

**FACTORS AFFECTING INTERNATIONALIZATION AT KENYA
COMMERCIAL BANK LIMITED**

BY

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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

I dedicate this project to my mother, Mrs. Edith O. Kilemba and my son, Jerome. Mum, thank you for your invaluable support and sacrifice, for stepping in for me when I was busy with this course; this MBA is technically for you. To my son, this is to encourage you to reach your goals; let nothing stop you from achieving your dreams. May God bless you abundantly.

ABSTRACT

Internationalization refers to the process of growth of a firm by expanding its operations beyond its home country into other foreign markets. In most instances, the company begins expansion in the countries geographically closer to it. The study focused on the service industry, banking by researching on KCB Limited, the leading bank by asset base in the East African region. A theoretical framework is discussed to give guidance on the theories which closely relate to the subject. The Uppsala model is discussed followed by the network theory and finally the eclectic theory of internationalization. The study sought to find out the factors that influence internationalization at the bank by looking into the decision-making process the senior management at the bank went through, in arriving at the decision to internationalize its services. It is revealed that management considers several factors especially with regard to the potential host country. These factors range from the economic outlook of the country, the GDP per capita, the savings level, the political stability of the country, the inflation rate among others discussed in detail within the paper. The reasons the bank opted to expand its services out of the home country, Kenya were sought and it was found that the bank mostly expands due to proactive rather than reactive reasons such as, to grow its market share, to benefit from competitive advantages the bank possesses. The mode of market entry is one of the most important factors to consider in internationalization as the company needs to pick the most effective entry mode in order to be successful in any new market and this also largely depends on the nature of the company's business. In this case, banking is a highly confidential service and it is observed that KCB chose to use FDI through Greenfield investment in entering all of the foreign markets. This method is preferred mostly due to the control which it enables the company to have over its foreign operations. The study reveals the managements' thoughts on expansion into Africa's leading economies and gives reasons why this may be a good thing for the bank, or not. It also provides insight on whether the bank is likely to enter the neighbouring countries of Somalia and Ethiopia which have been skipped for internationalization since the bank began its expansion several years ago. In conducting this research, primary data was collected through conducting interviews using an interview guide. The respondents were all senior management most of whom have been in the bank for several years since the journey of expansion beyond the borders began. It is clear from the research that the internationalization at KCB was not a spontaneous activity occurring sporadically, but rather a well planned strategic move made after considering several factors which affect performance and ultimately, the profitability of the bank.

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ABBREVIATIONS AND ACRONYMS

KCB – Kenya Commercial Bank

CBK – Central Bank of Kenya

EAC – East African Community

COMESA – Common Market for East and Southern Africa

GOK – Government of Kenya

ATM – Automated Teller Machine

OTC – Over The Counter

CRB – Credit Reference Bureau

AACB – Association of African Central Banks

ICT – Information and Communications Technology

NSE – Nairobi Securities Exchange

DSE – Dar es salaam Stock Exchange

USE – Uganda Stock Exchange

RSE – Rwanda Stock Exchange

WTO – World Trade Order

GDP – Gross Domestic Product

SME – Small and Medium Enterprises

CPA – Comprehensive Peace Agreement

CHAPTER ONE: INTRODUCTION

1.1 Background of The study

In the last few years researchers have increased interest in internationalization of service firms. Particularly, banking, finance and insurance firms have developed and increased their internationalization leading to new research taking place. The increased research in the field of service firms has been brought up due to changes in regulations, technology and changes in customer demand (Blomstermo, Sharma, 2003). Most case studies in service firms show that many firms enter countries choosing the ones neighbouring their own country. After a while the firm generally moves to more distant markets (Blomstermo, Sharma, 2003). This study is of necessity to broaden knowledge on what factors are considered when a commercial bank is on the verge of growing the business outside of its national borders. The study focuses on the reasons for expansion into other countries with a focus on KCB Limited. Globalization has created countless opportunities for the internationalization of a wide range of services. Recent technological innovations associated with or elimination of trade barriers resulted in an expansion of service firms (Maria et al, 2013).

According to Slager (2006) the internationalization of banks is not a new phenomenon. He says that in 1913 there were 2,600 branches of foreign banks worldwide. The dominating factor at the time was colonization, with over 80% of these branches belonging to British banks. In Africa the share of foreign banks accounted for one-third of banking assets in South Africa. The financial empire of one of the largest international banks, J.P. Morgan, started out as a partnership financing American civil war loans from

England. This paper analyses the internal and external factors that influence the decision of commercial banks, in this case, KCB, to operate internationally. For the Bank to grow, it must have in place a strategic plan. It must be able to assess, and harness potential market opportunities. For the bank, a market is defined as an intersection between a class of customers and a bank product or service group (Channon, 1996).

Defining the markets the bank is engaged in is actually a difficult task requiring a substantial degree of creative effort. The bank does not endeavor to service all the needs of all potential customers; instead, it operates in a series of 'served' markets, each of which is a subset of the total market. The concept of 'served' market breaks down the total market to that segment or segments to which the bank will purposively try and sell products or services (Channon, 1996).

Formally, the geographic boundaries for the bank would therefore provide certain worldwide services to large corporate accounts and to some others from specific industry sectors while services to average consumers will be usually confined to a local area or country. Fast forward to 2015 and this position has completely changed. Whatever service the customer requires from the bank, wherever and however, in the most convenient form; they are given the opportunity to access subject to prevailing charges and conditions being met. KCB is the first Kenyan bank to venture into internationalization long before any other bank made a similar move hence I shall get more tried and tested positions for this research project. This brief descriptions form the background for this study as to the factors that affect internationalization at KCB, the largest commercial bank in East Africa.

1.1.1 Concept of International Business

One of the most important trends in the late 20th century has been the lowering of barriers to facilitate easy movement of goods and services across national borders (Aswathappa, 2007). International business has been defined a business with operations across national borders (Ball, Geringer et al, 2012). This definition is not limited to international trade and manufacturing but also includes the service industry for example logistics, transportation, tourism, construction, and our area of interest, banking.

According to Ball, Geringer et al (2012) domestic and international business are almost similar except that there is a bigger complexity in performing the functions of the international business effectively to serve organizational objectives. A firm operating across borders must deal with the forces of three kinds of environments, namely; domestic environment, foreign environment and international environment. The term environment is used here to mean all forces influencing the firm, which can be classified as internal or external forces. The business carrying out operations within one country's borders, only has to deal with one aspect, the domestic environment. These environments are characterized by different types of forces impacting the organization; namely controllable and uncontrollable forces.

Uncontrollable forces are external forces over which management has no direct control, although they may have some influence by virtue of the role they play in that particular industry. Controllable forces are internal forces that management administers to adapt to changes in the uncontrollable forces.

The domestic, foreign and international environments are defined as follows. The Domestic Environment includes the uncontrollable forces originating in the home country that influence the development of the firm and may at times affect foreign operations for example tax laws. The Foreign Environment are also uncontrollable forces except that they occur outside the firm's home country. The International Environment consists of the interactions between the domestic environmental forces and the foreign environmental forces; and the foreign environmental forces of two countries when an affiliate in one country does business with customers in another country. This is in agreement with the definition of international business as business that involves the crossing of national borders (Ball, Geringer et al, 2012).

1.1.2 The Concept of Internationalization

Internationalization has been defined as the process of adopting a firm's operations (structure, strategy, resources etc) to international environments. (Chetly & Stangle, 2010). It is also defined as the process of growth of a firm by expanding its operations beyond its home country. (Aswathappa, 2007) While the debate about a precise definition is still continuing, the stance adopted in this paper is that it is the expansion of the firm's operations into foreign markets (Aswathappa, 2007). Internationalization can be viewed as a four dimensional construct based on the premise that an enterprise can be global along each of four dimensions as discussed in the following paragraph.

