

**INTERNATIONALIZATION OF OPERATIONS AND
COMPETITIVE ADVANTAGE BY COMMERCIAL BANKS IN
KENYA**

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DECLARATION

This research project is my original work and has not been presented for award of any degree in any other university or institution of higher learning.

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DEDICATION

I would like to dedicate this study to first all to the God almighty for His constant presence and guidance in my life, for allowing me to do this project and attaining this level of education.

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LIST OF ABBREVIATIONS AND ACRONYMES

ABC: Africa Banking Corporation

BFIU: Fraud Investigation Unit

CBA: Commercial Bank of Africa

CBK: Central Bank of Kenya

DOI: Degree of internationalization

FATA: Foreign assets as percentage of total assets

FDI: Foreign Direct Investment

FPTP: Foreign profit as a percentage of total profit

FSTS: Foreign sales as a percentage of total sales

GDP: Gross Domestic Product

I&M Bank: Investment and Mortgage Bank

KCB: Kenya Commercial Bank

NIC Bank: National Industrial Credit Bank

NSE: Nairobi Security Exchange

OECD: Organization for Economic Cooperation and Development

OM: Operations Management

OSTS: Overseas subsidiaries as percentage of total subsidiaries

PDIO: Physical dispersion of international operations

TMIE: Top management international experience

USD: US dollar

WTO: World Trade Organization

ABSTRACT

There has been an increase in the number of companies that have been operating outside their home countries. This has allowed them to gain attributes that banks in home countries only cannot acquire, giving most of them a certain competitive advantage. Kenyan banks following that trend have extended their operations to other countries in East Africa and this study determines whether that internationalization positively impacts their competitive advantage. The study which was a cross-sectional descriptive survey was done using 5 banks, namely, Equity, Kenya Commercial Bank Ltd, Investment and Mortgage Bank Ltd, the Cooperative Bank of Kenya Ltd and the National Industrial Credit Bank Ltd. This study found that KCB has internationalized more its operations with presence in 6 countries, having over 10 foreign branches, 10%-15% of foreign profit. It is followed by Equity with presence in 5 host countries, over 10 foreign branches and 10-15% of foreign profit. NIC is in 3 host countries, has 7 foreign branches and under 5% foreign profit. Lastly there was Cooperative bank which is in 2 host countries, has 4 foreign branches and under 5% of foreign profit. Using the Likert scale to analyze the data, it was found that the banks that have internationalized their operations the most, KCB and Equity Bank, have gained the most competitive advantage and the bank that have internationalized less like the Cooperative Bank of Kenya get the least competitive advantage from their internationalization. This was reflected in the other banks results as the more there was internationalization, the more there was competitive advantage. This implies a positive relationship between the extent of internationalization and the level of competitive advantage. A correlation analysis between the rank of banks according to their extent of internationalization and the rank of the banks according to the percentage of important advantages gained reveals a strong correlation. This means that the level of internationalization is important in gaining a better competitive advantage. It was also found that Cost leadership was the least advantage gained through internationalization while differentiation was the main. Internationalization is advantageous if the banks desire to gain competitive advantage through differentiation.

CHAPTER ONE

INTRODUCTION

1.1. Background

According to Crina, (2010) internationalization is the movement of firm's operations beyond its home country; it is a process through which a firm increases its involvement in complex operations outside borders of its original country. "The internationalization of firms is a fundamental key for improving the competitiveness of firms and to decrease the degree of vulnerability to the changes in demand conditions and to the entry of new competitors" (Pereira, Fernandes, and Diz, 2009). It gives the company a competitive ascendancy, a competitive advantage. A "competitive advantage is an advantage gained over competitors by offering customers greater value, either through prices or by providing additional benefits and service that justify similar, or possibly higher, prices" (Ehmke, 2008).

The Theories of International trade, of direct investment and The Theories of firm's internationalization are key to understanding the rational of internationalization and how it can be an advantage to firms. One of the common set of strategies used to study competitive advantage is the Potter Generic strategy. But the entire Market based view, the Resource based view, the Knowledge base view, the Capacity based and the Relational views are important in the study of competitive advantage. The best view of these theories will be one that embraces all of them. None of the Market Based View, the Resource Based View, the relational view or their sub-categories has been classified as best.

