PRACTICES ADOPTED BY COMMERCIAL BANKS IN KENYA TO MANAGE INTERNATIONAL BUSINESS RISKS

BY

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DECLARATION

I Wilfred Pasile declare that this Practices adopted by Commercial Banks in Kenya in managing international Business Risks Project is my own original work and that all the sources have been correctly reported and acknowledged, and that this document has not been previously presented for any award to obtain an academic qualification from any University.

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Approval

This research project has been submitted for examinations with my approval as university Supervisor

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ABSTRACT

With the advance of technology, communication and transportation, this has improved tremendously, the movement of people and goods across national borders, thereby pushing forward the development of international business. In the age of globalization, the line between “foreign” and “domestic” investing has become increasingly blurry. However, investing in foreign markets takes on additional risks, as well as opportunities, compared with what investors normally face when investing at home. This study outlines the most significant risks in international business and describes risk management practices commercial banks going abroad use for confronting them. The results of the study indicated Currency Exchange rates Risks, Political Risks, Bureaucracy Risks and Cultural Risks are the highest risks. On the other hand, the study found out the lower international risks include Lack of legal safe guards, Counterfeiting and Extortion and Corruption Risk. The study also sought to find out some of the practices these commercial banks have undertaken or are undertaking to manage the international Business risks. From the study, it emerges that a robust internal audit assessment and monitoring of all International Business risks faced by the organization is the most commonly used Practice in managing International Business risks this is followed by Effective risk culture in the organization, Bank Executive sponsor, focus on international risk management, and regular International Business risk management reports to senior management. The study recommends Commercial Banks who are trying to increase their bottom line by expanding their businesses beyond their traditional national boundaries to greener pastures in other countries must study the exchange rate regime in those host countries. Currency risk hedging strategies entail eliminating or reducing this risk, and require understanding of both the ways that the exchange rate risk could affect the operations of economic agents and techniques to deal with the consequent risk implications (Barton, Shenkir, and Walker, 2002). The study also recommends that to manage political risk commercial banks have to protect themselves from expropriation or minimize host government interference in their operations. They should use integration and the implementation of protective and defensive techniques. The objective is to be perceived as “less foreign” and thus unlikely to be the target of government action. The study also recommends that in a bureaucracy, plans and schedules are pre-established, rules, policies and procedures are formalized and information and communication systems are standardized, with all former elements being specified impersonally (Van de Ven, Delbecq and Koenig, 1976). Another recommendation is for the organizations intending to expand to other countries to ensure there is an effective risk culture in their organizations. This means that the senior management has to ensure everybody in the organization including those moving to work in other countries are trained on risks and risk management. Furthermore it is upon the senior management to sponsor or to set a budget for the management of risks and be on the fore front. They must have to mainstream the risk management department. The researcher also recommends regular International Business risk management reports to senior management must be done. This will enable the senior management to monitor and manage the risks, by assuming them if they are less severe or transferring them to a third party for example to an insurance company.

ACRONYMS &ABBREVIATIONS

CBK:	Central Bank of Kenya
RBT:	Resource based theory
RBV	Resource based view
IT:	Institutional Theory
KCB:	Kenya Commercial Bank Ltd
GDP:	Growth Domestic Product
MFC:	Mortgage finance company
NIC:	National Industrial Credit
AB:	African Banker
US:	United States
UK:	United Kingdom
MNC:	Multinational Corporation
MFI:	Mortgage finance institution

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

In the current period of changing customer demands and market globalization, the risk management function ranks high on the priority list of any forward looking corporation .To

Survive in today's market it's a necessity for any firm to have a good strategy on risk management (Mernaatal, 2008). Paul Hopkins in his book fundamentals of risk management (2014) stated that companies encounter a variety of risks that can influence the performance of their operations. A firm's global aim can be put down as a mission statement or a list of corporate objectives (Hopkins, 2014). Events with an influence on a firm may prevent it from achieving its objectives by creating uncertainties about the outcomes. They can also help it achieve its goals (Hopkins, 2014)

This study was anchored on two theories i.e. Institutional Theory and Resource Based theory. Institutional Theory states that institutions or organizations are made up of rules, beliefs, Procedures and myths, when this are combined together it creates a social reality that is shared within the institution(Oliver, 1991). Its main issue of concern is the processes by which the corporation is wired to act within social meanings and definite values (Oliver, 1991). It concentrates on the association the company has with the environment surrounding it (Oliver, 1991). The corporation's decisions of ownership are directly affected by the firm's institutional environment and also the domicile country's external environment (Desai et al., 2000).Another theory anchored in this study is the Resource-Based theory. International Business research has been greatly influenced by the Rource-Based theory (Pengetal, 2001). “Efficient resource transfer to host market with as little loss in their value as possible is what is sought after by RBT framework” (Sharma & Erramilli, 2004). The resource value is gauged by how much this resource feeds to the company’s competitive advantage (Madhok, 1997). This perspective change from cost to value greatly alters the approaches used in coming up with the mode of ownership (Madhok, 1997). In the RBT the companies motivation to go into international product markets is to make use of an advantage or come up with a new one (Madhok, 1997). The resultant effect is that the firm obtains profits in the long run due to successful transfer of resources (Madhok, 1997). In the foreign market a competitive advantage is obtained from this successful transfer of resources (Madhok, 1997)

1.1.1 International Business Risks

Risks implies the likelihood of something happening that is unfavorable (Houn, 2013). It’s the likelihood of a loss occurring due to some unpredictable future event (Houn, 2013).. International business risk can be described as the likelihood of a loss due to some undesirable event occurring in the operations of a business that operates internationally (Houn, 2013). International business operations revenues and rates of growth are higher than exclusively local businesses but so are the risks they face (Houn, 2013). International business risks normally arise from business environmental changes, economic system differences and different cultures and objectives in the countries such a business operates in (Houn, 2013). In the current globalization age there is a very thin line between foreign investments and domestic investments (Houn, 2013). There is however the agreed fact that foreign markets bring in more opportunities than domestic markets but at the same time face higher risks than domestic markets (Houn, 2013).Political risks arise owing to uncertain political activity and also political events (Houn, 2013). This uncertain political events and activity prevent corporations in foreign countries from operating efficiently due to the negative publicity and influence caused by top government officials (Houn, 2013). Such an unstable political environment prevents any foreign corporation from efficiently operating to its full capacity and cannot maximize its profit (Houn, 2013)

Different countries in the world have different currencies with each country operating its own specific currency system (Houn, 2013). Thus each currency is exchanged with another countries currency at a specific rate (Houn, 2013). Risk of loss arises in the fact that this currency exchange rate is not constant and fluctuates either up or down (Houn, 2013). This negatively effects the profits of businesses operating internationally (Sakshi, 2011). This foreign exchange rate risk results from translation exposure, economic and transaction risk (Houn, 2013). A transaction exposure can be said to take place when a firm has a contractual cash flows (creditors and debtors) whose valuation is directly affected by foreign exchange rate changes since they were contracted in a foreign currency (Houn, 2013). On the other hand credit risk can be described as the possibility of a loss occurring when a debtor does not pay a loan or any other credit line either the interest, principal or both(Houn, 2013). It is hard to determine the creditworthiness of a foreign customer (Houn, 2013). On the bankruptcy of a foreign customer an exporter is faced with a great loss (Jinda, 2011)

1.1.2 Risk Management

Standard economic theory states that for value maximizing firms, irrespective of the variability on firms expected value managers are still expected to maximize expected profits (Santomero, 1997). There is now increasing literature on the need for risk management this includes the work of Froot (1993) Stulz (1984), Smith, Smithson and Wolford (1990). There are also more recent studies on management of risk by Santomero (1995).They have suggested four ways to deal with risk management. These include the nonlinearity of the tax structure, managerial self-interest, the costs of financial distress and imperfections in the capital market. This justifies the corporations concern over variability of returns as demonstrated by the writers cited above.

International Organizations work in a constantly environment in the international arena. This means the future stays unknown to a high degree, this allows fate to influence part of the firm's (Santomero, 1997).However, this perception that fate will influence returns has been considerably put away with in the recent years (Santomero, 1997). The theory of probability combined with thorough environmental evaluation has assisted firms to predict to some extent the numerous risks that critically influence its operations (Santomero1997).The major aim of any firm is to maximize the wealth of the shareholders (Santomero, 1997).

