obtained in this study was qualitative, content analysis was used in the analysis. Content analysis is a widely used qualitative research technique. This study used both conventional and summative content analysis. In conventional content analysis, coding categories are derived directly from the text data. A summative content analysis involves counting and comparisons, usually of keywords or content, followed by the interpretation of the underlying context. Data was then presented in a prose form.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter preset the data analysis, results and interpretations sought from the research as well as the discussion of the findings. The first section deals with the general information of the respondents under study while the second section seeks address the research objective: to determine the challenges involved in the internationalization process of banking operations by KCB.

The respondents in this study included 3 international business managers and 3 operations managers from KBC branches in Moi Avenue, Tom Mboya and Biashara Street. The sample size of this study was therefore 18 respondents, out of which 17 responses were obtained. This gives a 94.44% response rate.

4.2 General Information

As part of the general information, the respondents were asked to indicate for how long they had been working in their present capacity. From the findings 12 of the respondents indicated that they had been working in their current positions for 3 years, 2 respondents indicated for more than 3 years and 2 respondents indicated for less than 3 years.

4.3 Internationalization of Business Operations

The respondents were also asked to indicate whether their organization had internationalized its operations. From the respondents all the respondents agreed that Kenya Commercial Bank had internationalized its operations. The interviewees also indicated that Kenya Commercial Bank had internationalized various operations, which include forex exchange, international remittances, corporate and retail services, account opening, withdrawals, deposits, money transfer, lending, internet banking, mobile banking, ATM services and clearing.

4.3.1 Important triggers (stimuli) for starting operations regionally/ globally

The interviewees were asked to indicate the important triggers (stimuli) for starting operations regionally/ globally. From the findings, the respondents indicated that the most important triggers for internationalization were to follow customers, to move to international competition, to take advantage of governmental incentives, to exploit firm specific strength, for long term growth, to increase revenue, to increase profit, to enhance competitiveness, to spread business risk, to protect home market, economies of scale, to improve the reputation of bank, to increase brand identity, due to saturation of local market, due to improvements in information technology and due to improvements in infrastructure.

4.3.2 Factors determining internationalization of bank operations in Kenya

The interviewees were also asked to indicate the factors determining internationalization of bank operations in Kenya. The interviewees indicated that one of the factors was spreading of risk. The management characteristics such as appetite for risk and the idea to spread and diversify risk have been observed as the main stimuli for banks to move regionally and globally. Another important stimulus that drives commercial banks to operate in other countries is increase in growth and size.

The factor of attractiveness of the host country attracted many positive response answers. The market size, individual income per capita and the host countries favorable GDP are the prerequisites for commercial banks growth, profit, and stability of operations. Government policies which allow free market adjustment and formulation of financial market regulatory policies which are conducive for business environment would significantly drive commercial banks to operate in those countries. Market saturation and competitive pressure in the domestic market had considerable responses suggesting that this is an important external factor that stimulates a commercial bank to enter other countries. Another stimulus that commercial banks face is the product demand or unsolicited proposals from foreign countries. Other factors noted include political stability, availability of markets, social set ups, CBK approvals and liquidity ratio of the bank.

4.3.3 Benefits of internationalizing of an organization

In relation to the benefits of internationalizing an organizations, the respondents indicated that internationalization increases the market, increases profits, accreditation, meets customers expectations, improves reputation, leads to long term growth, increases revenue, increases profit, enhances competitiveness, spreads business risk and protects home market.

4.3.4 Change Agents in Internationalization

The interviewees were asked to indicate the agents of change (internal and external) who have facilitated the bank to operate regionally/globally. The results obtained were grouped into two categories: internal agents of change and external agents of change. Management enlightenment is the primary internal agent of change as observed from the respondents' answers. According to respondents, an enlightened manager is that who is well trained, speaks a number of foreign languages, travels extensively, stayed abroad for some time, and ambitious in his or her foreign engagement. Critical and also mentioned by the respondents is the factor of new management or employees contracted by the commercial banks.

Favorable economic platforms in a foreign country is a key external agent of change according to the respondents who overwhelmingly mentioned no interference by government agencies, stable interest rates; lending and creditors interest rates being predetermined, as being an important factor. Stable economic growth and robust financial systems in a given country would result in commercial banks moving into those markets.