The interest in this study comes from the fact that Kenya is growing as an economy. Its banking sector is at a point where it needs to move to other countries as it already has 44 banks (CBK Annual Report 2012) with hundreds of branches. It is a big industry and it needs to develop beyond the home country. “The lack of information and knowledge about the international markets will represents a major obstacle in the way of internationalization, but this can be overcome by researching the peculiarities of the target markets” (Crina, 2010). The study aims particularly at researching about the internationalization of operations of commercial banks and their competitive advantage. Internationalization affects companies’ competitive advantage and it will be vital to understand how and what advantages it brings to the banking industry.

Wangei (2014) stated in her research that the innovation of financial products, regulatory reforms, information technology, and growth in international trade has propelled the development of banks within the international financial system. Therefore, the banking activities are increasingly becoming international. Other reasons are related to the fact that elements like increased global competition, economic uncertainties, and changing markets are affecting organizations (Wisma, 2008). According to Wanjiru, K. & Njeru, A. (2014), the privatization and globalization of the economy has made the banking sector to face unprecedented challenges. Banks are constrained to perform in the current turbulent market place. With all these factors affecting the industry we can confidently say that the environment is favorable for the movement of Kenyan banks to other countries.

1.1.1. Internationalization of Business Operations

In these last decades, a lot of companies began to move their operations outside their domestic markets, exporting their goods to foreign customers and engaging in foreign direct investment (Conconi, Sapir, Zanardi, 2015). According to Gustafsson, Zasada (2011) internationalization is now seen as a necessity for specialized SME especially when their domestic market is threatened by global competition.

For Johanson and Vahlne (1977) “internationalization is the process by which firms gradually increases their international involvement, a product the product of a series of incremental decisions”. Coviello and Munro (1997) say that internationalization is the process by which firms increase their awareness of the direct and indirect influences of international transactions on their future and conduct transactions with other countries. Asira (2013) as a conclusion to these various definitions says that a concept that will bring harmony will include many “incremental decisions and strategies, various inward and outward product and services, or resources transferring across national boundaries”. This shows that internationalization is a thorough and time consuming.

The internationalization is not an easy process. Mula (2014) says: “the agents integrating the global supply chain have to carry out new operations and supply strategies over national borders to reach optimal levels of quality, flexibility and costs.” She notes the importance of developing international markets with diverse customer requirements, and put into practice at the same time global purchasing strategies that exploit worldwide supplier market.

1.1.2. Competitive Advantage

Wang (2014) says that: “Competitive advantage is obtained when an organization develops or acquires a set of attributes (or executes actions) that allow it to outperform its competitors”. “Essentially a competitive advantage answers the question, why should the customer purchase from this operation rather than the competition?”(Ehmke, 2008). Porter (1985) says that “competitive advantage is at the heart of a firm’s performance in competitive markets. He argued that a firm’s ability to outperform its competitors lay in its ability to translate its competitive strategy into a competitive advantage” (Beal, 2001).

According to Barney (2001), competitive advantage can be defined differently provided the unit of analysis the firm or the industry. For him a firm is said to have a competitive advantage when the activities in engages in increase its efficiency or effectiveness in ways that competing firms are not, withstanding the fact that those other firms are in a particular firm’s industry. The second definition refers to firms that produce higher returns than were expected by stockholders. He said that his definition of competitive advantage is often called an “economic rent”.

Many theories exist that discuss the various ways of gaining competitive advantage. The earlier two major theories of competitive advantage are the Market-Based View (MBV) and the Resource-Based View (RBV). Added to them are the two recent views: the Relational View and the Notion of Transient Advantage. The notion of core competencies, the knowledge-based view and capability-based view of strategy are derived from the resource based view.

1.1.3. Internationalization of Business Operations and Competitive Advantage

The reasons why companies want to move to other countries is enjoy the new opportunities awaiting them there. They want to increase sales, improve profits, economies of scale, exclusivity, education, increased innovation, short-term and long-term security, competitive strike and government incentives (Biggs, 2013).

These may be factors that help in achieving competitive advantage but what determines the competitive advantage is the comparison with the competitor. Competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost or deliver benefits that go over those of competing products (Strategy Train, 2009).