Managers are appointed by shareholders to act as their agents in the day to day running of the firms which mainly includes investing and financing decisions so as to attain the firm's goals (Santomero, 1997). The managers are expected to achieve the highest returns at the lowest possible risk (Santomero, 1997)

Without risk management the manager's decisions will result to a decline in shareholders wealth resulting in reputation loss for the managers and other undesirable consequences (Santomero, 1997). Numerous suits have been witnessed in the recent past which brings this perspective on how managers have ignored their responsibility to cater for risks faced by the organizations they face (Santomero, 1997)

Management of risk should be an important part of any firm's operations either local or international (Santomero, 1997). Companies with active programs in risk management are better prepared to face and deal with risks than firms which don't take advantage of management of risks (Santomero, 1997). Businesses encounter different risk types both internal and external in nature (Santomero, 1997). The risks that management cannot directly control or influence are referred to as external risks (Santomero, 1997). This include political risks, economic risks, interest rate risk and also exchange risks (Santomero, 1997). Internal risks on the other hand are risks that the management has a direct control (Santomero, 1997)

To achieve a firms objectives the firm's management need to recognize the type of risks it faces as it conducts its day to day operations (Santomero, 1997). On identification of this risks, an evaluation needs to be done by the risk manager (Santomero, 1997). The evaluation should be based on how each of this risks affect the operations of the firm (Santomero, 1997). The risks which critically affect the firm's operations should be separated from those without any significant effect (Santomero, 1997). The risks with a critical impact and adverse effects to the firm should then be given the maximum attention with strategies formulated on how to deal with or reduce their impact if they occur or in other words hedge against them (Santomero, 1997). The aim of this process of risk management is to ensure that an organization achieves its goals within only the risks that it should be exposed to (Santomero, 1997)

1.1.3 Commercial Banks in Kenya

Commercial banks are financial intermediary institutions that take deposits and gives credit amongst other financial services (CBK Report, 2016). In Kenya, the banking sector plays a dominant role in the financial sector, particularly with respect to mobilization of savings and provision of credit (Limo, 2014). As per Central Bank Supervision Annual Report (2016), the Kenyan banking sector has the Central Bank of Kenya (CBK), as the regulating authority and 43 banking institutions (forty two of them are commercial banks and 1 mortgage finance company (MFC). Of these 43 banking institutions the government owns stakes in only 3 commercial banks while the rest are privately owned.

There are 9 Kenyan foreign locally incorporated financial institutions and 4 branches of foreign incorporated banks. Kenyan Banks that have a presence beyond Kenya include Kenya Commercial Bank which has its presence in Ethiopia, Tanzania, South Sudan, Rwanda, Burundi and Uganda. National Industrial Credit (NIC) with a presence in Uganda and Tanzania. Diamond Trust bank in Burundi, Uganda and Tanzania. Co-operative Bank in South Sudan. Due to strategies in expansion most of the banks have entered into the regional markets so as to improve revenues (African banker, May 2011). Today, banks are operating internationally in order to reach out to more customers and increase their profitability (Mugera, et al, 2009). In their quest to venture into the international markets, the banks face different challenges that could be similar to other banks or that are special to the particular bank (Mugera, et al, 2009). Most of the Kenyan

Banks faced similar challenges and the major challenges revolved around the macro environmental factors which the banks sought to resolve before entry into these markets (Mugera, et al, 2009)

The main challenges included culture, language, political climate and stability, economic growth of the country, inflation rate, consumer and investor confidence, efficiency of infrastructure & industrial productivity (Mugera, et al, 2009). The macro environmental factors are really important in the bank's decision of entering the international markets (Mugera et al, 2009).The politics of the country determined the nature of the business environment(Mugera, et al, 2009). Its stability thus determined how safe the banks felt its operations would be (Mugera, et al, 2009). The tax regime in these countries determined how much the banks would be taxed and how this reflected on the business (Mugera, et al, 2009). The banks had to foresee growth in these regions so as to do business there (Mugera, et al, 2009). Inflation rate also determined how stable the market would be and so does the exchange rate (Mugera, et al, 2009)

Social cultural elements created a major challenge for the banks as it sought to enter these markets (Mugera, et al, 2009).0 Population size and distribution affected the location of the branches (Mugera, et al, 2009). Age distribution affected the decision of which products to promote as some are focused on some age brackets (Mugera, et al, 2009). Religious affiliations also affected entry especially in Muslim affiliated countries as they do not have conventional banking (Mugera, et al, 2009). Income levels are a challenge as the banks targeted the money for deposits (Mugera, et al, 2009). Education levels created a challenge as it affected the income levels of the banking population (Mugera, et al, 2009). Technological elements were a key factor (Mugera, et al, 2009). Efficiency of infrastructure determined how seamlessly the bank operations would flow (Mugera, et al, 2009). The industrial productivity determined if there was a likely hood of competition and how lucrative the business was (Mugera, et al, and 2009)

1.2 Research Problem

Doing business across international boundaries is bound to carry many risks that local businesses do not have (Fritz, 2014). Global or International business involves businesses being exposed to unfavorable economic conditions of the host country (Fritz, 2014). Your business can be interrupted by many issues such as political problems for example insurrections, problems with diplomatic relations, hostility from local nationals of the host country, and volatile foreign governments (Fritz, 2014). Unstable exchange rates and exchange restrictions imposed by the host Country can make difficult international commercial dealings (Fritz, 2014). Foreign business earnings and investments are also subject to restrictions, tariffs, foreign withholding, and other tax issues (Fritz, 2014). This can further restrict returns to the organization (Fritz, 2014)

The Economic crisis experienced by the world in recent years has had an impact on the commercial banking industry in Kenya. This has had effect with commercial banks concerned about competition, fraud, high dependence on technology and risk management quality.

Of late international Business has taken root in Kenya and have become an integral part of Most Banking businesses, not only in the achievement of revenues and shareholder value, but also in the Prestige this brings to the organization. International Business is a fairly new concept in Kenya since it was adopted quite recently as a mode of service provision across countries. When most of our commercial Banks for example Kenya Commercial Bank, Equity Bank Ltd, Co-operative Bank Ltd entered the international arena to do Global Business, this came with the attendant international Risks.

All the studies evaluated were done as case studies involving only a single bank or a department in a bank, moreover most of these studies were done outside Kenya. So far, no study has surveyed all the commercial banks in Kenya to evaluate Management Practices adopted by Commercial Banks in Kenya to Manage International Business Risks that affect how they enter international Business Arena.

A lot of research has been done in developed countries on risks in banks but very little on International Business risks affecting commercial Banks. This study seeks to determine the practices being adopted by commercial banks to manage international business risks .This is the gap that this study hopes to seal. The study aims to respond to the questions: Which risks did Kenyan Commercial Banks venturing international encounter? And what practices did they adopt to manage those risks?

1.3 Research Objectives

The objectives of this study were:

i. To establish international Business Risks faced by Commercial Banks in Kenya
ii. To determine Practices adopted by commercial banks in Kenya to manage international Business Risks.

1.4 Value of the Study

Many parties stand to benefit from the successful completion of this study. First of all, business executives especially those responsible for Risk Management implementation in commercial banks will get a clearer picture on why international business risks are critical when it comes to the implementation of International strategy. Indeed, this study will ultimately enable managers of commercial banks to effectively implement its Risk Management strategies leads to superior performance.

Secondly, the findings of the study will also benefit the Central Bank of Kenya (CBK) policy setting and implementation in its role as the regulator of commercial banks in Kenya. CBK will stand to gain from the successful completion of this study as the recommendations of the study will influence Central Bank of Kenya policies that touch on Risk Management in these banks. The study's findings and recommendation will assist CBK to come up with necessary policies, regulations, and guidelines that would enhance Risk Management strategy implementation.

Finally scholars will find this study beneficial as it will increase the knowledge in this area of risk management. In the academic world those carrying out research similar to this study will be able to get information concerning international risk management and further still the study will add to the existing body of knowledge in the field of International Risk Management and form a basis for further research on the topic. In this way, the study will also act as a spring board for future research in Risk Management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents theories surrounding the study of international business Risk management practices, practiced by companies and also reviews empirical literature related

to international Business Risks and risk management practices as presented by various researchers, scholars, analysts and authors both globally and locally. The conceptual framework informed by review of the literature is also considered. The chapter is organized as follows: 2.2 presents the theoretical foundation, Section 2.3 Presents international Business Risks, Section 2.4 Presents International Risk Management Practices.