Another external agent of change is liberalization and economic integration of countries into economic blocs. Establishments of commercial banks in the opened countries are much easier with fewer conditions and requirements as the markets tend to align their financial regulatory framework. The participating individuals recognized that changes in political set up and new constitution can bring confidence in those markets.

4.4 Challenges to Internationalization of Bank Operations

The respondents were asked to indicate the challenges Kenya Commercial Bank was facing in internationalizing its operations. From the findings the interviewees that one of the challenges Kenya commercial bank was facing was regulations and restrictions in the host country Further, the human resource manager indicated that compensation was one of the main challenges in human resource functions**.** Culture was also found to be a challenge to internationalization of bank operations. There is a significant challenge to instilling shared values in a regional bank like Kenya Commercial Bank. Cultural compatibility is difficult to achieve across businesses which may attract very different employee profiles, and where the business model and objectives are different. The interviewees also indicated that requirements in the host country in areas such as compensation (unions representing bankers-local labor laws, health and welfare requirements) are a challenge to internalization of bank operations. In addition, taxation policy defer in the local market Strength of union in Kenya is different from that of other countries.

The interviewees also indicated that their banks were facing legal challenges in internationalizing bank operations. the interviewees indicated that banking regulation was considered to be the exclusive preserve of national policy makers. The interviewees also indicate that having grown up in response to particular national circumstances, policies toward banking operations vary widely from one nation to another. The interviewees also indicated that the requirement for a local presence brings a foreign bank face to face with the domestic banking policies of the host country, and this is where the trouble begins. The interviewees indicated that the “right of establishment” (to use the current jargon) remains a thorny issue in negotiations between industrialized and developing countries. The interviewees further indicated that the real problems in relations among the industrialized countries arise from policies that have the effect-intentionally or otherwise of discriminating against operations of foreign-controlled banking institutions.

Other challenges quoted by the respondents include liability to foreignness, extent of bureaucracy and red tape, transparency and corruption, extent of regionalization and free trade, state of local economy, stability of currency, financial resources, inflation level, taxation level, liability of infrastructure, entry mode, timing of entry, language, religious belief, organizational changes, availability of skilled labor, involvement of labor unions, employment regulations and nature of legal system and laws.

4.4.1 Barriers to Internationalization

In relation to market barriers or risk (complexity) that the bank has faced expanding in foreign market, the interviewees identified several market risks that exist in a given market. Stiff competition was singled out by all respondents as a market risk inherent to the banking industry. Strong patriotism and nationalism by the host countries people is a risk for foreign commercial banks. The respondents agreed that this risk will definitely result in the commercial bank to de-internationalize its operations from the countries. Negative customer preferences on banks products, closely related to protectionism mentioned above would adversely affect the growth prospects in the new market. The respondents categorized language barriers and cultural differences as creating business gaps and adversely affecting internationalization process. Another risk in relation to market risk is comparative market distance between the home country and the new markets. The respondents suggested that markets that are far in terms of distance are likely to be difficult to manage especially where market aspects are totally different.

The risk of disruption of business processes and eventual losses by commercial banks according to respondents were inflationary pressure and volatility on exchange rate in the host country. When these factors occur in an economy, they are difficult to correct or mitigate as they are determined by the prevailing economic conditions and the host country's economic and political regime.

Also of importance and internal to the commercial banks, is at times difficulties in rising sufficient capital for expansions. The commercial banks may see opportunities in new and untapped markets, have the necessary market information and management willingness but has partial or limited financial resources to reach those markets. The financial markets or financers used to raise expansion funds may be depressed or not willing to invest in those ventures. Information communication technology that supports financial transactions may be poor or inappropriately managed and coordinated. The threat of misappropriation and lack of the capacity to monitor and trace banks transaction is a major setback as a result of poor infrastructure. Another commercial risk exemplified by the respondents is international fraud, defaulters and clients bankruptcy cases. Commercial banks face this threat on a continuous basis as each country has its laws different from others that handle these circumstances. Loss recovery can also be costly and at times, such cases become a public relation issue hence, the commercial banks bear the losses.