To begin with, there is the globalization of market presence. This is where a company targets customers in all major markets within its industry throughout the world. Secondly, the Internationalization of the supply chain which refers to the extent to which a company is able to access optional locations that enable efficient performance of activities in its

supply chain. Third is the globalization of capital base, and this refers to the extent to which the company can access optional sources of capital on a worldwide basis. Finally there is the globalization of corporate mindset which is the most important dimension and refers to the company's ability to understand and integrate diversity across cultures and markets in whichever country it is located. The ideal international company would score highly in all four dimensions but in reality, as long as all four balance up to some extent, then that company is an international company (Aswathappa, 2007) and therefore internationalization has taken place. In this study, we shall seek to discover the strengths of these dimensions within KCB.

The decision to "go global" is dynamic and it is not susceptible to a "one size fits all" approach. Companies therefore tend to follow certain patterns as they move beyond their borders. As a firm expands into the international marketplace, there is a learning curve every firm will face even with the best planning. Expertise is developed gradually and during this process, uncertainty is rife. At this time, the need for upfront investment saps short term profits. However, over the long term, these factors stabilize as the firm becomes more knowledgeable and experienced (Czinkota, 2004).

1.1.3 Factors Influencing Internationalization

A business can be influenced into internationalization by the political factors. Much has changed in recent years to enable trade between countries but mostly towards removal of barriers and formation of single markets through unification and socialization of the global community. This way, preferential trading agreements have become a gateway for countries to trade with each other. For example The EAC, COMESA in East Africa.

Many firms have taken this opportunity to gain access to the resultant combined markets either through exporting or producing in the area.

Technological factors play a big role in influencing internationalization. Advancement in information technology and communication has enabled easy transfer of ideas and information across borders, enlightening consumers on international goods and services. International companies are able to hold corporate meetings between managers from headquarters and overseas subsidiaries without expensive, time consuming travel. E-mail has become one of the fastest ways of communicating where written communication is necessary as opposed to use of postal mail which more often than not is fraught with delays (Ball et al, 2012).

Internationalization can also be influenced by increase in competition. All business are in business for one thing, the customer. To outsmart other businesses it is necessary to grow and expand a business in line with customers' needs. Companies expand into new markets outside their home country for this reason. Also, companies may enter into new markets to distract their competitors who have already entered into their home market.

Safeguarding Markets is also another major factor influencing internationalization. In the process of internationalizing, companies also become international customers. When a company expands its operations to another country, its core component suppliers tend to move into that country as well to safeguard their role as that particular company's supplier (Ball et al, 2012). This however depends on the industry in which the company that expanded operates in. For example, in the banking industry, the most vital suppliers are perhaps software supplies followed by stationery suppliers. Such suppliers do not

necessarily need to internationalize as they can still serve the bank from the home country.

Reduction of Costs is the last factor we consider. Management always works towards cost reduction and where necessary shall choose to move operations to a country where operational costs are lower. A good example would be Cadburys which closed shop in Kenya and moved to Egypt due to lower costs available there.

Czinkota (2004) however described the factors influencing internationalization as motivations for internationalization; and gave two broad categories, namely proactive motivations and reactive motivations. Proactive motivations represent stimuli to attempt strategic change. Reactive motivations are those necessitated by changes in the business environment. Proactive motivations include profit advantage, firm having unique products, technological advantage, possession of exclusive information, management's urge to internationalize, confirmed tax benefits; and benefits from economies of scale. Reactive motivations include competitive pressures, overproduction, declining domestic sales, excess capacity, saturated domestic markets; and proximity to customers and ports.

1.1.4 The Banking Industry in Kenya

To begin, a brief definition of the term 'banking' is discussed. Banking is defined as accepting for the purpose of lending or investment, deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft or otherwise. (Majumdar, 2010). To update this definition, withdrawals can be made also through ATMs, OTC and vide mobile phone platforms such as M-PESA in Kenya. A commercial

bank is one that has a branch network and is able to offer a wide range of services to a large number of customers (Whiting, 1994).

The banking industry in Kenya is regulated by the CBK through the CBK Act, Banking Act, Company's Act and the Prudential Guidelines. There are currently 43 licensed commercial banks, 1 mortgage finance institution, 11 micro-finance banks, 8 representative offices of foreign banks, 14 money remittance providers, 86 foreign exchange bureaus and 2 CRBs; in Kenya. Under the Banking Act, a Representative Office is not permitted to conduct banking business as defined by the Act but can carry out marketing and liaison roles in connection with the activities of its parent bank and affiliates (CBK Monthly Economic Review, April 2015).

The first bank in Kenya was the National Bank of India in 1896 followed by Standard Bank of South Africa in 1910. Back in the 1990s, banking was limited to a select group of people in the economy and not many people could afford to operate a bank account. Things have changed since then and currently a larger number of the population is banked.

The Banking sector registered remarkable performance in the 12 months to 30th June 2014 showing improved positions in assets, loans and the deposit base; and a significant growth in the profit Before Tax in the Banking sector from Kes. 61.5 billion in 2013 to Kes. 71.0 billion in 30th June 2014 (CBK Annual Report, 2014).

In promoting international business, the CBK participates in several regional integration initiatives and programs, especially those relating to monetary and financial integration. These initiatives include the implementation of monetary and financial cooperation

programs of the East African Community (EAC), Common Markets for East and Southern Africa (COMESA), and the Association of African Central Banks (AACB)

It is generally expected that the Kenyan Banking sector shall maintain its growth momentum, driven by the introduction of Credit Information Sharing, regional re-integration, initiatives, advancement in ICT and the new devolved system of government in the country.

1.1.5 Kenya Commercial Bank Limited

KCB is the oldest and largest commercial bank not only in Kenya but in the East African region boasting 242 branches, 10,102 Mtaani agents, and 962 ATMs throughout the region. The bank enjoys an asset base of Kes. 490 billion, market capitalization of Kes. 180 billion and more than 4.14 million customers as at 31st December, 2014. The story of KCB begun in 1896, when it started in Zanzibar as a branch of the National Bank of India. It extended its operations to Nairobi in 1904. In 1957, Grindleys Bank merged with the National Bank of India to form the National and Grindleys Bank, which was to enhance the economic empowerment of local citizens after Kenya's independence (KCB Integrated Report & Financial statements, 2014).

Several years later, in 1970, the government of Kenya acquired 100% shareholding in the Bank and changed the name to Kenya Commercial Bank Limited. The entity went on to acquire a mortgage finance company, Savings & Loan (Kenya) Ltd in 1972, thus becoming the largest provider of mortgages in Kenya (KCB Integrated Report & Financial statements, 2014).

In 1988, the GOK sold 20% of its shareholding in the NSE enabling 120,000 new shareholders acquire a stake in the Bank. The Bank made its first encounter into international business by expanding to Tanzania in 1997 where it currently has 12 branches.

In 2003, the bank rebranded to KCB Bank Limited. It became the first regional entrant into South Sudan in 2006. Currently the Bank has 20 branches across 10 states in South Sudan. In 2007, KCB Uganda was open for business and in 2008 the Bank ventured into Rwanda. The same year, the Bank upgraded its core trading system across all five countries. The new system, T24 enabled it to offer services on a one-branch platform so that customers could access their accounts and transact from any of the bank's branches internationally. In 2011 the Bank posted a profit of Kes. 15.1 billion making it the most profitable bank in the region.

In 2012, the Bank expanded into Burundi completing its East African regional presence. That same year, the Bank recorded a growth of 11% and doubled its share price; a major milestone at the time. The Bank is listed in NSE, DSE, USE and RSE.

Under new leadership in 2015, the bank formulated a Purpose statement to give itself competitive advantage, the purpose is targeted towards customers to make them understand that KCB is there for them, that they are the reason KCB exists. The purpose being "Simplifying your world to enable your progress". This was rolled out across all the countries in which the bank operates (Integrated Report & Financial statements, 2014).

1.2 The Research Problem

In the 1990s a milestone was reached when the volume of international trade in goods and services surpassed \$4 trillion. By 2010 the dollar value of total world exports had nearly quintupled, exceeding \$18.9 trillion (www.wto.org). It has been established that one-fourth of everything grown or made in the world is now exported, signifying the fact that international trade has become a critical factor in the economic activity of most of the countries in the world. Out of the total world exports as at 2010, \$15.2 trillion related to export of merchandise while the remaining \$3.7 trillion related to worldwide trade in services, and has since been growing faster than has trade in merchandise (Ball, Geringer et al, 2012).