2.2 Theoretical Foundation

Internationalization is the growing participation of organizations in the international operations whether outwardly or inwardly (Weltch & Luostarin, 1988). There are various theories that intend to explain the process of a firm's internationalization. (Ruzzier et. al. 2006; Westhead et al., 2001, Coviello and McAuley 1999, Bell et al. 2003). This study is anchored in two theories as follows:

2.2.1 Resource-Based View

The resource based view of a firm is a theory in strategic management that is used to understand a corporation's competitive advantage and how it can be sustained over time (Barney 1991, Barney et al 2001).The resource based view of a firm concentrates on the internal environment of a firm which consists of both capabilities and resources (Barney 1991, Barney et al 2001). Competitive advantages over competitors arise from distinct resources and capabilities (Petraf, 1993). A firm's competitive advantage arises from the capabilities and resources of a firm having the following characteristics; valuable, rare, imperfect sustainability and imperfect imitability (Barney, 1991). Birger (1984) introduced this concept in his paper "A Resource-Based View of the Firm" (1984), however its origin can be traced back to studies and research conducted in much earlier studies. Retrospectively, elements can be found in studies conducted by Penrose (1959), Coase (1937) and Stigler (1961)

Strategic management concerned with human capital has gained prominence especially in the past one decade (Delery & Doty (1996). The main issue under focus being the relationship between human resource management and performance (Delery & Doty (1996). Delery and Shaw (2001) assert that competitive advantage can result from human capital (Delery & Doty (1996). This can arise due to the fact that the practices of human capital management have a major and direct influence on the employees of a firm (Delery & Doty (1996). There is general agreement that human capital can be a source of competitive advantage, that human resource management practices have the most direct influence on the human capital of a firm, and that the complex nature of human resource management systems of practice can enhance the inimitability of the system (Delery & Doty (1996). The resource based theory viewpoint dominates the strategic management of human resource (Delery & Doty (1996). The main stress of the resource based theory is the obtaining of competitive advantages that are sustainable through the efficient and efective use of the firm's resources (Boselie et al., 2002)

There are however some limitations to the resource based theory. Even though it presents a way to obtain and sustain competitive advantage, it has some limitations (UK essays, 2015).The resource-based theory has its foundation on the inability to conduct an empirical study evaluating performance results (Locket et. al, 2001). Since most firms are heterogeneous it is almost impossible to obtain a homogeneous sample of firms (Locket et. al, 2001). Another limitation is that it dwells on the internal environment of an organization and ignores external factors such as market demand (UK essays, 2015). Even though a firm gains competitive advantage if it does not have customers to buy its products there will be no demand (UK essays, 2015). Lastly this theory has a constricted ability to make dependable forecasts (Priem & Butler, 2001)

2.2.2 Institutional Theory

Recently there has been an increase in the use of the institutional theory in relation to international business research (Larsen et al, 2000**)**. Numerous studies have shown that national institutional characteristics and differences like labor , intellectual property protection, and others considerably affect multinational corporations and behavior (Xu a& Shenkar, 2002; Ioannis and Serafeim, 2012, Cantwell et al., 2010 Salomon and Wu, 2012; Kostova et al., 2008). It has been argued that multinational corporations operations are likely to refrain from investing in institutionally distant locations, i.e. host countries whose institutional properties are very different from home countries. This argument has been forcefully made by Kostova and Roth (2002) and Xu and Shenkar (2002) who studied institutional challenges to the effective transfer of multinational corporations practices across locations. Many empirical studies have verified these insights (Salomon and Wu, 2012; Holburn and Zelner, 2010; Schwens et al., 2010; Dikova & Van Witteloostuijn, (2007); Henisz & Macher, 2004)

During this study the researcher sought to give relevance of institutional theory in today's location decisions by Multinational companies and their attendant risks and their management. MNCs are increasingly embedded in both locally, nationally and transnationally constituted organizational fields whose institutional properties simultaneously influence their behavior (Phillips & Tracey, 2008). While the concept of institutional distance is anchored primarily in national level institutional differences, the notion of field cuts across levels, but is also more closely linked to industry-level practices and standards that are increasingly transnational in nature (Brunsson et al., 2012). The industry-level field institutions may provide equally important barriers and opportunities for internationalization (Larsen et al, 2000). In most cases institutions are made up of rules, procedures, beliefs and myths (Larsen et al, 2000). When this are combined they create a shared social reality (Larsen et al, 2000). This theory concerns itself with the procedure by which the firm learns to behave inside precise values and social meanings (Oliver, 1991).Modifications that have been done to the institutional theory**.** As important growth markets for organizations, upcoming markets have drawn rising attention from scholars (Li, 2001). The resultant effect is that emphasis has been focused on exploring how institutional factors affect a firm's actions and decisions (Li, 2001). This increasing interest is clearly shown in strategic management in upcoming markets (Li, 2001). Limitations of The institutional theory .The dominant perspective was that the effects of the institution forced firms to conform to the expectations of fields where they are members and this is a common occurrence (Clemens etal, 1999).

However this view that homogeneous pressures causes similar influences in the organization fields has been disputed by many scholars (Clemens etal, 1999). This include debates on issues such as where institutional pressures arise from, origin of rational myths and also the primary sources of legitimacy (Clemens etal, 1999).

2.3 International Business Risks

The global world is defined by the changes in the economy, technology and in the social environment (Bozo et al., 2010). One of the most important pillars of economic development in any country is international trade and business (Bozo et al., 2010). The positive effects of international business and trade are directly mirrored on the Gross Domestic Product, transfers of technology and employment. (Bozo et al., 2010). It also affects the following factors indirectly; on a nations credit rating, and competitiveness (Bozo et al., 2010). Historically scholars have stated that most firms that excel in the local market often fail in the foreign markets (Bozo etal 2010). This may be because of the complexity of operating in foreign markets especially concerning market risks (Bozo et al., 2010). Foreign market risks are greater due to insufficient information concerning cultural, economic and political factors (Bozo et al 2010). There thus exists a great motivation to understand the way firms control and manage the various market risks they face when expanding to international markets (Bozo et al., 2010). Primary and secondary studies have been conducted to try and understand this effect (Bozo et al 2010). A big number of firms analyze risks simply by rules of thumb or doesn’t analyze it at all because they believe that probably the cost would exceed the desired benefits (Bozo et al

2010). The authors then normally bring forward propositions and recommend areas that need to be researched further (Bozo et al., 2010)

Numerous risk definitions exist with most writers describing it as an aggregate of the likelihood of an event occurring and the resultant consequences that accompany it if it occurs (Bozo et al., 2010). There are many definitions of risk, however in practice it's impossible to accurately measure risk and consequences of risks (Bozo et al 2010). As per ISO 31000:2009 that is the international standards organization that deals with risk management, risk is described as deviance from expected goals as a result of uncertainty. (Bozo et al., 2010). In this case uncertainty can be described as a state of lack of enough information in relation to knowledge or understanding of an event and its resultant consequences (Bozo et al 2010). During this study the researcher will stick to the description of risk as the "volatility of expected o outcomes" , there are two resultant features of risk to a particular firm or a class of firms, that is either a gain or a loss (Bozo et al 2010). Speculative risk exist where there is a likelihood that a risky event may result to a gain (Bozo et al 2010). If this does not exist then the risk is described as a pure risk (Bozo et al., 2010)

Any business activity of a firm always has some component of risk (Bozo et al., 2010). A company will fully exposes itself to various market risks as it conducts its day to day business activities in order to create some economic value (Bozo et al., 2010). Firms operating in small economies can only grow and enhance their competitiveness by entering into foreign markets (Bozo et al., 2010). Such firms that decide to enter into the foreign markets will inevitably be exposed to various risks in the international business market (Bozo et al., 2010). They are thus disadvantaged by the fact that they have to face so many different risk elements in which they have minimal information on (Bozo et al., 2010). The risk such firms face in the foreign markets include competition, cultural environment risks, economic and also political risks (Bozo et al 2010). There lacks a universally accepted standard on the way to categorize risks encountered by firms that decide to venture in the international business arena (Al Khattab, 2006). However there are three fundamental factors that are emphasized on as having the most relevance to risks in the international business market (Al Khattab, 2006). This include the country risk which can be defined as the specific risk that foreign investors encounter when conducting business in a particular country as opposed to investing in other alternative countries (Al Khattab, 2006)