Negative sentiments from host country government regarding foreign commercial banks services and products, dealings and transactions, management and even diplomatic rouse against these countries can result to huge business losses. The respondents categorically observed this risk as one that makes the commercial bank lose confidence in operating in a given market. Complexity of business registration and documentation requirement when establishing presences in new markets; registration bureaucracy and duplication, harsh legal and capital requirements imposed in the new markets, is a risk certainly for foreign commercial banks. The participants observed these as unfavorable requirements and policies in host country. Imposition of price controls in terms of lending and creditors' interest, domestic currency controls and restriction of foreign exchange rates is a political risk. Government laxity in assisting international commercial banks in overcoming domestic difficulties and barriers would deter entry to these markets. The respondents recognized that civil strife, revolution and wars in an economy would disrupt international commercial banks activities. Displacement of population, withdrawal of investors and distraction of economic activities as a result of military coup or forceful regime change drives away commercial banks as these situations pose risk. The respondents also indicated that other political barriers include xenophobic trends, internal wrangles, government policies and sanctions.

4.5 Measures to Overcome Challenges in Internationalization of Bank Operations

Efficient management of the cross-cultural interface is a vital source of a company’s competitive benefit. From the findings, the interviewees indicated that managers should build up not only empathy and forbearance toward cultural diversities, but also attain a satisfactory degree of factual understanding about the beliefs and principles of overseas counterpart. For companies to sell effectively to foreign clientele, they should have culturally responsive adaptations to goods, services, marketing, and promotion. In relation to lawful challenges, the respondents indicated that abiding by these necessities and engaging with the controllers and other public entities are necessary duties for banks and their executives. Not doing so can cause reputational harm to a bank and damage public confidence in it. Also, the respondents indicated that to effectively manage different stakeholders and harmonizing their priorities is significant for all institutions. For banks, controllers are a very vital stakeholder: they formulate the rules, take charge of prudential financial power and business behavior, challenge, and eventually authorizes a bank to operate. They also argued that an important element of fostering a positive and cooperative relationship with regulators is open communication and transparency.

The risk alleviation approach that received the utmost response is using local personnel and raising relations with the market group of actors and stakeholders. Venturing into new and overseas markets requires quick adjustment to the environment and one means to realize this is to increase relations and participation with the local populace, financial group of actors and government officers. A free and mutual interaction would certainly be realized through understanding one another through continuous interaction and conciliation for the good of thriving in these markets. Another alleviation approach that can be employed by the commercial banks is to keep away from expanding in high-threat markets. Through experience, investigation and figures, worldwide commercial banks must assess critically the market environment to evade being trapped in poor market. States that disrespect the rule of law and with malfunctioning judicial structures, increased corruption index and high money laundering activities poses threats to business operations.

Other risk alleviating approaches mentioned by the interviewees were: having an effective management group with international financial market understanding, cover against risk in the event of fraud, nonpayer and violence, as well as expanding operations in numerous markets. The respondents also indicated that to deal with various challenges of internationalization, commercial banks should conduct aggressive marketing, adhere to policies, hire local people and train them, direct support from Kenya, introduce CSR activities and close branches in areas with insecurity.

4.6 Discussion of the Findings

This study established that Kenya Commercial Bank had internationalized most of its operations and had even opened branches in the region like in Uganda and Sudan. According to Griffin and Pustay (2010) international business consist of business transactions between parties from more than one country, hence business activities that involve crossing national borders. The banks' interest to venture into other markets in Kenya has been motivated by various factors. increases profits, accreditation, meets customers expectations, improves reputation, leads to long term growth, increases revenue, increases profit, enhances competitiveness, spreads business risk and protects home market.

The study established that favorable economic platforms in a foreign country are a key external agent of change. An established economic development and strong financial systems in a certain state would make commercial banks venture into those markets. An additional external instrument of change is liberalization and economic incorporation of states into economic alliances. Setting up of commercial banks in the opened states is much easier with minimal provisions and needs as the markets tend to bring into line their financial control framework. As a result, local clients expand their business into the opened states and the commercial banks go behind these clients in order to serve them better. The participating persons appreciated the fact that changes in political system and new constitution can give assurance in those markets. Accordingly, other industries and investors get to these markets and build a need for commercial banks services, thus commercial banks must come in.