The trend is that international trade is on the increase both in goods and services. With the advent of major developments in IT, people and thus businesses find it easier and less costly to connect and transact and this has provided an interesting area of research for the International Business student. A study on the activities of Russian banks expanding their businesses beyond Russia was conducted by Gorshkov (2013). He applied multinational banking theory to explain motivation, entry modes and strategies for selected Russian banks in their internationalization. He observed that the motivation behind foreign expansion of these banks is mostly driven by “follow the customer” strategy and preferred the use of branches, subsidiaries and representative offices as market entry modes in foreign countries.

Another study on determinants and entry modes of foreign banks into central Europe by Hryckiewicz & Kowalewski (2008) determined that the most important factors determining bank internationalization were the legal origin of the home country, the size

of the economic growth rate differentials between host country and home country markets, and finally the distance between the host country and the home country.

Closer home, Mwangi (2013) conducted a research on the internationalization of commercial banks in Kenya and found that Kenyan banks were quite sluggish in internationalization efforts mainly due to challenged in management. She opined that political environment, legal processes and a country's GDP were significant strategic factors that impacted internationalization of Kenyan banks. The study focused mostly on the likelihood of Kenyan banks to internationalize.

Ngure (2012) sought to determine the factors influencing internationalization of homegrown Kenyan banks and to establish the challenges facing these institutions when they internationalize. The author found that increased brand identity, increased revenue and increased profits are major factors influencing internationalization.

From the above studies, it is evident that there is missing knowledge on specifically what are the factors considered by management for the banks to internationalize especially in Kenya. The local studies generalized their findings for reasons for internationalization conducting the studies in various banks in Kenya. The international studies offer findings that are based on those countries from which the authors originate and thus may not be applicable locally. It is essential to have a case study which can be used as a benchmark for internationalization of Kenyan banks. There would be no better case to study than the largest bank in assets in the East African region, one of the first Kenyan banks to internationalize.

Nigeria, in 2014, became the biggest economy in Africa. With an 89% growth in its GDP, now worth \$510 billion, it soared past the previous leader, South Africa, worth \$370 billion. (www.economist.com). With these two countries being recognized as the leaders in Africa, shall any Kenyan bank, in this case KCB; expand its operations into the two countries and benefit from their robust economies? This research seeks to answer the following questions: What considerations are made by management in coming to the decision to internationalize into a particular country/region? What is the preferred mode of entry into foreign markets by the bank, and why? Does KCB intend to expand into the top economies of Africa such as Nigeria and South Africa?

1.3 Research Objectives

The research objectives were as follows:

- i. To know what motivates KCB to internationalize and thus the considerations that inform this decision.
- ii. To determine what modes of foreign market entry are best suited for the bank and whether we are likely to see further expansion into Africa's leading economies.

1.4 Value of the Study

This study sought to bring out a deeper understanding in the factors that influence the decision by KCB top management to venture into other countries. This study shed light on the considerations made prior to internationalizing the bank's operations to Tanzania, Southern Sudan, Uganda, Rwanda and Burundi and enabled understanding what informs these considerations.

The study also discusses the foreign market entry mode adopted by KCB and enlightens other bank managers on the appropriateness of this mode for financial institutions seeking to internationalize.

This study obtained answers as to why certain countries are more preferred than other countries when making the decision to internationalize operations. For example, despite Kenya being very close to Somalia geographically, why is it that KCB is yet to venture there. The research also shed light on whether any such considerations are in place.

The topic of internationalization of commercial banks is still young in Kenya and this study builds up on this research topic bringing to light new areas that previous research has not covered.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The previous chapter outlined the research area which has led to the purpose of this study and went ahead to formulate three research questions. This chapter reviews studies by other scholars that relate to my research questions. The chapter defines and outlines the theoretical foundations of internationalization and review what previous scholars have researched about internationalization of the service sector, with a focus on the banking industry.

2.2 Theoretical Foundation

Several scholars have come up with theories seeking to explain the phenomenon of internationalization which is a complex process. There are theories that suggest that internationalization is a gradual, incremental process while others suggest that it occurs as a one-step event. This research shall focus on three theories of internationalization which are the Uppsala Model, the network model theory, and the eclectic theory.

2.2.1.1 The Uppsala Model

This model states that the organization gradually increases its internationalization. It is a theory that explains how firms gradually intensify their activities in foreign markets. It is an explanation on making a national firm international and observes that a firm mainly makes small steps into becoming internationalized as opposed to making just one major move and going international (Johanson & Vahlne, 1977). It emphasizes the gradual and incremental character of international expansion so as to reduce the risk level of the internationalization process. The theory suggests that companies begin

internationalization in markets that have less psychic distance between them (Andersen, 1993).

Andersen (1993) defines the concept of psychic distance as the barriers that hinder the flow of information between market and firm, which includes factors such as language, level of education, differences in culture, political systems or level of industrial development. The Uppsala model's basic assumption is that lack of such knowledge is an important obstacle to the development of international operations and that the necessary knowledge can be acquired through operations abroad. It is assuming that the lack of knowledge of the company is an important obstacle for the development of the international operations. As the company is receiving more knowledge and is learning more from the international activities, these obstacles could be gradually overtaken (Forsgren & Hogstrom, 2004).

The internationalization process is then seen as an incremental process involving 4 stages; beginning with no regular export activities, followed by export via an independent representative or agent, which progresses to opening a sales subsidiary, and finally engaging in production or manufacturing. The model is focused on the development of the individual firm and particularly its gradual acquisition, integration and use of knowledge about the foreign markets and operations of its successively increasing commitment to foreign markets (Johanson & Vahlne, 1977). To some extent, this theory rings true for KCB and this research shall gain further knowledge on this.

2.2.1.2 The Network Model Theory

This theory was introduced by Johanson and Mattson in 1988. It highlights the importance of relationships with suppliers, customers and the market; that can stimulate or assist a firm to expand abroad (Johanson & Mattson, 1988). The scholars explain that the theory views the market as a system of social and industrial relationships among customers, suppliers, competitors, families and friends within a given boundary and beyond for purposes of creating the opportunity and motivation for internationalization.

According to Rundh (2006) the nature of the relationships established between various parties will influence the strategic decisions; and the network involves exchange of resources among its members. Johanson & Mattsson (1988) suggest that the success of a firm in entering new international markets is more dependent on its position in the network and relationships within current markets, than on market and cultural statistics. They argue that when a firm internationalizes its business, the number and strength of the relationships increases between the parties in the network. The degree of dependence gradually increases meaning that the resources of one company become more dependent on the ones of other companies for the benefit of all parties (Hollensen, 2008).

The position of a company inside a network is a key concept in this model. The position defines the present control of the company and its access to network resources. The business network allows the company to internationalize via three strategies the first one being the extension strategy where a company has relationships with companies and networks in new markets. The second is penetration strategy whereby the company

deepens its relationships as part of existing international networks. The third is the coordination Strategy done by improving the company's existing relationships inside different networks in various markets (Sorensen, 1997). This model also applies for KCB in the subsidiaries, where it seeks to expand beyond the first operational branch in all the countries it expands into.

2.2.1.3 Eclectic Theory

The eclectic model explains the conditions for the internationalization of the company when using foreign direct investment instead of export. According to Dunning (1977) the propensity of a company to engage itself in international production increases if it has the OLI advantages; that is, ownership advantages, location advantages and internalization advantages. The eclectic model explains the emergence of the multinational companies by using these three advantages. Dunning (1977) stated that for international production, three kinds of advantages are required with the first being ownership specific advantage. This refers to a firm's access to tangible and intangible assets that foreign competitors do not possess. The second advantage is location specific advantages which refer to advantages through locating production or part thereof to foreign locations. Third is the internalization advantage which refers to the advantage that is added to the firm from the international use of its ownership specific advantages (Mtigwe, 2004).