Internationalization affects the firm's competitiveness not only but "through improved cost-efficiency by subcontracting abroad; developing know-how and technology competencies via technical cooperation; and extending product ranges through commercial partnerships"(DHL, 2013).

As a result of a solid strategy, internationalization can prove to be successful and offer a company a competitive advantage in the worldwide market. It offers access to new market, capital, valuable production processes, development of core competencies, Corporate risk management, launching of new products, networking , knowledge transfer (Strategy Train, 2009).

1.1.4. Banking Industry in Kenya

The banking industry in Kenya is regulated by the central bank of Kenya act, banking act, and the company act among other guidelines. The Kenyan bankers have also come together as the Kenyans bankers an association which works as a lobby for the local banking industry.

The Central Bank of Kenya was established under Section 231 of the Constitution of Kenya (promulgated on August 27, 2010). It formulates monetary policy, promotes price stability, issues currency and performs other functions conferred on it by an Act of Parliament. Its vision is ‘to be a world class modern central bank’ and its mission is ‘to formulate and implement monetary policy for price stability and to foster a stable market-based inclusive financial system’ (CBK Annual Report, 2014).

The Banking sector in Kenya in the past year has significantly grown. It has recorded improved performance during the year under review with total assets 18 percent higher in June 2014 compared to June 2013. In the CBK Annual Report (2014)“total foreign exchange holdings increased by 31.8 percent from US\$7,889 million in June 2013 to US\$ 10,399 million in June 2014; Official reserves held by the Central Bank of increased by 40.5 percent to US\$ 8,555 million”. The sector constitutes private and publicly owned banks. Out of the 44 commercial banks operating in Kenya, 11 are publicly owned and listed in the Nairobi Securities Exchange (NSE). Publicly listed banks in Kenya are the biggest in terms of profits, asset base, number of accounts, distribution channels etc (CBK Annual Reports). In the last 3 years, the profit before tax of the 11 listed banks which constitute 26% of all licensed banks averaged 74% of the industry totals.

They have also suffered some of the highest losses arising from fraud as per the BFIU figures. The banking industry records some of the highest profits in Kenya. Individual banks like Equity Bank, KCB Bank, Barclays Bank and Standard Chartered Bank posted pre-tax profits in excess of Kshs10 Billion each in 2012 (CBK Annual Report2012).

1.1.5. Commercial Banks in Kenya

A commercial bank according to CBK is a “company which carries on, or proposes to carry on, banking business in Kenya and includes the Co-operative Bank of Kenya Limited but does not include the Central Bank of Kenya (CBK)”.Commercial Banking institutions are licensed and regulated pursuant to the provision of the Companies Act, Banking Act, Central Bank of Kenya Act and the Regulations and Prudential Guidelines issued by the CBK from time to time. Commercial banks are the dominant players in the Kenyan Banking System and closer attention is paid to them while conducting offsite and on-site surveillance to ensure that they comply with the existing laws and regulations.

Currently there are 44 licensed commercial banks and 1 mortgage finance company; out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The CBK Report (2012) shows that “the locally owned financial institutions comprise 3 banks with significant shareholding by the government and state corporations, 27 commercial banks and 1 mortgage finance institution”.

1.2. Research Problem

For Morgan and Katsikeas (1997, p. 70) “the theory of internalization introduces the idea that firms wish to create their own internal market to outrun the borders of their country of origin”. More than that, internationalization affects the organizational growth and the performance level of the company (Pereira, Fernandes, and Diz, 2009). They also considered it as a key competitive factor that helps the company achieve competitive advantage. “Competitive advantage means leadership achieved by a firm, in terms of sales in a given industry, with respect to its competitors, deriving from the proactive use of unique resources or peculiar skills developed during its lifecycle” (Porter, 1985a; Barney, 1991).

Internationalization of the firm is a “process in which the firm gradually improves their international involvement” (Johanson, J. and Vahlne, 1977). This means that the Kenyan banking sector is at a certain stage of growth as most of its banks have not internationalized their operations. The internationalization of banks in Kenya has been recent compared to other developed countries. According Star Reporter (13 June 2012) the third Kenyan Bank that has expanded its operation abroad is CFC Stanbic which expanded to Southern Soudan in 2012. It was not therefore a topic that had enough banks to work on in order to get wholesome and diversified information. The number of Kenyan banks that has internationalized their operations has increased and can give us better information than those gathered few years ago.