Hindrances to worldwide trade in banking services occur for the most part as a result of the exceptional outlook of banking services and the value that all states place on the guidelines of running banking sector. In each state, banking operations must agree with the unique policies and limitations. These policies and limitations are roughly always meant to guarantee the steadiness of national banking structures, to offer national authorities with efficient tools for economic administration, or generally to promote thrift above other social qualities. The fact that these regulations sometimes hamper the setting up of overseas banking operations or limit the extent of such operations after they have been set up is more often than not an accidental side effect though it is not forever intensely regretted by domestic banking organizations.

In this study, compensation was the main challenge in human resource functions**.** With size and demand for outstanding performance come people complexity-more things accomplished through employees, more delegation to key employees and more reliance on employees. The objective of all this is to attain a competitive advantage above main competitors. In international business, banks get into varying cultural setting characterized by new languages and exclusive value structures, lifestyles and behaviors. They come across clients and business partners who exhibit varying ways of life, standards and utilization behaviors. These variations affect all dimensions of global business. Culture affects a variety of interpersonal exchange and the value-chain activities like goods and services design, advertising as well as sales. These findings agree with Griffin and Pustay (2010), argument that cultural elements, such as religious beliefs, materialism, language, education, the family structure, gender role, manners, customs, and time orientation, are closely intertwined with national culture and highly influence internationalization of business operations.

Political factors such as war, instability insecurity among others were found to affect internationalization of bank operations. According to Rugman and Verbeke (2004), political systems typically create the infrastructure within which the economic system functions through policies and regulations. Certain import policies like increased tariffs or reduced quota restrictions can promote investment. In addition, governments may endorse laws that prohibit certain forms of investment totally. Additionally, banking policy was regarded as the special preserve of national regulation makers. Nevertheless, the development of global lending and the coming out of multinational banks serving this business from offices stretched across the world made policy makers cognizant of the need to harmonize their operations. First, the inter-access of nationwide banking markets by overseas banking enterprises created the need for a clear knowledge as to which authority was in charge of controlling which banks. Second, the close connections between nationwide banking structures by means of the interbank market intended that financial steadiness in one authority could be negatively affected by issues emanating from another authority. And, finally, the reality that banks from various states were competing for business in an international market increased the likelihood of competitive alterations arising from irregular national control arrangements.

The study also found that the requirement for a local presence brings a foreign bank face to face with the domestic banking policies of the host country, and this is where the trouble begins. In the past, national policies have explicitly prohibited the establishment of foreign-controlled banking institutions. The market creates huge chances and at the same time can lead to risks on occasion above commercial banks power. Being fresh in those markets creates a greater threat as the institution strives to adjust to the new approaches and situations. Very high competition was indicated by all interviewees as a market threat inbuilt to the banking sector. These findings agree with Segal-Horn (2002) argument that increased tradable competition is observed from both developed and developing countries. Continuing commercial banks which had gains in those markets are hard to contend with, and the "bandwagon consequence" would in a little while catch up with the fresh commercial banks moving in those states.

The threat of interruption of business running and ultimate losses by commercial banks were inflationary demands and instability on exchange rate in the new market state. When these aspects happen in an economy, they are hard to alleviate since they are influenced by the existing economic setting and the host state's economic and political system. In addition, of significance and part of the commercial banks, are from time to time challenges in rising enough capital for development. The commercial banks can see openings in new and unexploited markets, have the essential market information and administration willingness but has limited financial base to venture into those markets. The financial markets or those used to increase development finances may be depressed or reluctant to devote funds to those businesses.

Negative reactions from host state government about overseas commercial banks products, business and transactions, administration and still ambassadorial rouse against these states can lead to enormous business losses. The study established that this threat causes the commercial bank to lose assurance in doing business in a certain market. Difficulty of business registration and certification constraint when setting up business in new markets; registration administration and duplication, cruel lawful and capital necessities compulsory in the new markets, is a threat certainly for overseas commercial banks. The study also found these as adverse necessities and regulations in host state. Imposition of cost controls on the basis of loaning and lender' interest, local exchange controls and limitations of overseas currency is a political threat. These controls put off commercial banks from developing in these fresh markets. Government slackness in helping global commercial banks in conquering domestic challenges and hindrances would discourage access to these markets. According to Ekai (2010), civil strife, revolution and wars in an economy would disrupt international commercial banks activities. Displacement of population, withdrawal of investors and distraction of economic activities as a result of military coup or forceful regime change drives away commercial banks as these situations pose risk.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter covers five major sections. These include the summary of the findings, conclusion of the study, limitations encountered during the study, recommendations for policy formulation and practice and suggestions for future research.