The second risk facing foreign investors in emerging and developing markets that is often emphasized on is political risk (Bozo et al., 2010). It can be described as the likelihood that political pronouncements or political or societal happenings in a country will affect the business environment such that investors' money will be lost or they will not make as much profit as they had anticipated from the investments they have made (Bozo et al., 2010) Political risk are often subtle and are not easily noticeable, but still as perilous as the noticeable ones (Bozo et al., 2010). Firms that have an understanding of how political risks are interpreted assist themselves by largely enhancing their possibility of making profits in the emerging markets (Pacek et al., 2004). There is a very high correlation between economic risks and political risks (Bozo et al 2010). Political concerns influence economic policies and the reverse is true for economic risks (Bozo et al 2010). Economic risk can be described as the possibility that there may be changes that are unfavorable in the prices of commodities, interest rates and also in the foreign exchange rates which will cause a distortion in businesses conducting their operations in the foreign markets which may cause them to exit from such markets (Bozo et al 2010)

The most difficult risk is cultural risk. This is probably the risk that concern all risks that constitute country risk (Bozo et al 2010). This is a result of there being no agreed definite and straightforward meaning of the term culture (Bozo et al 2010). Culture consists of numerous elements of which some are easily identifiable while others are more difficult to identify (Bozo et al 2010). On the other hand culture is not static but rather evolves over time as it interacts with different people (Bozo et al 2010). A culture can be transnational yet at the same time involves numerous sub-cultural groups (Bozo et al 2010). When a firm is not familiar with its market conditions it will be greatly exposed to different business risk (Bozo et al 2010).For a company to be successful, it has to greatly rely on its capability to contain culture risks (Bozo et al 2010). For organizations to adapt themselves to foreign markets they must have a reliable information source on happenings in the foreign markets (Bozo et al 2010). Large organizations operating in foreign markets can establish a separate risk management department while small once can utilize the services of specialized agencies (Bozo et al 2010). For a company that has gone international the function of risk management is very important for the continuality and development of such a firm (Bozo et al 2010). From the analysis of the many market failures in foreign markets its clear that most of the firms' management had no deep understanding of risks and ways that such risks could be handled effectively (Bozo et al 2010).This being a gap the researcher of this study would like to research to get information on the types of risks affecting Kenyan Commercial Banks in trying to go international and the risk management practices adopted by them.

2.4 International Business Risk Management Practices

Though it is true the benefits of going international to trade normally exceed the risks, organizations should always assess the risks involved in each country before deciding to enter that foreign country's markets (Bozo et al 2010). They must make sure that they analyze factors such as restrictions on human capital, ownership, copyright, corruption, bureaucracy and intellectual property. This should all be analyzed before a firm decided to venture into any foreign nation (Bozo et al., 2010). The risk management process involves active decision making in all functions of the firm (Bozo et al 2010). By doing so the possibility of risky events happening is greatly reduced or out rightly done away with (Bozo et al., 2010). Since all companies whether large or little in size, irrespective of the industry or business it operates in is faced with a particular set of risks (Bozo et al 2010) For a business to succeed its paramount that it incorporates the risk management function in order to achieve business success (Bozo et al 2010). Numerous and diverse studies have concluded that firms which offer its shareholders above average market value have put into place in their corporate process an integrated risk management system (Bozo et al 2010) This has enabled them to reap such benefits of above average returns (Bozo et al 2010) Whereas those companies without such risk management procedures in place are normally faced sometimes with considerable financial loses (Bozo et al 2010). Therefore risk management is a paramount matter when venturing into foreign markets due to the lack of information that's reliable and numerous uncertainties that arise from the external market (Bozo et al 2010)

The only way to grow by locally domiciled firms and indirectly the local economy is by venturing and succeeding in foreign markets (Bozo et al 2010). For this reason it is assumed that the top management would concentrate and dedicate adequate resources to the risk management function when studying market risks in foreign markets (Bozo et al 2010) They are expected to have a deep understanding of the sources that generate the highest threat to their firms (Bozo et al 2010). Secondly, the senior management is expected to provide a conducive environment through coming up with policies and procedures that will ensure that there is adequate assessment, monitoring and control of risk. (Bozo et al 2010). And thirdly, top management are expected to come up with a risk reaction strategy that will ensure as minimal possible damages as possible. From the research done evidence from empirical studies has shown that a big chunk of international corporations don't give the deserved attention to market risks (Bozo et al 2010). This puzzled most researchers due to the fact that the senior most management had an overall view of the firms that were studied, that mechanisms in risk management were very crucial to the financial performance of the said firms (Bozo et al 2010). Furthermore, most of the senior management that participated in the survey emphasized that assessment of risk was a very essential element in the process of management of risk when venturing into foreign markets (Bozo et al 2010). It is thus very astonishing to find out that most of the firm's examined have a nonexistent risk management function in place (Bozo et al 2010). To add to that they don't even inquire from agencies that specialize in assessments of the various facets of country risk (Bozo et al 2010)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methodology, procedures and ways that was used in data collection. The study was concerned with establishing international Business Risks faced by Commercial Banks in Kenya and the practices they adopted to manage those Risks. This chapter covered research design, the target population, data collection methods, data analysis and data presentation methods that was used in this study.

3.2 Research Design

The research design adopted for this study was descriptive survey method. This was preferred because it was efficient in collecting large amounts of information within a very short period of time. A descriptive survey enabled the researcher to describe the characteristics of the variables of interest. It was therefore justified that descriptive design was the most suited and justifiably adopted in the study. According to Kothari (2004), a good research design must yield maximum information and provide an opportunity for considering many different aspects of the problem.

Surveys are useful in describing the characteristics of a large population. Additionally, high reliability was easy to obtain by presenting all subjects with a standardized stimulus which ensures that observer subjectivity is greatly eliminated (Mugenda & Mugenda, 2003). Surveys according to Robson (2002), was the collection of information from a group through interviews or the application of questionnaires to a representative sample of that group.

3.3 Population of the Study

The target population for this study was all the Commercial Banks in Kenya. According to the Central Bank of Kenya there are currently 43 financial institutions in Kenya,42 of them are licensed commercial banks in Kenya, while one is a none bank financial institution.The study dealt with only the commercial banks.The study adopted a census method therefore all the 42 Commercial banks in Kenya were surveyed. The choice of Commercial banks in Kenya was driven by the realisation by the researcher that there existed a gap on their Risk Management practices practiced by Commercial Banks and the risks they encountered when expanding their businesses internationally. Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated.

3.4 Data Collection

Questionnaires and interviews were used to collect information from the Heads of International Business departments of the Commercial Banks. The Heads of departments were the preferred respondents in this study because they were assumed to be most knowledgeable on Risks affecting the Commercial Banks going international and therefore they were in a better position to provide the most accurate, relevant and adequate information to the study. The questionnaire was divided into three sections with section A looking into the demographic information, Section B looked into International business Risks and section C looked into the Practices adopted by commercial banks to Manage international business risks.

The researcher administered the questionnaires individually to the Heads of International Business departments of the Commercial Banks. According to Cooper and Schindler (2006), the use of structured questions on the questionnaire allowed for uniformity of responses to questions; while unstructured questions gave respondents freedom of response which helped the researcher to gauge the feelings of the respondents, he or she used his or her own words.

Questionnaire was preferred because it was efficient, cheap and easier to administer. The structured questions formed a five point Likert scale, whereby respondents were required to indicate their views on a scale of 1 to 5. Secondary data was collected from relevant published materials both in print and online.

3.5 Data Analysis

All the data from the returned questionnaires were analysed using descriptive statistics mores specifically measures of central tendency i.e. weighted mean and measures of variations i.e. weighted standard Deviation. Once the questionnaires were collected, they were edited for accuracy, consistency and completeness. Before final data analysis was done, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. The responses obtained from the questionnaires were coded into numerical form to facilitate statistical analysis.