Many researches have been done on the topic of the internationalization and specifically on the internationalization of banks. Ghoul, Guedhami & Roman (2013) have researched about Bank Internationalization and Risk Taking and they found that internationalization increases bank risk taking due to competition, culture, regulatory

complexity, and economic and political instability. Buch, Koch & Koetter (2012) researched on whether banks benefit from internationalization. They had four main findings or results which are: a strong negative feedback effect between risk and market power, the fact that banks with higher shares of foreign assets have higher market power at home, that bank risk increases when it holds assets in a large number of foreign assets and that the impact of internationalization differs a when banks are from different banking groups or sizes. Both these researches focus on the risks involved in going international and breaking the ideology that internationalization always benefits banks or benefits companies in general.

Other researches focused on the reasons why banks internationalize their operations. Cunha S., Dirk Michael Boehe M. (2008) found that some of those reasons are: the international diversification and creation of firm specific advantages, ownership advantages and internalization, the defensive expansion argument (follow-the-client), the beachhead argument and the autonomous international expansion.

Some research has been done in Kenya and an example one done by Asira (2013) on the Internationalization of indigenous Kenya commercial banks within Eastern Africa. He found out that indigenous commercial banks of Kenya have entered foreign regional markets to look for opportunities to grow, to follow their customers who have moved to other countries or put up operations there and to solution to their customers within the region. He found that internationalization was a mean to diversify financial and political risks and a desire to benefit from economies of scale and scope.

Another research was done by Mwangi (2012). He studied the Application of Porter's model of competitive advantage of nations to the internationalization of Kenyan banks. The results reveal that the most important factors in influencing investment in the international markets are the company's vision & policies, revenue/profit maximization, domestic competition and leadership enthusiasm, infrastructure, demanding customers, research & development.

Another author was Gichohi(2014) and was a case study on Equity Bank Limited. He found that the major competitive strategies that the firm employs to insure successful internationalization process are: Duplication of Business Models Strategy, Market Dominance Position strategy, Mode of Entry Strategy and Opportunism on Government Policies Strategy. He also found that the underlying factors influencing the application of the above strategies during internationalization process are; banks unique business model with unique market niche, financial back up or support from parent company, organizational structure, corporate strategies and financial strengths and available partnership with world recognized financing bodies.

Most researches here have been done on specific banks or in another industry. They focused on Porter's competitive strategies, the process of internationalization and the reason why firms should internationalize their operations. This research will be focusing on all the indigenous commercial banks that have expanded their operations to other countries. It will look at the relationship between the internationalizations of operations and the competitive advantages of the Kenyan. On this basis, the study will be guided by the question: What is the relation between the internationalization of operations and the competitive advantage of Kenya commercial banks?

1.3. Research Objectives

The research objectives of this study are:

- i. To determine the extent of internationalization of operations by commercial banks in Kenya.
- ii. To determine the relation between the internationalization and the competitive advantage of Kenyan commercial banks

1.4. Value of the Study

This study highlights the strategies and actions that are beneficial to banks in relation to their internationalization. It allows them to understand what policy to put in place as an organization for an increase their competitive advantage. It may perhaps influence them to change the previous decisions that do not benefit their long term plan. It also allows banking associations, regulatory bodies and the government to make sound decisions concerning the Banking sector. They may put in place new regulations that will benefits the banks.

This research is a basic research and brings new information to the topic of internationalization and competitive advantage. It talks about the internationalization of a service which is not a common study. It is a source of information for future research and for lectures on international business. It also gives directions into what other researches need to be tackled by other scholars.

The information is relevant to the current situation of the banking sector as banks seek to venture into new countries. It helps them to understand how their internationalization helps them gain competitive advantage. It gives insight to the banks that have not internationalized their operations yet; so they may to check the pros and cons of going to another country before making a decision.

1.5. Summary

As described by Crina (2010), internationalization involves the movement of a company from its home country to other countries. It is an important factor for companies who want to gain a competitive edge in the market. “Competitive advantage is obtained when an organization develops or acquires a set of attributes that allows it to outperform its competitors” (Wang 2014).