5.2 Summary of Findings

This study established that Kenya Commercial Bank had internationalized various operations like forex exchange, international remittances, corporate and retail services, account opening, withdrawals, deposits, money transfer, lending, internet banking, mobile banking, ATM services and clearing. The most important triggers for internationalization include to follow customers, to move to international competition, to take advantage of governmental incentives, to exploit firm specific strength, for long term growth, to increase revenue, to increase profit, to enhance competitiveness, to spread business risk, to protect home market, economies of scale, to improve the reputation of bank, to increase brand identity, due to saturation of local market, due to improvements in information technology and due to improvements in infrastructure.

The study also found that the benefits of internationalizing an organizations, include market increase, profits increase, accreditation, meeting customers' expectations, improving reputation, long term growth, revenue increase, enhancing competitiveness, spreading business risk and protecting home market.

The study also established that the agents of change (internal and external) who facilitate a bank to operate regionally/globally include management enlightenment, employees, favorable economic platforms, stable economic growth and robust financial systems and liberalization and economic integration of countries into economic blocs.

In relation to the challenges Kenya Commercial Bank was facing in internationalizing its operations, the study found that the challenges include regulations and restrictions, compensation of staff, cultural diversity, cultural compatibility and legal challenges. Other challenges quoted by the respondents include liability to foreignness, extent of bureaucracy and red tape, transparency and corruption, extent of regionalization and free trade, state of local economy, stability of currency, financial resources, inflation level, taxation level, liability of infrastructure, entry mode, timing of entry, language, religious belief, organizational changes, availability of skilled labor, involvement of labor unions, employment regulations and nature of legal system and laws.

The study also found that Kenya Commercial Bank was facing market risk. Stiff competition was found to be market risk inherent to the banking industry. Strong patriotism and nationalism by the host countries people is a risk for foreign commercial banks. Another risk in relation to market risk is comparative market distance between the home country and the new markets. Also of importance and internal to the commercial banks, is at times difficulties in rising sufficient capital for expansions. In addition, information communication technology that supports financial transactions may be poor or inappropriately managed and coordinated. The threat of misappropriation and lack of the capacity to monitor and trace banks transaction is a major setback as a result of poor infrastructure. International fraud, defaulters and clients bankruptcy cases are other commercial risks that affect internationalization of business operations.

The study also established that negative sentiments from host country government regarding foreign commercial banks services and products, dealings and transactions, management and even diplomatic rouse against these countries can result to huge business losses. In addition, complexity of business registration and documentation requirement when establishing presences in new markets; registration bureaucracy and duplication, harsh legal and capital requirements imposed in the new markets, is a risk certainly for foreign commercial banks. The study also found that civil strife, revolution and wars in an economy would disrupt international commercial banks activities. Displacement of population, withdrawal of investors and distraction of economic activities as a result of military coup or forceful regime change drives away commercial banks as these situations pose risk.

5.3 Conclusions

Transactions are increasingly conducted on an international playing field. Nowadays, there are no more easy profits and the risks are far more difficult to control. The internationalization of the banking works constitutes a major subject in modern economy with a main profit the increase of the surplus of consumer. Despite the distinguished importance of the cross-border banking activities of internal control, sporadic (but worth mentioning) efforts have been done, which show the basic advantages and disadvantages of those activities.

The most common Kenya Commercial Bank in its internationalization of operations can be categorized into market challenges, political challenges, legal challenge, economic challenges, geographical challenges internal challenges and cultural challenges.

5.4 Limitations of the Study

Due to tight schedules of the staff at Kenya Commercial Bank, the study encountered difficulties in gaining access to the respondents and the researcher had to keep rescheduling their time to align with the availability of the respondents.

Information relating to internationalization is always treated with sensitivity. This caused difficulties in convincing the respondents of the importance of giving sincere answers to the asked questions evidenced through reluctance of accepting invitation to participate in the study to counter the challenge, the researched had to inform the respondents in advance the purpose for the research study being carried out, that it was meant for academic purpose only and not for other investigations.