Data was analysed using statistical package for social sciences(SPSS) based on the questionnaires, in particular weighted mean scores, standard deviations, percentages and frequency distribution were used to summarise the responses. Results were presented in tables.

The qualitative data collected in the questionnaires was analysed through content analysis where thematic framework was developed according to Cooper & Schindler, (2006). Content analysis was the best method of analysing the open-ended questions because of its flexibility and allowed for objective and systematic description of the content of communication.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

In this chapter the researcher concentrated on the findings of the research, giving a view to the analysis of the data reporting of the interpretations of the results, the general approach was the use of tables, to represent the research findings. The chapter focused on the main tool of data collection, the questionnaire, and as such based its findings on the guidelines set by the questionnaire.

4.1.1 General Information

The researcher sought to establish general information from the respondents involved in the study. The specific general information collected included the gender of the respondent and the period they had worked in the Bank to determine their appropriateness in providing information required to complete the study. The results are as discussed in the subsequent sections.

4.1.2 Response Rate

The study was a census study and targeted all the 42 commercial banks in Kenya. A total of 50 questionnaires were administered, however, the researcher obtained response from 46 filled questionnaires. This translated to a response rate of 92%. This response rate represented the total population. This response rate concurs with stipulations by Mugenda and Mugenda (2003) that a response rate which is above 50% is representative for the target population.

4.2 Demographic Information

4.2.1 Gender of the Respondents

The study sought to establish the gender of the respondents and the findings are as shown in the table below.

Table 4. 1: Gender of the Respondents

Gender	Frequency	Percentage
Male	25	54
Female	21	46
Total	46	100%

Source: Research Data

According to the findings, 54% of the respondents were male while 46% were female. From the study, it can be concluded that the gender ratio of the respondents i.e. males to females 1.12 to 1.00 this ratio shows that the gender of both male and female was well represented. This validates the results of the **study** on gender equity.

4.2.2 Type of Ownership of the Bank

Table 4.2 below presents the findings on the type of ownership of the commercial banks studied.

Table 4.2: Type of Ownership of the bank table

Type of Ownership	Frequency	%

Fully owned locally	35	76
Fully Foreign Owned	2	4
Partially Foreign Owned	9	20
Total	46	100%

Source: Research Data

From the findings, most respondents from commercial banks, that is. 76 percent came from banks owned by Kenyan nationals, while 20 percent of the respondents came from banks which are partly owned by Kenyans and foreigners and the rest that is 4 percent of respondents come from banks which are fully owned by foreigners.

4.2.3 Period Worked in the Bank

The study sought to establish the period the respondents had worked with commercial banks and the findings are presented below in table 4.3

Table 4.3: No of Years worked in the Bank Table

	No of Yrs worked	Frequency	%
1	< 1 Yrs	-	-
2	1 – 2 Yrs	-	-
3	3 – 5 Yrs	3	6.5
4	6 – 10 Y Yrs	23	50
5	11 – 15 Yrs	6	13
6	16 – 20 Yrs	4	8.7
7	21 – 25 Yrs	4	8.7

8	Over 25Years	6	13
	Total	**46**	**100%**

Source: Research Data

As shown in the Table 4.3, the research findings shows that 0% of the respondents had worked in their respective banks for a period of below 2years, 6.5% of the respondents had worked for a period of between 3 to 5 years,50% of the respondents had worked for a period of between 6 to 10 years, 13% of the respondents had worked for a period of between 11 to 15 years, 8.7% of the respondents had worked for a period of between 16 to 20 years, 8.7% of the respondents had worked for a period of between 21 to 25 years and 13% of the respondents had worked for a period over 25years. The findings indicate that a sizeable number of the respondents had worked for a period of 6 to 10 years with their banks whereas the least proportion of less than 6.5% had worked for below 5years. These findings show that the respondents had adequate experience necessary to respond to the questions in this study. This helps validate the research findings.

4.2.4 No of years of existence of the Commercial Bank

The study sought to establish the number of years of existence of the Commercial Bank and the findings are presented in table 4.4.

Table 4.4: No of years of existence of the Commercial Banks in Kenya

No of years of existence	Frequency	%
<1 year	-	-
1 – 2 Yrs	-	-
3 – 5 Yrs	-	-
6 – 10 Yrs	1	2.17
11 – 15 Yrs	-	-
16 – 20 Yrs	2	4.35
21 – 25 Yrs	-	-
Over 25Yrs	43	93.48
Total	46	100%

Source: Research Data

From Table 4.4 shown above, the sampled banks have been operating for more than Six years in Kenya. Six of the respondents (2.17%) worked for banks that have been in operation for 6 to 10 years, two of the respondents (4.35%) worked for banks that have been in operation between 16-20 years while 43 respondents (93.48%) i.e. the highest percentage of them show banks that have been in operation in Kenya for over 25years. There was no response from banks that have been in operation for less than 5 years, 11 to 15 years and 21 to 25years.This shows that the respondents came from banks which have exited in Kenya for many years, meaning the banks have a lot of risk management experience locally.

4.3 International Business Risks faced

Respondents were asked to indicate the type of international Business risks their respective Commercial Banks encounter when setting up Businesses internationally.

Table 4.5: Types of Risks affecting international business

	Risks	**Mean**	**Std. Deviation**
1	Political Risk	3.67	1.136
2	Currency Exchange Risk	3.72	1.109
3	Unfair competition Risk	2.93	1.020
4	Culture Risk	3.28	1.205
5	Religious extremism /Terrorism Risk	2.93	1.254
6	Extortion and Corruption Risk	2.72	1.148
7	Counterfeiting and theft Risk	2.72	1.148
8	Lack of legal safe guards	2.65	0.900
9	Bureaucracy Risk	3.46	1.089
10	Parallel Trading and Product diversion	2.67	1.117
11	Organized Crime Risk	2.80	1.204
12	Asset Security Risk	2.87	1.024
	Grand Mean	3.04	1.113

Source: Research Data

From the results deduced from the above table 4.5, it can be observed that in terms of types of international business risks, currency exchange risks, political risks and bureaucracy risks were highest weighted mean scores of 3.72, 3.67 and 3.46 respectively and standard deviations of 1.109, 1.136 and 1.089 respectively an indication that these are the major international risks faced by commercial banks to a great extent when establishing internationally. Culture risks, unfair competition risks, religious extremism /terrorism risks, asset security risks and organized crime risks had weighed means of 3.28, 2.93, 2.93, 2.87 and 2.80 implying that these risks were faced by commercial banks to a moderate extent. Additionally, Extortion and Corruption Risk, Counterfeiting and theft risk, parallel trading and product diversion and lack of legal safe guards were also faced by commercial banks to a moderate extent as shown by weighted means of 2.72, 2.72, 2.67 and 2.65 respectively. The standard deviations associated with the risks were between 1.254 and 0.900 meaning that they were significant in the validation of the risks.

4.4 Practices Adopted for International Business Risks

The researcher asked the respondents of the questionnaire to indicate the Practices adopted by the respective Commercial Banks in mitigating this international Business risks

Table 4.6: Practices Adopted by commercial Banks

	Statement	**Mean**	**Std. Deviation**
1	Existence of Bank Executive sponsor and focus on international risk management	4.13	0.934
2	Existence of an Effective risk culture in the organization.	4.20	0.654
3	Existence of a clear link of International Business risks to corporate aims and objectives.	3.80	1.003
4	Line management ownership of International Business risk management.	3.70	0.963
5	Link of International Business risks management to individual performance appraisal.	3.28	1.026
6	Existence of appropriate use of International Business risks recording tools.	3.50	0.960
7	International Business risks priorities.	3.78	0.758
8	Existence of a clearly defined and communicated policies, procedures, systems and internal controls on International Business Risks.	3.98	1.022

9	Existence of regular International Business risk management reports to senior management.	4.00	0.943
10	Existence of appropriate training on International Business risks and International Business risk management to staff.	3.65	0.971
11	Existence of a robust Internal audit assessment and monitoring of all International Business risks faced by the organization.	4.00	0.869
12	Existence of a quality reporting using key indicators informing the organization of International Business risks management issues and emerging trends.	3.83	0.851
	Grand Mean	3.82	0.913

Source: Research Data

The respondents were also required to indicate the practices adopted by their respective commercial Banks in managing these international Business Risks. Those who scored low in their mean score compared favorably with those highest. Their responses were that the majority of the commercial banks had very effective risk culture and bank executives were effective in sponsoring and focusing on international risk management as shown by weighted means of 4.20 and 4.13 respectively. Further, the respondents indicated that there were effective and robust internal audit assessment and monitoring of all international business risks faced by commercial banks and there were regular international business risks management reports to senior management as shown by weighted means of 4.00 in each case.