This study is important because the commercial banks in Kenya are now 44 and now need to explore new countries to be able to remain competitive. While other research focus on the reasons of bank internationalization and its risks or focused on other industries, this research tackles the question: What is the relation between the internationalization of operations and the competitive advantage of Kenya commercial banks? It will determine the extent of internationalization of operations by commercial banks in Kenya and the relation between the internationalization and the competitive advantage of Kenyan commercial banks

The study is helpful for banks’ decision making relating to internationalization and the review their related policies. It allows banking associations, regulatory bodies and the government to make sound decisions and approve laws that will facilitate the internationalization of companies.

CHAPTER TWO

LITTERATURE REVIEW

2.1. Introduction

This chapter gives the theoretical background and theoretical argument that helps to build the research. It summarizes what other scholars have found about internationalization and their implication in the current study. It identifies the key components needed to understand and justify the study undertaken. It talks about the theories of internationalization, the challenges of internationalization and gives an overview of the service industry and the banking industry in relation to internationalization. It also states and explains the different theories of competitive advantage and lastly develops the empirical studies and the research gap.

2.2. Theoretical Foundation

This foundation contains the various theories of international business, internationalization and comparative advantage. The classical theories like the mercantilism, absolute advantage and comparative advantage are key to understand the explanation of rational of internationalization. They discuss, contrast and take position for or against protectionism and international trade. They demonstrate the importance of international trade. The theories of direct investment show how companies chose their mode of entry and location based on the advantage that they gain from it. The theories of internationalization show how the internationalization is a gradual process. Another important concept is Concept of degree of internationalization by Gillies (2008) which demonstrates how one cannot measure the extent of internationalization using only geographical intensity as the single factor.

The theories of competitive advantage focus on the sources of competitive advantage. They help in understanding how important international business is and by extension internationalization. They are necessary to the study in order for us to connect the advantages of internationalization and how they help in achieving competitive advantage.

2.2.1. Theories of International Trade

Two economists, Adam Smith and David Ricardo contributed greatly to the recognition of free trade. Smith's recognized that the fewer impediments to trade there were, the richer everyone would become while Smith argued in his *The Wealth of Nations* (1776) that a competitive market place is one which is based on free trade. The theory of Absolute Advantage by Adam Smith (1776) says that “the possibility for a country to produce a certain product cheaper than another country through specialization in the production of goods with smaller costs and the trade of the production surplus was beneficial for both countries”.

David Ricardo (1817) with theory of Comparative Advantage showed that despite a country's inability to attain absolute advantage in the production of any good, specialization is possible and even beneficial contrary to what the Absolute advantage theory emphasizes. The Ohlin – Heckscher factor proportion views the comparative advantage theory from a production factors lens. They say that the abundance a production factor in a given country makes it cheaper. The competitive advantage here is generated by the difference in the price of the production factors. However in the seventies Krugman came up with the new theory of International Trade. He emphasizes the fact that certain industries need to be protected before they can become successful in the local and international market.

2.2.2. The Theories of Direct Investment

The theories talk about how the companies choose the countries they trade with based on the advantage that the location will bring to the business. The theory of international production by John H. Dunning (1988) suggests that “the ability of a firm to produce abroad depends on the particular attraction of the country of origin in relation to the advantages offered by other markets”. The Location theory, started by Johann Heinrich von Thünen at the beginning of the 19th century (Crosier, 2001), says that “firms choose locations that will maximize their profits, but consumers will choose those locations that will maximize their utility”. The Transaction costs theory developed by Ronald Coase in 1937 states that the “development of transnational companies allows the manipulation of the transactions within the firm, so as to minimize losses”. And the Eclectic theory developed by John Dunning in the eighties says that transnational companies do not make foreign direct investments just because of the firms’ structure. The several advantages generated by ownership, firm location and the international environment are the reasons for localization.

2.2.3. Theories of Firms’ Internationalization

Theories of Firm Internationalization are the third major set of theories. They focus on the process of internationalization. One model of Internationalization is the Uppsala Model; it was developed by some Blomstermo and Sharma (2003). It shows penetration of foreign markets by firms is done in a gradual way. In the model the firms starts by using the traditional export methods to countries closer geographically or culturally. They gradually develop “complex ways to operate, at firm level, at destination country level, and towards geographical and cultural more distant countries” (Crina, 2010).