5.5 Recommendations for Policy and Practice

Banks play a key role in contemporary economies and in the welfare of people and businesses. The largest banks are of key significance to society as well as employers and taxpayers. Also, they carry major threat such that central banks, politicians and controllers have setup a series of lawful and control policies for them. Meeting the terms of these policies and engaging with the controllers and other public agencies are necessary tasks for banks and their administrators.

The study gives a recommendation that administrators of commercial banks be explain to on the openings that exist in unexploited and prospective international markets for profit expansion and satisfaction reasons. Where the global market place is expanding for intense competitions and amplified relations, a corresponding policy should be established by commercial banks to continue to exist in future. As the commercial banks make every effort for development in new international markets, they should assess and evaluate the factors that influence internationalization procedure of commercial banks.

Furthermore, there is a great requirement for Kenya commercial banks to develop systems to alleviate the threat inherent to the internationalization procedure prior to venturing into these markets. The environment is not steady with regions having enormous inconsistencies in relation to distances, customs, demographics and monetary policies that are in these markets. As indicated earlier, these aspects could potentially pose the difference between achievement and failure for global commercial banks.

One risk alleviation approach that can be employed by the commercial banks is to avoid venturing into high-threat markets. Through experience, investigations and statistics it is evidence that global commercial banks ought to assess decisively the market environment to be safe from being trapped in poor market. States that do not uphold the rule of law, and with nonfunctional judicial structures, increased corruption index and high money laundering activities poses threat in doing business.

5.6 Suggestions for Further Research

This research study was limited to Kenya Commercial Bank only. Being a case study its findings cannot be generalized to other commercial banks in Kenya. The study therefore recommends that furthers studies should be conducted involving all commercial banks in Kenya. The study also suggests that further studies should be conducted on that factors influencing internationalization of business operations in Kenya.

REFERENCES

Cavusgil, S. T., Knight, G. & Riesenberger, J. R. (2008). *International Business: Strategy, Management and the New Realities*. New Jersey: Pearson Prentice Hall.

Central Bank of Kenya, (2014). Financial Systems. Available at: http://www.centralbank.go.ke/financialsystem/banks/Introduction.aspx Accessed 23rd 7 2014

Cho K. R. (1983). *A Study on Multinational Banks (MNBs): There Identities and Determinants,* Washington: University of Washington.

Contractor, F. J., Kundu, S. & Hsu, C. (2003). A Three-Stage Theory of International Expansion: The Link Between Multicolinearity and Performance in the Service Sector. *Journal of International Business Studies,* 34, 5-18.

Cooper, D. R., & Schindler, P. S. (2006). *Business Research Methods.* New Delhi: Tata McGraw Hill.

Cuervo-Cazurra, A., Maloney, M. M. & Manrakhan, S. (2007). Causes of the Difficulties in Internationalization. *Journal of International Business Studies,* 38, 709-725.

Denscombe, M. (2007). *The good research guide for small-scale social research projects*. 3rd ed. Maidenhead, UK: Open University Press.

Dunning J. (1981). *International Production and the Multinational Enterprise.* London: Allen and Unwin.

Ekai, E. E. (2010). *Challenges to the Internationalization of Kenyan Small and Medium Enterprises.* Unpublished MBA Research Project. University of Nairobi.

Filatotchev, I., Strange, R., Piesse, J., & Lien, Y. C. (2007). FDI by firms from newly industrialised economies in emerging markets: corporate governance, entry mode and location. *Journal of International Business Studies*, 38(4), 556-572.

Fornes, G. and Butt-Philip, A. (2011). Chinese MNEs and Latin America: A Review. *International Journal of Emerging Markets, 6*(2), 98-117.

Glaum, M., & Oesterle, M. J. (2007) Research on internationalization and firm performance. *Management International Review, 47*(3), 307-317.

Glicken, M. D. (2008). *Social research: A simple guide*. Boston, MA: Allyn and Bacon.

Gordon, C. (2011). Competing in global niche markets: The case of Macquarie Bank. *International Journal of Bank Marketing*, 29(4), 293-307.