The respondents reported that there were clearly defined and communicated policies, procedures, systems and internal controls on International Business Risks as shown by weighted means of 3.98. Additionally, there was quality reporting using key indicators informing the organization of International Business risks management issues and emerging trends based on obtained weighted mean of 3.83. The respondents further indicated that there were clear link of International Business risks to corporate aims and objectives and the international business risks priorities were identified as shown by mean scores of 3.80 and 3.78 respectively.

The respondents indicated that line management had ownership of International Business risk management and there was appropriate training on International Business risks and their management to staff as shown by weighted mean scores of 3.70 and 3.65 respectively. Additionally the respondents indicated that there was appropriate use of International Business risks recording tools as shown by weighted mean of 3.50. However, the respondents indicated that there was neither effective nor ineffective link of International Business risks management to individual performance appraisal based on observed weighted mean of 3.28.

4.5 Discussion

A lot of research has been done in developed countries on risks in banks but very little had been done on International Business risks affecting commercial Banks. This study thought to determine what risks faced the Kenyan Commercial Banks when establishing businesses internationally and the practices they adopted to manage the identified risks .This was the gap that the researcher found it necessary to study with the hope of sealing. The study aimed at responding to two questions as follows: Which risks are faced by Kenyan Commercial Banks venturing to do business internationally encounter? .The second question the researcher needed answers was what were the practices these Kenyan commercial Banks used or adopted to manage the risks?

Since the study concerned 42 commercial banks, the researcher did a census study of all the 42 commercial banks in Kenya. The researcher distributed questionnaires to these banks both using friends, drop and pick and some via email for those banks which would involve long distances to travel to administer the questionnaires. The researcher distributed about 50 questionnaires and received back 46 of them.

Demographic Characteristics. The researcher started off by first seeking the demographic characteristics of the respondents. The outcome indicated that most respondents across Commercial Banks were males at 54% and the rest were female respondents at 46%. From the demographic data it can be concluded that in banks the Males are dominant than women in the management of risks which may have an impact or Challenge to commercial banks which are aspiring to go international more so if the majority of staff in those banks are female.

The study revealed that the majority of the Commercial banks in Kenya are fully owned locally by Kenyans this represents 76% of all the respondents interviewed i.e. 35 of the respondents, with about 4% of all the respondents interviewed i.e. 2 of the respondents being fully foreign owned banks while 20% of all the respondents interviewed i.e. 9 of the respondents enjoy shared ownership (both local and foreign).

The study also studied the period the respondents had worked in their respective commercial banks. The results of the study gave a very interesting picture as the majority i.e. 23 of the 46 respondents representing a percentage of 50% were between the ages of 6-10 years, followed by those with ages of 11-15 and over 25years both had the same percentage of 13%, the least of the respondents i.e. 6.5% had worked in the bank for a period of below 5years.This finding therefore shows that the majority of the staff engaged in risk management are more experienced to handle all risks affecting the banks including international Business Risks and also that the respondents had adequate experience necessary to respond to the questions in the study hence validating the research findings.

The study also thought to find out the number of years these commercial banks have been in existence in Kenya. The results shows that many of the commercial banks in Kenya have existed in Kenya for a period of more than 25years as out of 46 received back respondent questionnaires, the majority i.e.43 respondents representing 93.48% state that their banks have existed in Kenya for over 25years.The rest of the respondents stated that their banks have existed in Kenya for less than 25 years. The result of this study shows that the banks have existed in Kenya for a lot of years and therefore have a lot of experience in business strategy, business development, and the experience in identifying, monitoring and managing risks, including the risks affecting banks internationally and how to manage them. This further shows that many commercial banks in Kenya are well established and understand the banking sector well.

International Business Risks faced. The study in its first objective wanted to find out the type of International Business Risks faced by commercial banks who wanted to expand their businesses internationally. Though there lacks a universally accepted standard on the way to categorize risks encountered by firms that decide to venture in the international business arena (Al Khattab, 2006), the results of the study indicated that Currency Exchange Risks, Political Risks, Bureaucracy Risks and Cultural Risks in that order had the highest weighted mean scores an indication that these are the major international risks faced by commercial banks when establishing internationally.

Exchange rate risk which is one of the economic risks was rated the highest risk by the respondents and this is supported by literature as Bozo et al., 2010 stated that a company will fully expose itself to various market risks as it conducts its day to day business activities in order to create some economic value. He went on to state that firms that decide to enter into the foreign markets will inevitably be exposed to various economic risks for example foreign exchange risks in the international business market. They are thus disadvantaged by the fact that they have to face so many different risk elements in which they have minimal information on. Houn, 2013 further stated that different countries in the world have different currencies with each country operating its own specific currency system and that each currency is exchanged with another countries currency at a specific rate .This leads to risk of loss arising from the fact that this currency exchange rate is not constant and fluctuates either up or down. This foreign exchange rate risk results from translation exposure, economic and transaction risk.

The respondents rated political risks as the second major risks facing firms going international. Again this is supported by existing literature for example Bozo et al., 2010 stated that the second risk facing foreign investors in emerging and developing markets that is often emphasized on is political risk and described it as the likelihood that political pronouncements or political or societal happenings in a country will affect the business environment such that investors' money will be lost or they will not make as much profit as they had anticipated from the investments they have made as Political risks are often subtle and are not easily noticeable, but still as perilous as the noticeable ones. Pacek et al., 2004 stated that firms that have an understanding of how political risks are interpreted assist themselves by largely enhancing their possibility of making profits in the emerging markets.

The respondents gave the third risk as Culture risk .This risk is the most difficult risks affecting international businesses. This cultural Risk is supported in the literature by Bozo et al 2010 when he stated that cultural risk is probably the risk that concern all risks that constitute country risk. This is a result of there being no agreed definite and straightforward meaning of the term culture, culture consists of numerous elements of which some are easily identifiable while others are more difficult to identify. On the other hand culture is not static but rather evolves over time as it interacts with different people. Bozo et al 2010 says culture can be transnational yet at the same time involves numerous sub-cultural groups. They went on to state that when a firm is not familiar with its market conditions it will be greatly exposed to different business risks and that for a company to be successful, it has to greatly rely on its capability to contain culture risks and that organizations which want to be successful should adapt themselves to foreign markets and that they must have a reliable information source on happenings in the foreign markets. Large organizations operating in foreign markets can establish a separate risk management department while small ones can utilize the services of specialized agencies. Bozo et al 2010 continued to state that for a company that has gone international the function of risk management is very important for the continuity and development of such a firm. Lack of legal safe guards, Counterfeiting, Extortion and Corruption Risks had the least mean scores respectively.

The respondents were also required to indicate the practices adopted by their respective commercial Banks in managing these international Business Risks. Their responses were that the majority of the commercial banks that responded stated that there exists an effective risk culture in the organization, this is followed by the existence of Bank executive sponsor and focus on international risk management, a robust Internal audit assessment and monitoring of all International Business risks faced by their organization and the existence of regular International Business risk management reports to senior management. Those who scored low in their mean score compared favorably with those who scored the highest practices adopted by commercial Banks. This indicates that most of the identified practices are actually being practiced by these commercial Banks albeit slightly lower than those practices they like most in managing the international Business Risks. Determining the specific Practices that commercial banks in Kenya take to manage the various international Business risks was the main objective of my study. This is supported by Bozo et al 2010, who stated that the top management would concentrate and dedicate adequate resources to the risk management function when studying market risks in foreign markets and that they are expected to have a deep understanding of the sources that generate the highest threat to their firms. Secondly, the senior management according to Bozo et al 2010 are expected to provide a conducive environment through coming up with policies and procedures that will ensure that there is adequate assessment, monitoring and control of risk and thirdly, top management are expected to come up with a risk reaction strategy that will ensure as minimal possible damages as possible.