This theory is also known as the OLI paradigm and attempts to explain the different forms of international production as well as selection of a country for Foreign Direct Investment. According to Dunning (1977) the internationalization of economic activity is determined by the realization of these three advantages (Ruzzier et al, 2006). This theory

applies to KCB's internationalization in regard to its choices for a country in which to expand; and the strategies it applies in the process. The theory can be explained further as below.

Ownership advantages (O) is a characteristic of the company. The company has to have ownership advantages compared to companies that already are present in different foreign markets. These advantages could be bigger resources and technological assets of the company. Ownership advantages could be found in two groups namely asset advantages and transaction advantages. The asset advantages include product innovations, property rights, employees experience, organizational and marketing system, production management, know-how and others. The transaction advantages may result from economies of scale, economies of scope, supply of mixed sources, better resources for capacities and utilization, availability of inputs at favourite terms, availability resources of mother-company and marginal costs. The multinational companies may have access to better knowledge of foreign market with regard to its various components as labour, finance, dimensions, structure, growth, capacity to resist to different risks. These advantages provide more opportunities and benefits following manufacture abroad.

Location advantages (L) is a market characteristic that explains their immobility at international scale. The location advantages emerge as a result of the economic gap between countries with a benefit for the host country for foreign direct investment. The resources of location advantages are due to the following:

- i. Inputs depending on their prices, quality and efficiency (materials, labor, material resources, energy).
- ii. Outputs that depend on the actual conditions of the infrastructure and market (cost of international transport and communications, legal, educational and business environment and psychic distance which is a result of differences in language, customs, culture and business).
- iii. Structure due to the economic system and government policies, investment incentives, institutional framework and resource allocation.

Internalization advantages (I) is a transaction attribute. They emerge as the ownership advantages become private property when they are transferred outside the company. The internalization advantages spring up when the company prefers to capitalize its ownership advantage inside by investing and minimize the transaction cost of the inter-companies transfer of the knowledge and competences of the owner.

2.2.2 Reasons for Internationalization

Businesses have two main reasons for entering foreign markets either to increase profits and sales; or to protect these profits and sales from being eroded by competitors (Ball et al, 2012).

According to a study by Jumpponen et al (2004) on Internationalization of Estonian Banks, the motives for internationalization for a bank can be divided into four groups the first being utilization of bank's capacity. This is where the company gets the opportunity to offer lower prices using the skills of the domestic management. The second group is utilization of the bank's reputation as an opportunity and advantage. A competitive advantage occurs when a subsidiary is set up abroad because an international bank is

considered more reliable than a local one. Third, reduction of regulation for banks; a main objective for banks moving across borders is to overcome home country restrictions on moving capital abroad. The fourth and final is risk reduction; change happens rapidly in the economy, in legislation, politics and culture. Being present whenever these changes occur enables the bank to recognize the risks in time and take necessary caution and strategic moves.

2.2.3 Considerations for Internationalization

Generally, banks are found to be attracted to markets abroad to exploit favourable financial system environments and to take advantage of economic opportunities in those countries (Goldberg & Saunders, 1981). With this in mind, what are the considerations made in regard to staffing, security, economic performance of a country and market size in foreign country. According to Ansoff (1957), the development of new markets is one of the options open to firms seeking growth. This research paper seeks to find out the considerations made by management at KCB before internationalizing. This includes considerations such as the bank's profitability, different Central Bank regulations in each country, staffing considerations, security considerations especially in war-prone regions, economic performance of a country.

2.2.4 Mode of entry into foreign markets by commercial banks

There are several market entry strategies preferred by different organizations whether service or product oriented. This research seeks to determine which mode of foreign market entry is preferred by KCB when it expands into other countries.

According to Uiboupin (2005) the main entry modes for banks includes first, representative offices which I defined in Chapter one and this mode is used when other modes are either not allowed in a country, or when a bank needs to do further market research before actual entry. Secondly, entry through branches which use the parent company's capital base, they offer all banking services as the parent bank and follow the home country's laws and banking regulations. Third, use of an affiliate; these are good for market monitoring. It is an independent legal entity that operates locally. The foreign bank has less than majority ownership and the bank makes use of a local name to keep the risk of losing reputation low, in case problems occur. Fourth, by use of subsidiaries; these are independent legal entities where a foreign bank has at least majority ownership or full ownership. They operate on their own and are under the country's laws and regulations.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter covers the methodology that was used in carrying out this study. The research involved a case study of Kenya Commercial Bank Limited. In this chapter we look into the research design, the data collection methods and subsequent data analysis procedures.

3.2 Research Design

The research design preferred by the researcher was an exploratory investigation and entailed a case study of KCB Limited. According to Kohlbacher (2005) case studies are used widely in organizational studies across the social sciences. She opines that the case study method is increasingly being used; with a growing confidence in the method as a rigorous research strategy in its own right. According to Yin (2003) the use of case study for research purposes enables the understanding of complex social phenomena because it allows investigators to retain holistic and meaningful characteristics of real life events such as organizational and managerial processes. Data in case studies is often qualitative as is in this research. The study had a cross-sectional time dimension.

3.3 Data Collection

In conducting this research, the researcher collected primary data using the monitoring method involving the use of an interview guide directed at senior management based in the head office unit at KCB; who were found to have the information required in conducting the research. These were managers who sat in the planning committees and project committees involved in international business planning across various departments of the Bank. They included senior management from Banking Policy and

Regulation Unit, Business Strategy, Managing Director's Office, KCB Southern Sudan, Credit Policy, Information Technology, Corporate Banking, Mortgage Banking, Marketing and Credit Division, Kenya.

The interview consisted of both open ended and closed questions aimed at obtaining general and specific information on the company under study, KCB Limited. Data was collected in field conditions, in this case the actual bank environment, over which the researcher had no control.

3.4 Data Analysis

This being a descriptive study, the researcher conducted a content analysis on the data collected using the interview guide, and was able to effectively and meaningfully summarize and organize the collected data. The researcher put the data in various categories for ease of analysis. This enabled the researcher to make appropriate inferences by systematically and objectively identifying specified characteristics of the data collected from respondents. Just as multiple viewpoints allow for greater accuracy in geometry, collecting different views from respondents on the same phenomenon greatly improves the accuracy of findings. The convergence of these viewpoints allowed the researcher to be reasonably confident of the findings.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The general objective of the study is to establish the factors affecting internationalization at KCB in terms of decision-making considerations that influence the choice to expand beyond the Kenyan borders. This chapter presents the outcome of data collected using an interview guide to conduct a self administered interview on respondents. The researcher also analyses the data findings and provides an interpretation of the data collected. Content analysis was conducted by coding and classifying the collected data.

4.2 Ensuring Quality of the Data

To ensure the data collected is of high quality, three variables are considered; reliability, validity and generalization (Saunders et al, 2009). The researcher prepared for the interviews and obtained knowledge on the organization's context. The researcher also provided relevant information about the research to the interviewees before the sessions. According to Saunders et al, 2009, during the introductory phase of the research meeting it is important to make respondents feel a connection and establish appropriateness before the interview is conducted. In this case, the researcher gave a brief introductory explanation before commencing the interview.

To ensure reliability, the researcher ensured that the respondents held key positions in the organization of the case study. Validity refers to the extent to which the researcher gains appropriate knowledge and takes part of the participant's experience (Saunders et al, 2009). This study sought to ensure the highest possible degree of validity by designing

the interviews with regards to the research topic and objectives. On generalizability, the term itself refers to the applicability of the findings to other research settings and organizations. It defines how the research depicts reality.