Gray P. H. (1981). The Multinational Bank: A financial MNC, *Journal of Banking and Finance,* 5(1), 56-59

Griffin, R. W. and Pustay, M. W. (2010). *International Business.* 6thed. New Jersey: Pearson Education, Inc.

Guillen, M.F. (2009). At last the internationalization of retail banking? The case of the Spanish banks in Latin America. *The Working Paper Series is made possible by a generous grant from the Alfred P. Sloan Foundation*

Guracha, A. B. (2008). *Influence of Political Risk Factors on the Internationalization Decisions of Horticultural Exporting Firms in Nairobi.* Unpublished MBA Research Project. University of Nairobi.

Gurmeet, R.D. & Naz, R. (2010). Issues faced by SMEs in the internationalization process: results from Fiji and Samoa. *International Journal of Emerging Markets, 5*(2), 153-182.

Hayashi, T., & Serapio, M. G. (2006). Cross-Border Linkages in Research and Development: Evidence from 22 US, Asian and European MNCs1. *Asian Business & Management*, 5(2), 271-298.

Heino, J. (2008). *Challenges of Internationalization: Implementing business operations across cultural borders.* Unpublished Thesis. Lahti University of Applied Sciences.

Hejazi, W. & Santor, E. (2010). Foreign asset risk exposure, DOI, and performance: An analysis of Canadian banks. *Journal of International Business Studies*, 41, 845-60.

Hill, C. W. L. (2011). *International Business: Competition in the global market*. 8thed. New York: McGraw-Hill.

Hodgetts, R., & Luthans, F. (2000). *International Management: Culture, Strategy and Behavior*. London: McGraw-Hill.

Madura, J. and Fox, R. (2007). *International Financial Management*. London: Thomson Learning.

Mulatya, P.W. (2012). *Factors That Determine Internationalization Process Of Commercial Banks In Kenya.* Available at: http://hdl.handle.net/11295/15850. Accessed 23rd 7 2014

Musyoka, F.M. (2011). *Competitive Strategies adopted by KenolKobil limited in developing sustainable competitive advantage.* unpublished MBA project, University of Nairobi

Pearce, K. & Robinson, H. (2007). *Strategic Management: Formulation, Implementation and Control.* 10th Edition. New York. McGraw-Hill/Irwin

Qian, L. and Delios, A. (2008). Internalization and Experience: Japanese Banks' International Expansion, 1980-1998. *Journal of International Business*, 39, 231-248.

Rugman, A. M. and Verbeke, A. (2004). A Perspective on Regional and Global Strategies of Multinational Enterprises. *Journal of International Business Studies, 35*(1), 3-19.

Thompson Jr., A. A., Strickland, A. J. and Gamble, J. E. (2007).*Crafting and Executing Strategy: The quest for Competitive Advantage: Concepts and Cases.* 15th ed. New York: McGraw Hill.

Zhang, X. (2008). Analysis on the Motivations for the Internationalization Operation of China's Commercial Bank. *Asia Social Science*, 4(9), 76-82

APPENDIX I: INTERVIEW GUIDE

1. How long have you been working in your present capacity?
2. Has your company internationalized its operations?
3. If yes, which operations have been internationalized?
4. Which other operations do you think should be internationalized in the bank?
5. Why did your organization internationalize?
6. What are the important triggers (stimuli) for starting operations regionally/ globally?
7. Which factors determine internationalization of bank operations in commercial banks in Kenya?
8. What are the benefits of internationalizing your organization?
9. Which are the agents of change (internal and external) who have facilitated the bank to operate regionally/ globally?
10. Was the internationalization process supported from the top management and how did they support?
11. How were the staff involved in the internationalization process?
12. What are the benefits that come with the internationalization of bank operations?
13. In your view what are other factors that act as challenges to internationalization of operation in Kenya Commercial Bank operations?
14. How do the factors named above affect internationalization of operations in KCB?
15. What Market barriers or risk (complexity) has the bank faced expanding in foreign market?
16. What Commercial barriers or risk (complexity) has the bank faced expanding in foreign market?
17. What Political barriers or risk (complexity) has the bank faced expanding in foreign market?
18. What are some of the challenges to internationalization arising from existing regional economic trading blocs by Kenya Commercial Bank?
19. What measures were undertaken to overcome these challenges?
20. What mechanisms has the bank developed to minimize the barriers mentioned above?