From the study the least practices used include the following: Link of International Business risks management to individual performance appraisal, appropriate use of International Business risks recording tools and no appropriate training on International Business risks and International Business risk management to staff..

CHAPTER FIVE

SUMMAY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The summary, conclusions and recommendation chapter presents summary of findings as discussed in chapter four and interpretations of the data analysis, conclusions and recommendations based on the findings. This research was to investigate the international business risks and practices used by commercial banks who are engaging in international business. Forty two Banks were investigated out of a total of forty three. One was excluded as it IS a mortgage financial institution.

5.2 Summary of findings

The researcher's objective of the study sought to discover International Business Risks faced by Commercial Banks in Kenya and to determine Practices adopted by commercial banks in Kenya to manage international Business Risks.

From the findings, 54% of the respondents Interviewed were male while 46% were female. The gender ratio of the respondents i.e. males to females 1.12 to 1.00 this ratio shows that the gender of both male and female was well represented.

From the study 76 percent of the respondents came from banks owned by Kenyan nationals, while 20 percent of the respondents came from banks which are partly owned by Kenyans and foreigners and the rest that is 4 percent of respondents come from banks which are fully owned by foreigners.

From the study 0% of the respondents had worked in their respective banks for a period of below 2years, 6.5% of the respondents had worked for a period of between 3 to 5 years,50% of the respondents had worked for a period of between 6 to 10 years, 13% of the respondents had worked for a period of between 11 to 15 years, 8.7% of the respondents had worked for a period of between 16 to 20 years, 8.7% of the respondents had worked for a period of between 21 to 25 years and 13% of the respondents had worked for a period over 25years.

From the study Six of the respondents (2.17%) worked for banks that have been in operation for 6 to 10 years, two of the respondents (4.35%) worked for banks that have been in operation between 16-20 years while 43 respondents (93.48%) i.e. the highest percentage of the respondents worked in banks that have been in operation in Kenya for over 25years. There was no response from banks that have been in operation for less than 5 years, 11 to 15 years and 21 to 25years.

From the study currency exchange risks, political risks and bureaucracy risks had the highest weighted mean scores of 3.72, 3.67 and 3.46 respectively and standard deviations of 1.109, 1.136 and 1.089 respectively. Culture risks, unfair competition risks, religious extremism /terrorism risks, asset security risks and organized crime risks had weighed means of 3.28, 2.93, 2.93, 2.87 and 2.80. Additionally, Extortion and Corruption Risk, Counterfeiting and theft risk, parallel trading and product diversion and lack of legal safe guards had weighted means of 2.72, 2.72, 2.67 and 2.65 respectively. The standard deviations associated with the risks were between 1.254 and 0.900.

From the study majority of the commercial banks had very effective risk culture and bank executives were effective in sponsoring and focusing on international risk management as shown by weighted means of 4.20 and 4.13 respectively. Further, the respondents indicated that there were effective and robust internal audit assessment and monitoring of all international business risks faced by commercial banks and there were regular international business risks management reports to senior management as shown by weighted means of 4.00 in each case.

The respondents reported that there were clearly defined and communicated policies, procedures, systems and internal controls on International Business Risks as shown by weighted means of 3.98. Additionally, there was quality reporting using key indicators informing the organization of International Business risks management issues and emerging trends based on obtained weighted mean of 3.83. The respondents further indicated that there were clear link of International Business risks to corporate aims and objectives and the international business risks priorities were identified as shown by mean scores of 3.80 and 3.78 respectively.

The respondents indicated that line management had ownership of International Business risk management and there was appropriate training on International Business risks and their management to staff as shown by weighted mean scores of 3.70 and 3.65 respectively. Additionally the respondents indicated that there was appropriate use of International Business risks recording tools as shown by weighted mean of 3.50. However, the respondents indicated that there was neither effective nor ineffective link of International Business risks management to individual performance appraisal based on observed weighted mean of 3.28.

5.3 Conclusions

From the study it can be concluded that the study met the thresh hold as the response rate was 46 out of a total of 50 questionnaires given out this was 92% response rate (Mugenda and Mugenda, 2009). From the study, it can be concluded that the gender ratio of the respondents i.e. males to females 1.12 to 1.00. This validates the results of the study on gender equity. The study also concludes that, most respondents from commercial banks i.e. 76 percent are came from banks owned by Kenyan nationals, while 20percent of the respondents come from banks which are partly owned by Kenyans and foreigners and the rest i.e. 4 percent respondents come from banks which are fully owned by foreigners.

The study also concludes that the biggest number of the respondents who answered the questionnaires were from the age 6 to 10 years .This shows that the respondents are neither too old nor too young in the bank and hence they were the right respondents for this particular study. The majority of these respondents were from banks which have existed in Kenya for a period of over 25 years. This means that the banks had a lot of experience on international business risks and the best practices to manage those risks.

From the study it can be concluded that there are various risks affecting commercial banks in Kenya who want to engage in international business. The major risks affecting these commercial Banks when trying to go international are Currency exchange rate risks, this includes exposure to foreign exchange fluctuation. This exposure arises from the effect of currency fluctuations on a company's consolidated financial statements, particularly when it has foreign subsidiaries. This type of exposure is medium-term to long-term. From the study the researcher found another major risk affecting the commercial banks going international is Political risk. Political risks are risks an investment's returns could suffer as a result of political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers or military control. And another risk from the study affecting commercial banks going international is Cross cultural initiatives this can be difficult to implement if an employee who is acting as manager; i.e. someone in a leadership position who cannot effectively communicate with or understand his subordinate employee’s actions can lose his or her credibility. In an ever expanding international economy, cross culture and adaptability will continue to be pertinent or crucial factors in the business world among other risks.

From the study it can be concluded that effective risk culture in the organization adopted by the commercial banks, is a major practice used by commercial banks in managing risks , the meaning of this practice is that everybody in the organization is an effective risk manager, this is followed by bank Executive sponsor and focus on international risk management, these group of senior managers are the ones who come up with policies , procedures and fund the whole risk process from identification, monitoring and management or control, a robust Internal audit assessment and monitoring of all International Business risks faced by the organizations and Existence of regular International Business risk management reports to senior management. The other practice these commercial banks have adopted is the regular International Business risk management reports to senior management among others.

5.3 Recommendations

Commercial Banks who are trying to increase their bottom line by expanding their businesses beyond their traditional national boundaries to greener pastures in other countries must study the exchange rate regime in those host countries. Exchange rate risk management is an integral part in every firm's decisions about foreign currency exposure (Allayannis, Ihrig, and Weston, 2001). Currency risk hedging strategies entail eliminating or reducing this risk, and require understanding of both the ways that the exchange rate risk could affect the operations of economic agents and techniques to deal with the consequent risk implications (Barton, Shenkir, and Walker, 2002). To manage political risk commercial banks have to protect themselves from expropriation or minimize host government interference in their operations. They should use integration and the implementation of protective and defensive techniques. Integrative techniques are designed to help the overseas operation become part of the host country's infrastructure. The objective is to be perceived as "less foreign" and thus unlikely to be the target of government action. Some of the most integrative techniques include (1) developing good relations with the host government and other local political groups; (2) producing as much of the product locally as possible with the use of in-country suppliers and subcontractors, thus making it a "domestic" product; (3) creating joint ventures and hiring local people to manage and run the operation; (4) doing as much local research and development as possible; and (5) developing effective labor–management relations

Bureaucratic Control means integrating mechanisms such as rules, policies, procedures and objective or target performance setting, to manage a company's subsidiary activities (Roth and Nigh, 1992). In a bureaucracy, plans and schedules are pre-established, rules, policies and procedures are formalized and information and communication systems are standardized, with all former elements being specified impersonally (Van de Ven, Delbecq and Koenig, 1976). In a bureaucratic control, owner’s strategies reduce headquarters' direct involvement in Foreign Subsidiaries. They do this by replacing active control (Roth, Schweiger and Morrison, 1991) through mostly impersonal methods (Edström and Galbraith, 1977) and explicit delineation of objectives of the organization. Bureaucracy utilizes extensive set of rules, regulations and procedures to restrict and limit subsidiary management's activities and authorities (Baliga and Jaeger, 1984). However for this to be effective, it requires that organizational members accept the legitimacy of an organizations authority. This bureaucratic mode of control is considered to be a relatively simple form of controlling subunit activities, resulting in a greater degree of decentralization (Galbraith, 1973). The Objective of control is organizational execution and the output of activities rather than managerial behavior. It may limit operational flexibility and organizational addictiveness to a greater extent but at the same time reduces the required verbal communication between headquarters and subsidiary company to a minimum.