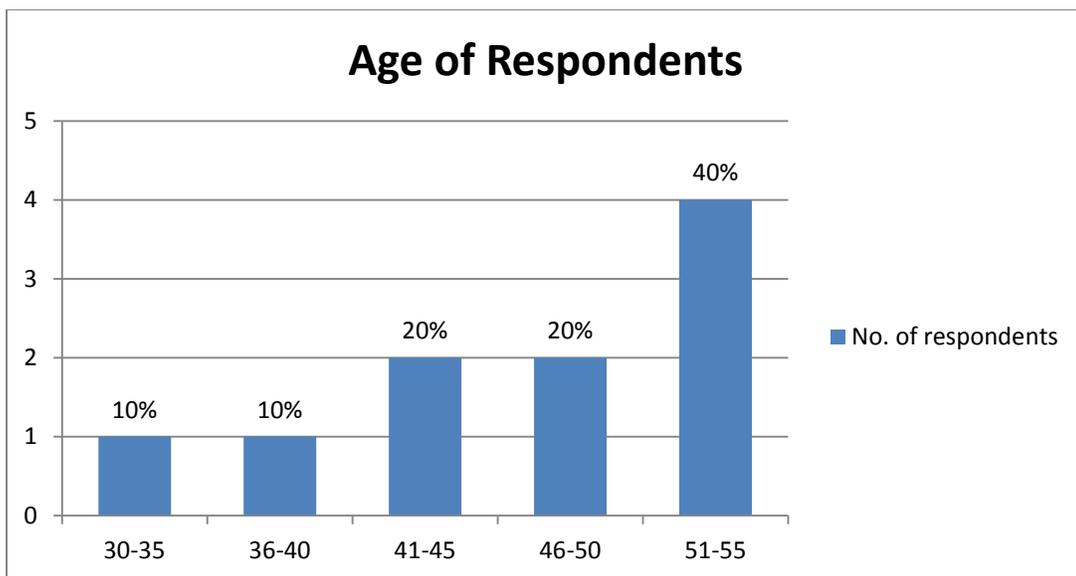
4.3 Background information on respondents

The respondents were drawn from various departments in the bank based on their experience in international business, decision-making authority in the bank and contribution in the planning and implementation of internationalization at KCB. The researcher had targeted 10 respondents all of whom were very cooperative. The data collected on the considerations made on internationalization were from senior management in Banking Policy and Regulation Unit, Business Strategy, Managing Director's Office; KCB Southern Sudan, Credit Policy, Information Technology, Corporate Banking, Mortgage Banking, Marketing and Credit Division, Kenya. These are very key roles within the bank and the senior managers in these divisions are sought for brainstorming, approval and recommendation when the bank is making plans concerning internationalization. The interviews were done at the bank's headquarters at Kencom House, Nairobi in the month of September, 2015. Each interview session lasted an average of 40 minutes to 50 minutes.

4.3.1 Age Distribution of Respondents

The researcher interviewed 7 male respondents and 3 female respondents ranging between the ages of 30 to 55 years of ages as shown in figure 4.1 below:

Figure 4.1 Age distribution of respondents



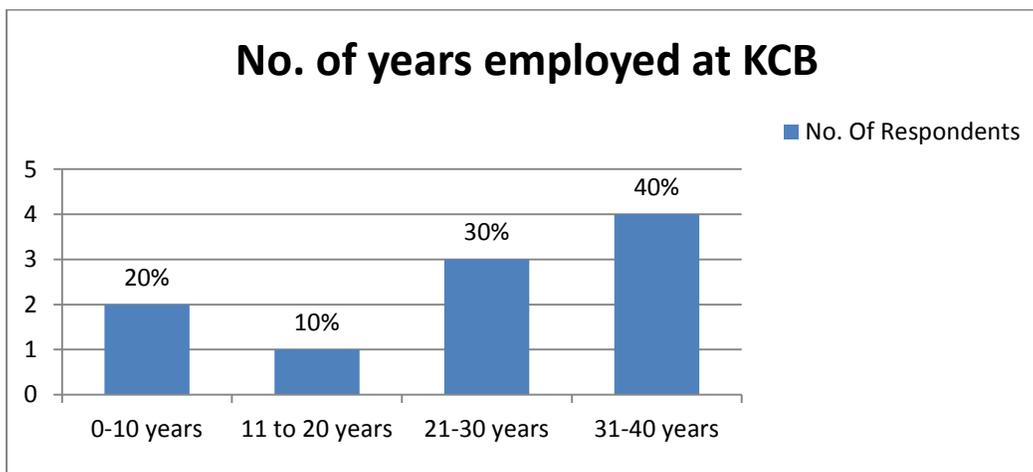
Source: Fieldwork

Findings indicate that ages between 30 – 35 and 36 – 40 years had 1 respondent each. There were 2 respondents aged between 41-45, and another 2 between 46-50 years of age. 4 of the respondents were aged between 51 – 55 years of age. This was significant to gauge the experience gained by the specific manager responding to the interview questions.

4.3.2 Number of years in KCB Limited

The researcher sought to establish the period the respondents have been in the bank to determine whether they have been part of the team that saw the bank in its internationalization endeavours. The respondents' period at the bank was found to range between 6 to 34.5 years as shown below:

Figure 4.2 Number of years respondents have worked at KCB Limited



Source: Fieldwork

The number of years at the bank gave an indication of the understanding the managers had of the bank's operations and internationalization. The findings indicate that 20% have worked at the bank for less than 10 years. 10% have been there for between 11 to 20 years; and 30% have been there for 21 to 30 years. 40% of the respondents had been in the bank for a longer time of between 31-40 years and have seen it through the changes and various international ventures. Generally most of the respondents have been in the bank for more than 10 years and therefore were able to give reliable information to the researcher.

4.3.3 Management Level

All the 10 respondents in the study were senior management from Business Strategy, Policy, Credit, Finance, Retail, International Business and Corporate divisions. One of the managers was on training in Kenya to return to KCB Southern Sudan and manage one of the divisions in Southern Sudan. The researcher chose this cadre of managers because they participate in the policy formulation and planning for the internationalization at KCB.

4.4 Factors Affecting Internationalization at KCB

KCB was the first indigenous bank to take its operations beyond the borders of Kenya. This bold move by KCB set it apart from all other Kenyan banks which at the time of KCB's first internationalization were still trying to get their footing in the banking industry. The researcher sought to know the factors that led to the decision by management of KCB to expand beyond the Kenyan border. The respondents provided several considerations made by top management in making the big decision to internationalize the bank's operations. These are explained hereunder.

4.4.1 The Political Environment

It was discovered that the political environment was a factor of consideration as the political climate of a country largely affects businesses and largely the financial services sector in a country. For example, the decision to go into Southern Sudan was timed in such a way that the bank opened its first branch in that country after the Comprehensive Peace Agreement (CPA) was signed in 2005. Before then, the turmoil in the country due to political differences rendered the business environment unapproachable. Thus the bank considers it better to expand into a country with a generally stable political environment.

Management at KCB also considered the level of friendliness of the political environment in terms of policy, whereby the host country government should have policies that are supportive to the operations of the bank. This means not putting in place laws that interfere with regulation of the banking industry leading to unfair treatment of foreign businesses. This enables the bank to compete on the same platform with the local banks of the host countries.

The government of the host country should be accommodating to business from other countries. It is not possible for the bank to enter into the market of a country where the market is controlled and does not allow the entry or existence of foreign businesses. This, the researcher found, was one of the main reasons the bank has not yet entered the Ethiopian market. The government there does not allow foreign banks access to the market.

4.4.2 Technology

It is important that the country into which the bank is expanding into is at par in terms of technological infrastructure. The bank requires certain systems to operate hence the ICT sector of potential host countries must be able to accommodate the bank's network capacity. With the increased improvement of technology at KCB, the bank always seeks to expand into a countries that can support it's ambitions. According to the bank's integrated statement for 2014, its future depends on how the bank deploys various technological enhancements. The bank is committed to ensuring that existing and future applications of technology will allow employees to excel at their jobs and enable customers get the best services possible irrespective of the channels they use to engage with the bank. Such technology also needs to be adaptive, allowing accommodation of

new developments./ For such reasons, it has been impossible for the bank to expand into a country like Somalia where technological infrastructure is minimal or lacking in some areas.

4.4.3 Economic Status of Host Country

The economic outlook of a country is a great factor for consideration. Matters such as the savings level which shall impact on the deposit taking nature of banking. The GDP per capita is also considered. Other factors used to gauge the economic status of a host country include the number of banks in that country, the banking regulatory regimes in place, the fiscal discipline of the government, expected economic growth, and the inflation level. The respondents advised that the bank relies on a feasibility study approach in conducting an analysis of the economic situation of a potential host country. The intricate details of this feasibility study were not available to the researcher as the respondents are bound by the bank's code of confidentiality which requires strict adherence to non-disclosure of such information.

4.4.3 Competitive Advantage

The competitive advantages the bank enjoys is a major consideration in the internationalization decision. Being the largest bank by assets, including financial resources; in the region has given the bank a better position to make larger investments one of which has been the financing for internationalization. KCB possesses a high degree of Ownership advantages, this is in terms of both bigger assets and technologies. In asset advantages, KCB has a robust team of employees, up-to-date innovative and inventive products. To illustrate, some respondents gave examples of KCB being among the first banks to introduce the cashless payment system in Kenya. Transaction

advantages are also enjoyed by the bank due to the economies of scale benefits applicable due to the bank's sheer size. The bank is well placed to negotiate terms with suppliers and service providers to ensure it gets the most favourable terms available.

4.4.4 Central Bank Regulations

The bank must consider the Central Bank regulations of the host country and suite it's offerings according to the standards of the host country's central bank. The bank can only choose to operate in a country whose central bank regulations do not conflict with its objectives. In Kenya, the bank operates under strict adherence to the prudential guidelines of the CBK. In each of the 5 countries to which it has expanded, the bank has had to comply with whatever rules and regulations are set in these countries' central banks for it to be allowed to operate without interference due to non-compliance.

4.4.5 Staffing

Staffing considerations have to be made due to the fact that setting up an entirely new unit requires some experienced staff and yet the host country residents must also feature in the bank. It is also a requirement of most host governments that a percentage of staff be local and another percentage expatriates from the Kenyan base of the bank. The management at KCB therefore must take some staff from Kenya who have the know-how and these staff shall form the skeleton of the international branch, offer training and guidance to the locals that are hired from the host countries.

4.5 Motivations for internationalization at KCB

The bank is driven by its mission to become a global bank. This is clearly captured in the bank's mission statement which is "To drive efficiency whilst growing market share in order to be the preferred financial solutions provider in Africa with global reach." It is generally agreed by all respondents that the move by KCB to expand beyond borders is not a mere coincidence but the result of strategic leadership focused on making KCB a bank with global reach as stated in the bank's mission statement.

4.5.1 Increased Profits

Profitability was seen as the strongest motivator. The respondents observed that international operations are a potential source of higher profit margins or of more added-on profits. The bank is in business to increase shareholder earnings and this is put in a better position when the business is international rather than local. The respondents opined that once the initial high costs of internationalizing are recouped, then profits start pouring in even if it is after a few years.

4.5.2 Expansion and Growth Strategy

The bank has used internationalization as a growth strategy such that it has through this expanded its market reach and significantly increased its customer base within the East African region. It not only aims to grow itself but to also uplift the status of the countries in which it expands into. By moving into other countries, KCB has provided host country citizens with employment opportunities. It has also impacted on host countries' economic growth, more-so in countries where the bank has already broken even and proceeded to make a profit.

4.5.3 Bank Capacity

Another motivation was to utilize the bank's capacity as a regional powerhouse in the banking sector. The bank also has a large workforce, which enables its successful functions across all the countries it operates within. The bank as at December 2014 had 5,532 staff in Kenya and 1,968 in the subsidiaries. KCB further aims to be an enabler in all the development projects across various industries whether agriculture, technology or construction; and to spread itself across all these industries, it is inevitable that internationalization is considered. Respondents opined that the bank can use its reputation as an opportunity and an advantage where an international image would be more likely to win over bigger, more profitable ventures.

KCB also benefits from a unique technological advantage. The bank's use of T24, which was introduced in late 2010 faces little competition in the regional markets. The system enables customers from any country to access their accounts and transact in the same way they would if they were at their home branch. It is a system that enables branchless banking and hence with such distinct technology, it is only fair that the bank enables other countries in the region to benefit from its utilization.

4.5.4 The Importance of Commercial Relationships

The respondents agreed that KCB considers its customers both retail and corporate as extremely important and that maintaining and nurturing these relationships with its customers is one of the motivations for the bank to internationalize. As the bank finances individuals, they grow into corporate level and these corporate firms grow from national to multi-national level. At every turn, they would still prefer service from KCB due to the relationship steered by the KCB corporate team; hence the bank has a commitment to

ensuring this relationship flourishes by providing services to the customer at all points of need.

4.5.5 Market Potential

The respondents noted that over the years the East African region has registered high rates of economic growth and with this, also an increase in the various countries populations, fortunately for KCB, the number of banks in the region has not kept up with this increase in population. There has therefore still existed a large unbanked population and a market hungry for more efficient banking services. True to the servant leader nature of KCB, the bank chooses to respond to the market needs proactively. The bank has had first mover advantage in all the countries it has internationalized to as an indigenous Kenyan bank and this has enabled it to get the largest chunk of the market abroad as compared to other Kenyan banks that have only recently moved into these markets. Generally, the managers felt that the business has to grow and this is driven primarily by sales. Faced with a mature, near-saturated market in Kenya, it is only logical that they search for markets outside the Kenyan borders.

4.6 Market Entry Modes

According to Ball, Geringer et al (2012) there are two main classifications of market entry modes. These are non-equity modes and equity-based modes of market entry. Non-equity modes include exporting, turnkey projects, licensing, franchising, contract manufacturing, and management contract. Equity-based modes include wholly owned subsidiaries, joint ventures and strategic alliances. Wholly owned subsidiaries can be in the form of foreign direct investment (FDI) where a company starts the entire business a

new; or by acquiring an already existing business. The questions asked were directed towards establishing what mode of market entry was preferred by KCB.

The interviews carried out revealed that KCB prefers to use only one mode out of the equity-based modes of market entry by utilization of foreign direct investment in all the host countries it operates in. Foreign direct investment may be through acquisition of an existing entity or the establishment of a new enterprise. From the respondents' view, KCB management prefers to engage in establishment of entirely new operations in foreign countries. One of the respondents simply explained that KCB sets up subsidiaries in the foreign markets. According to Aswathappa (2007) a subsidiary established from the ground up is called a greenfield investment. This form of market entry requires a high level of resources and high degree of commitment by the management for it to be successful. The research established that KCB has managed to be successful at both.

4.6.1 Reasons for Choice of Market Entry Mode

There were various reasons given for the selected mode of market entry, FDI through Greenfield investment. The reasons for this choice of market entry mode despite its high initial outlay stem from the nature of business of banking which is very competitive and heavily relies on the reputation of the business. The bank has a strong risk management culture and would not enter into any form of contract that would expose it to reputational risk. Reputational risk here is defined as the potential that negative publicity regarding the bank's business practices, whether true or not, will cause a decline in customer base, costly litigation, or revenue reductions.

The respondents advised that confidentiality is paramount in banking and any option of market entry that would threaten this would be deemed unsuitable. Banking is a highly confidential matter and there are legal implications for the infringement of this rule. Due to this, options such as franchising cannot be considered because of the eminent risks to confidentiality.

Secondly, it provides a high degree of control over the bank's operations. As a foreign direct investment, KCB ensures 100% control without interferences from other conflicting parties as may be the case with joint ventures or strategic alliances. Third, it is the smoothest mode as opposed to acquisitions which can be too complex. The bank also has standards that it prefers to maintain by its exclusive control over all KCB business in host countries. Further, the bank gets the opportunity to better know the consumers and competitive environment in which it has come into.

The researcher queried on why the bank does not carry out acquisition and mergers as it is a less costly approach and would enable faster expansion given the international partnership that would be formed. The respondents opined that acquisitions have much higher risks given that the intricate details of the financial health of a potential acquisition may be kept well hidden only to erupt when acquisition process is complete. Secondly there are not many merger and acquisition experts within the region to advise exhaustively on the process. Third, it can lead to brand dilution and erosion of a well established corporate culture which would harm the business and eventually it's long term profitability. It was also stated that acquisitions are actually outrageously costly and not feasible as an option. Several Kenyan banks were named as having tried mergers and acquisition but are yet to recoup the initial investment due to these high costs.