Another recommendation is for the organizations intending to expand to other countries to ensure there is an effective risk culture in their organizations. This means that the senior management has to ensure everybody in the organization including those moving to work in other countries are trained on risks and risk management. Furthermore it is upon the senior management to sponsor or to set a budget for the management of risks and be on the fore front. They must have to mainstream the risk management department. The mainstreaming here means the department should be given all the powers it needs to enable it to manage risks. The chief Risk officer who reports to the board with a dotted line to the chief executive officer must be created and given all the powers needed to ensure its mandate is executed well.

The researcher also recommends regular International Business risk management reports to senior management must be done. This will enable the senior management to monitor and manage the risks, by assuming them if they are less severe or transferring them to a third party for example to an insurance company. Further recommendation will be for an organization to have a robust internal audit assessment and monitoring of all International Business risks faced by the organization. The internal audit will pick risky issues before they affect the banks bottom-line.

5.4 Limitations of the Study

Some banks refused to take the questionnaire citing that it was not in their policy to be filling any. Others took in the questionnaire but did not work on it and so did not avail the same for picking. Some engaged the researcher with a lot of correspondences, before they finally filled. Some banks Head Offices were very far from where the researcher operated, it meant the researcher had to go there personally incurring a lot of expenses for transport to and from moreover sometimes the researcher found the questionnaire unfilled. They kept on asking the researcher to come next week, come tomorrow etc.

5.5 Suggestion for Further Study

For further research, a study should be done on the effectiveness of Practices for managing international Business Risks by the Commercial Banks in Kenya. Also an indepth study on the challenges faced in the control of international business risks by the Commercial Banks within Kenya.

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APPENDICES

APPENDIX I: Letter of Introduction

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 15-09-2016

TO WHOM IT MAY CONCERN

The bearer of this letter WILFRED PASILE

Registration No. D61/72714/2014

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.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
15 SEP 2016
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
SENIOR ADMINISTRATIVE ASSISTANT
SCHOOL OF BUSINESS

APPENDIX II: Questionnaire

SECTION A: Background Information

For questions in this section, please answer to the best of your knowledge as required.

1. What is your gender? Male [ ] Female [ ]

2. How would you describe the ownership of your bank?

Fully owned locally [ ] Fully foreign owned [ ]

Partially foreign owned [ ]

3. How long have you worked in the Banking Industry?

< 1 yr…………………………………………………………………………..[ ]

1 – 2 Yrs……………………………………………………………………….[ ]

3 – 5 Yrs………………………………………………………………………..[ ]

6 – 10 Yrs………………………………………………………………………[ ]

11 - 15Yrs………………………………………………………………………[ ]

16 – 20 Yrs…………………………………………………………………..…[ ]

21 – 25Yrs……………………………………………………………………...[ ]

Over 25Yrs……………………………………………………………………..[ ]

4. For how long has your bank operated in Kenya?

< 1 yr………………………………………………………………………..….[ ]

1 – 2 Yrs……………………………………………………………………………….[ ]

3 – 5 Yrs……………………………………………………………………………..[ ]

6 – 10 Yrs…………………………………………………………………………[ ]

11 - 15Yrs…………………………………………………………………………[ ]

16 – 20 Yrs……………………………………………………………………...…[ ]

21 – 25Yrs……………………………………………………………………...[ ]

Over 25Yrs………………………………………………………………………..[ ]

SECTION B: RISKS AFFECTING COMMERCIAL BANKS GOING INTERNATIONAL OR ESTABLISHING SATELLITE

To what extend did your Bank encounter each of the following Risks when going international? Rate in a scale of 1 to 5

1=Not at all

2=To a little extent

3=To a moderate extent

4=To a great extent

5=To a very high extent

Risks	1	2	3	4	5

Political risk arises due to uncertain political activities and events					
Currency Ex. Rate Risk is a financial risk posed by an exposure to changes in the exchange rate between two currencies					
unfair competition this obstructs activities of potential competitors, especially recent market entrants					
Culture Risks, Culture differs from one country to another					
Religious extremism/terrorism,					
Extortion and corruption, Extortion and corruption are common in the business environment					
Counterfeiting and theft, Counterfeiting and theft rely on people accepting appearances as reality					
Lack of legal safeguards, which is a formidable obstacle in nondomestic markets.					
Bureaucracy,					
Parallel trading and product diversion, Parallel trading and product diversion are the sale of goods in markets for which they were not intended.					
organized crime, this is the case of money laundering					
Asset security, Businesses are often associated with their government's actions and targeted because their assets are generally poorly protected.					
Other (please specify)					

.

Which other risks facing banks necessitate robust change management? Please

Explain………………………………………………………………………………………

………..………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

…………………………………………………………………………………………………

SECTION C: PRACTICES ADOPTED BY COMMERCIAL BANKS IN KENYA TO MANAGE INTERNATIONAL BUSINESS RISKS

To what extend is each of the following Practices of International Business risk management are effective in your organization?

Rate in a scale of 1 to 5

1 = Not in Place

2 = Ineffective

3 = Neither effective nor ineffective

4 = Effective

5 = Very Effective

if not in place 2 If in place, please tick to indicate the effectiveness of the components of risk management in the organization

Practices	1	2	3	4	5
Does the Bank Executive sponsor and focus on international risk management?					

Is there an Effective risk culture in the organization?					
Is there a clear link of International Business risks to corporate aims and objectives?					
Does the Line management has ownership of International Business risk management?					
Is there a Link of International Business risks management to individual performance appraisal?					
Are there appropriate use of International Business risks recording tools?					
Are the international Business risks priorities identified?					
Are there clearly defined and communicated policies, procedures, systems and internal controls on International Business Risks?					
Are there regular International Business risk management reports to senior management					
Is there appropriate training on International Business risks and International Business risk management to staff?					
Is there a robust Internal audit assessment and monitoring of all International Business risks faced by the organization?					
Is there quality reporting using key indicators informing the organization of International Business risks management issues and emerging trends?					
Other please specify?					

If you have examples of how good risk management practice has worked in your organization which you think might be useful for this study, please say this briefly here:

..

APPENDIX III: List of Licensed Commercial Banks

1. ABC Bank (Kenya) Ltd
2. Bank of Africa Ltd
3. Bank of Baroda Ltd
4. Bank of India Ltd
5. Barclays Bank of Kenya Ltd
6. CfC Stanbic Holdings Ltd
7. Chase Bank Kenya (In Receivership) Ltd
8. Citibank Ltd
9. Commercial Bank of Africa Ltd
10. Consolidated Bank of Kenya Ltd
11. Cooperative Bank of Kenya Ltd
12. Credit Bank Ltd
13. Development Bank of Kenya Ltd
14. Diamond Trust Bank Ltd
15. Ecobank Kenya Ltd
16. Equity Bank Ltd
17. Family Bank Ltd
18. Fidelity Commercial Bank Ltd
19. First Community Bank Ltd
20. Giro Commercial Bank Ltd
21. Guaranty Trust Bank Kenya Ltd

22. Guardian Bank Ltd
23. Gulf African Bank Ltd
24. Habib Bank Ltd
25. Habib Bank AG Zurich Ltd
26. Housing Finance Company of Kenya Ltd
27. I&M Bank Ltd
28. Imperial Bank Kenya (In receivership)Ltd
29. Jamii Bora Bank Ltd
30. KCB Bank Ltd
31. Middle East Bank Kenya Ltd
32. National Bank of Kenya Ltd
33. NIC Bank Ltd
34. Oriental Commercial Bank Ltd
35. Paramount Universal Bank Ltd
36. Prime Bank (Kenya) Ltd
37. Sidian Bank Ltd
38. Spire Bank Ltd
39. Standard Chartered Kenya Ltd
40. Trans National Bank Kenya Ltd
41. United Bank for Africa Ltd
42. Victoria Commercial Bank Ltd