4.7 Reasons for non-expansion since 2012

The respondents opined that the bank prefers to take a some-what phased approach due to the heavy capital requirements required for entry into a foreign market. This is also linked to the requirements of the regulator, the CBK, which requires that expansion strategies be done in a way that safeguards the banking institution's human resource and capital base. On human resource, the bank requires both home and host country staff during internationalization. If expansion is done continuously, this resource shall be depleted and hiring shall have to take place constantly which is not financially viable.

Further, the managers were of the view that proper financial planning ensures that this phased approach is prudent and investor fatigue is avoided. Investor fatigue happens where the company keeps requesting for funds from the shareholders to enable investment. It is better that the bank expands then goes through a period of evaluation to check on the status of already running subsidiaries. This way the management are able to analyze the return on investment from each subsidiary. It is important that the bank ensures stability of already existing subsidiaries before going forth to initiate more subsidiaries.

4.8 Future internationalization for KCB

In this section, the researcher queried the plans the bank has for expanding into countries like Somalia, Ethiopia and expansion outside the East African region. The researcher also sought information on whether expansion into Africa's largest economies is in the bank's plans for the future. Below are the views from the respondents.

4.8.1 Internationalization into Somalia and Ethiopia.

The researcher queried the non-expansion into these two countries despite the geographical proximity of both countries. KCB has over the years moved into countries that are geographically within its reach and having less psychic distance with the home country. There was discrepancy on this question since answers given contrasted sharply. Four of the respondents were of the view that Somalia was not a likely candidate due to the unfavourable economic climate marred by inter-clan wars and the existence of the Al-Shabaab terrorism organization. They opined that the bank could not take the human resource risk that would entail taking expatriates from the home country or other subsidiaries. There is also the risk posed to the capital that would be invested in that country since the recurrent and unpredictable violence would lead to massive loss of investment. These respondents opined that KCB would not consider entering the Somalia market.

Of the remaining 6 respondents, 4 were of the view that the bank is a globally focused company and would venture into the country if the conditions stabilized. They explained that if the unstable situation in Somalia is contained, the bank is a proactive organization and would plan such an entry so as to safeguard the lives and property of all the stakeholders of the bank. The remaining 2 respondents were of the view that at if feasibility study were conducted and the returns outweighed the risks, the bank would certainly take the bold move because it prefers to be a proactive rather than reactive organization.

Concerning entry into the Ethiopian market, the respondents were largely in agreement stating that the Ethiopian government controls the market and currently does not allow

foreign businesses to operate in the country. However, if and when, this situation changes; the bank would consider expansion into the country. Some respondents also pointed out that the language barrier shall have to be overcome first since most communication in Ethiopia is in Amharic, the local language, which is not understood by other East African citizens. English is not the official language of business as is the case in a country like Kenya where English and Swahili are official communication languages.

4.8.2 Internationalization beyond East Africa

The respondents were of the view that KCB has a vision of being the leader in the Pan African banking environment. It aims to first capture the entire East African region before moving further into the African continent. The high rates of economic growth in the Eastern African region have fundamentally changed the underlying economies, with the GDP growth being impressive. The region is a business haven. Once the bank has cemented its grip over the region, then focus shall be put on moving into other African regions which the respondents were not at liberty to name due to the confidential nature of such information.

On whether there are plans to expand into Nigeria and South Africa, the leading economies of Africa, 7 of the respondents were skeptical about such advancement mostly due to the economic differences between the two countries and the East African region.. The two economies are large and well developed as compared to other African countries and economies. The banking industries in these two countries are therefore more developed; more mature and have more financial muscle. The leading bank in South Africa, Standard Bank, made a profit of R84.2 billion in the year ended 2014 alone. It would be impractical to put up a KCB subsidiary in such an economy to compete with

such well established local banks. The bank would have to overcome the market entry hurdles while at the same time compete with such a giant. It would not be a wise financial move. The same case applies to Nigeria where banks like UBA have dominated the market which has the highest population in Africa.

The remaining 3 respondents opined that given the vision and mission of the bank, this is a possibility in the years to come once a feasibility study has been conducted and all matters arising therein dealt with. They informed the researcher that KCB is a global bank with a global vision thus will certainly go in this direction when the time is ripe.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers five main sections which are: the summary of findings, conclusion of the study, the limitations encountered by the researcher during the study, suggestions for future research and recommendations for the bank under study and management in other banking institutions.

5.2 Summary of Findings

The study sought to establish the factors affecting internationalization at KCB by looking into the considerations made by management in deciding to expand into foreign countries. Further, the study sought also to find the mode of market entry preferred by KCB and the reasons for this preference. Primary data was collected through conducting interviews using an interview guide. The respondents were all senior management most of whom have been in the bank through the years since the journey of expansion beyond the borders began. It is clear from the research that the internationalization at KCB was not a spontaneous activity occurring sporadically, but rather a well planned strategic move made after the conduction of a proper feasibility study.

The study attempted to determine whether and theory of internationalization could be applied to KCB. From the literature review, we have three theories that closely relate to

the internationalization at KCB. The Uppsala model can be relied on to the extent that psychic distance has been a major factor in the internationalization process at KCB. This is because the bank has largely ventured into countries which have less psychic distance between them and the home country. These are countries which have similar cultural values, similar languages, and business practices. To demonstrate this, take a country like Tanzania, which hosted the first international branch of KCB; Swahili is there official language, as it is one of the official languages in Kenya. However, the notion of gradual internationalization and the related 4 stages does not apply to KCB hence this theory cannot be fully relied on in this study.

When it comes to the network theory, respondents opined that networks within the market were important but did not feature primarily in the considerations for internationalization into a particular country. However as for the competitive advantages held by KCB, the eclectic theory to a larger extent rings true for the bank which relies on it's core strengths to venture into new markets in foreign countries. KCB possesses the Ownership advantages due its position as the largest bank in asset base in the region, add to this the size of its ever increasing staff and the monetary resources available to it from the customers, government and lenders. It can clearly be seen to have the best position to exploit these advantages. When it comes to Location advantages, KCB is at a prime position due to the economic difference between the Kenyan market and the other markets within the region; which gives the bank the opportunity to explore these markets. KCB further possesses the Internationalization advantage where it stands at an advantage due to the international use of the ownership advantages attributed to it, other than their usage only within the local market in Kenya.

The study has brought to light the fact that the bank is not done with its internationalization but merely prefers to conduct it in phases especially because in this process, expertise is developed gradually and the need for upfront investment at this time saps short term profits thus making the new subsidiaries less profitable in the short run. However over time, the situation stabilizes as the bank gains more knowledge and experience in the new market. This way, losses due to haphazard internationalization are avoided and clear, well laid plans made for further expansion outside the country.

The researcher has established that the bank does not internationalize by coincidence rather by strategic, well thought out plans. These plans are advised by a feasibility study carried out by highly knowledgeable and competent staff who look into various issues such as the GDP per capita, the savings level of the nation, the number of banks currently existing and their market share in that nation, the regulatory regimes under whose regulations the bank shall have to operate, the fiscal discipline of the government and whether it is supportive of investors, inflation levels in the country, the economic outlook of the country and gauged expected economic growth, and the political environment of the country which may impact how business, more-so banking, is conducted by foreign banks.

It was also found that KCB prefers to enter new markets by use of FDI method, specifically Greenfield investment thereby having wholly owned subsidiaries in all the countries it operates in. This ensures that the bank maintains the brand undiluted as per its set standards and also there is maximum control over operations and assets. In addition knowledge spill over is also prevented. This mode also ensures that resistance at the foreign country is minimum since the locals are involved in the planning, building and

starting up the branches in the country thus the bank is not seen as an outsider but rather, more like a partner, or an enabling force bringing more value to the population of the particular country.

5.3 Conclusion

It is a fact that any business aiming at growing must take risks and not just blind risks, but well calculated sensible risks. This must be coupled with a bold attitude right from the top leadership, rearing to go where no other business has gone and facing the oncoming challenges head-on. Such is the case of KCB. From this study it is clear that here is a bank out to set the pace of the banking industry not only in Kenya but in the entire East African region. Eventually, the bank has the goal to establish its position in the global arena; and all this is made possible by the bold steps it begun to make in 1997 when the bank first internationalized into Tanzania. The researcher has set the record straight that KCB did not just internationalize by chance due to its commencement in Zanzibar in 1896. The researcher has clearly shown that there is a substantial amount of factors considered when internationalizing the bank.

The importance of carrying out a feasibility study prior to selecting a country for internationalization has been highlighted as a key feature in the bank's internationalization. This is to enable the bank gain knowledge on all potential risks and rewards likely to emanate from the exercise. Due to the nature of the business, risk is an integral part of banking and continued success certainly requires a certain risk appetite. One of the main factors considered is the political environment of the host country, which preferably should be stable for business to succeed. Another factor considered is the technologies available in the host country. There should be technological infrastructure

that shall support the bank's systems given that KCB embraces invention and innovation and has anchored most of its current growth on developments in the ICT sector.

Wherever KCB expands into, the economy in such a country must be at a certain level so as to assure the management that there shall be returns on the investment made in that particular country. For this to happen, the economic status of a country must be considered at length. This means looking at the trends in GDP per capita to check for growth, looking at the savings level of the country since banking is largely driven by deposits, a country's regulatory regimes inflation rate and economic outlook are factors that shall be considered under a potential host country's economic status.

Management at KCB also consider the staffing levels and quality, weighing these against the requirements by host governments to ensure lawful operation in the host country and an optimally staffed subsidiary that will propagate success in the host country and boost profitability for the entire group. The level of competition is also considered to ensure the bank enters a market in which it shall have a fair chance at winning a share of the market. This avoids complications and losses due to getting into mature, ultra developed markets where the bank would stand little chance of profitability.

The bank management also considers the central bank regulations of a potential host country and familiarize themselves with such regulations so as to ensure smooth operations and avoid business disruptions due to non-compliance which would have a negative impact on the bank's reputation. The level and apportionment of staff is also an important consideration to the managers as staff form a key pillar in the business.

When it comes to market entry, the bank prefers use of Greenfield investment due to reduced risks it presents, despite the high initial outlay. The bank thus opens new branches in all the countries in which it operates in. Currently, details on whether expansion into Somalia, Ethiopia and other regions are in the banks plans could not be clearly established due to the non-disclosure policy adhered to by all staff of the bank. The researcher however observed that from the bank's mission statement, there is a high likelihood that plans are in place though they could not be revealed. This is also true of any plans to venture into the leading economies in Africa, South Africa and Nigeria. The researcher found that these countries were considered to have matured markets that were already highly saturated with banks hence it would not be a financially wise decision to move into these countries currently but seeing as the bank aims at being a global bank, this possibility cannot be ruled out in the future.

5.4 Limitations of the Study

In conducting the research, the researcher had to contend with various limitations that may have had an impact on the study at hand. Being a case study based on interviews, the research is likely to have been affected by personal bias of the interviewees thus leading to opinions or sentiments that are not necessarily the bank's position. The study was also conducted on one banking institution, KCB which has its own structures, environment and culture. Thus, the findings were mainly based on the conditions at the bank and may not be fitting for a different organization. There was also very little time allowed to conduct the research thus not all the senior management relevant to the study could be subjected to the interview. Finally, KCB as a banking institution operating in a highly competitive market has a strict confidentiality policy to which all management and

employees in general must adhere to. This affected the research since much information could not be disclosed by the management especially regarding decisions made in the past and any forward looking decisions. The researcher however made it clear to the respondents that no compromise should be made regarding adherence to the confidentiality policy, in answering the interview questions.

5.5 Recommendations for future Research

The study focused mainly on one organization, further research needs to be carried out on the entire Kenyan banking industry to bring out the factors commonly affecting their internationalization to come up with a more updated, localized model of internationalization that will ensure successful internationalization for Kenyan banks. More research shall also shed light on the market entry modes utilized across the industry and thus measure the resultant success rate to enable the industry better penetrate and grow market share in foreign countries.

Large multinational banking institution such as Citibank, Standard Chartered Bank and Barclays Bank began their internationalization many years ago and operate in more than 10 countries around the world. It would be ideal if research could be conducted to enable Kenyan banks, and African banks in general, learn the best models used in internationalization and the mistakes to avoid so as to achieve not only extensive, but also highly successful and profitable internationalization.

5.6 Recommendations for KCB and other Kenyan Banks

From the knowledge obtained from studying the theories of internationalization, the bank could gain by having management apply some of the theories discussed in this study, to

the internationalization at the bank. The study observed a link between the eclectic paradigm theory and the bank's past internationalization. The researcher observes that more attention could be given to the details of this specific theory, the bank's internationalization process could benefit and be improved.

In addition, more modes of market entry could be attempted by the bank to reduce the financial impact of FDI forms of market entry. This would ensure that the bank does not spend more than it is likely to get from the host country operations as is the case with the Tanzanian subsidiary which only broke even recently.

The researcher observed that this choice of market entry also limits its entry into mature markets. The bank stands to benefit by being open to other modes of market entry even within FDI, such as joint ventures, to penetrate these markets, of course while putting in place necessary control frameworks. The bank could set up representative offices to test such markets and gauge the success rate of a joint venture with the well established banks in mature, more advanced African markets. This will enable the bank move forward faster in its goal to be a global banking giant.

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DATE 4th SEPTEMBER, 2015

TO WHOM IT MAY CONCERN

The bearer of this letter IMELDA J. K. NASE

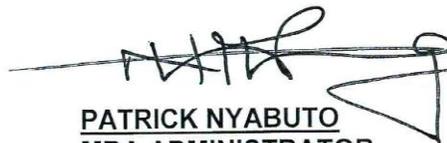
Registration No. DGI/60333/2010

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

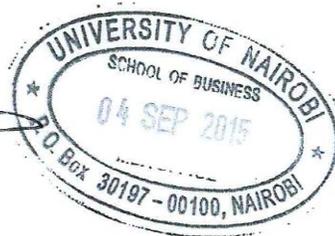
He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

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

Thank you.



PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS



APPENDICES

Interview Guide

Section A: Background Information

1. Kindly state your gender.
2. Kindly state your age, use the format 30 – 35, 40 – 45, 45 – 50, 50 – 55
3. For how long have you worked at KCB?
4. What is your KCB branch and country of operation?
5. Which department do you work in?
6. What level of management are you at; middle level or top level management?

Section B: Internationalization at KCB

7. What are the main considerations made prior to internationalizing KCB in regard to:
 - a) Profits?
 - b) Staffing?
 - c) Marketing?
 - d) Business environment factors?
8. What are some of the motivations behind KCB going international?
9. Do you think the first international move made by KCB was by coincidence?
10. As the first bank to have an international branch, what challenges did the bank encounter?
11. Have these challenges affected subsequent internationalization efforts?
12. How does the bank handle the Central Bank regulations of different countries?
13. Does the economic status of a country influence entry into that particular country?
14. What mode of market entry was used in each of the countries the bank operates?
15. What makes each mode of market entry most suitable?
16. The expansion in East Africa seems to have stopped in 2012. What happened?
17. Despite the bank's regional expansion, it is yet to venture into Somalia or Ethiopia despite the geographical proximity of these countries. Why?
18. Is the bank considering expansion beyond the East African region?

19. Nigeria and South Africa are the leading economies of Africa currently. Shall KCB consider moving into these countries?
20. When entering another country, does the bank hire local staff or bring in staff from the Kenyan business?
21. How does either choice affect the business?

Thank you for taking time to answer my questions, your cooperation is highly appreciated.

LIST OF FIGURES

Figure 4.1 – Age distribution of Respondents

Figure 4.2 – Number of years employed at KCB Limited