Innovation-related internationalization taxonomies is more concerned with how firms progress in the process of internationalization and suggests that it is done in sequence of stages with periods of stagnation, influenced by the degree of involvement in the global economy (Crina, 2010). And “Over these static periods, firms accumulate the needed resources to reply to the challenges launched by the international environment and to pass to the next level” (Morgan and Katsikeas, 1997).

Lastly, there is the Concept of degree of internationalization which Gillies(2008) divided into three dimension namely the intensity, extensity and geographical concentration dimension. “The DOI of a firm has three attributes: performance (what goes on overseas) structural (what resources are overseas), and attitudinal (what is top management's international orientation)” (Gillies2008). It shows that the degree and therefore extent of internationalization cannot be measured using a single value but one need to consider the various attribute and dimensions of internationalization.

2.2.4. Theories of Competitive advantage

For Wang (2014), “competitive advantage is obtained when an organization develops or acquires a set of attributes (or executes actions) that allow it to outperform its competitors”. There are many ways in which companies can achieve competitive advantage. One is by using the Generic model by Potter. He emphasizes competitiveness at the level of a firm in terms of competitive strategies such as low cost and/or product differentiation (Gupta, 2009). Wang (2014) draws attention to other theories of competitive advantage. He points to the fact that the resource-based view of the firm (RBV) focuses on the firm’s internal environment as a driver for competitive advantage and emphasizes the resources that firms have developed to compete in the environment.

The knowledge based view says that knowledge has special characteristics that makes it the most important and valuable resource. According to Hamel and Prahalad (1994) “the knowledge, know-how, intellectual assets and competencies are the main drivers of superior performance in the information age”. However, the Capability based view sees this differently. Grant (1991) argues that while resources are the source of capabilities, the sources of competitive advantage are those capabilities.

According to Dyer and Singh (1998), the relational view of strategy suggests that inter-firm linkages may be a source of relational rents and competitive advantage. For them, relational rent is a “supernormal profit jointly generated in an exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners” (Dyer and Singh, 1998).

2.3. Internationalization in the Service Industry

Rubalcaba and Bryson (2001) in their study found that “the total volume of global trade in services (commercial services) has recently been estimated by Karsenty (2000) using the four WTO modes of international trade”. The conventional modes 1 and 2 have been rising to about US\$ 2.2 trillion equivalent to 7 - 8% of world GDP. These figures make up 16% of total goods and service trade, or an increase of 6 points since 1985.

Trade in services has been the fastest growing component of international trade since the early 90s. A growth of 32% in 2007 was recorded for financial services trade making it the fastest growing part of the services sector (WTO, 2009). The service trade has had a growth of 9% in 2010 and this increase is also the source of the increase in trade noticed in the financial services (WTO, 2011).

Advanced business services have played an active role in the internationalization process and services play an important role in the internationalization of goods trade. And Rubalcaba and Bryson (2001) also say that the leading sectors in the internationalization of services are the financial, transport and communication industries. They also found that the rate of internationalization of the service industries is affected by their service features, required mobility, and the cost of establishing a reputation, the introduction of technology, the market structure and regulations. The projection is that the further liberalization of service markets will improve the level of service internationalization and, as a result, increase the advantages of service trade.

2.4. Empirical Studies and Research Gaps

Cafferata (2009) did a research about the competitive advantage and Internationalization of Italian Small and Medium-Sized Manufacturing Firms. He used cost leadership and differentiation as the strategies for internationalization. He identified investment in the production function and the marketing activities as respectively the first and second most important sources of competitive advantage.

The procurement function was as important as marketing.

Pereira, Fernandes, and Diz (2009) studied Internationalization as a Competitiveness Factor. He used Portuguese Ceramic Firms for the study. They used the resource based theory variables of internationalization to do the research. They found that internationalization as a competitive advantage in the industry was dependent on marketing, efficiency of the organizational structure, management skills, and the large and diverse supply of products. For the household and ornamental ceramics, the

important variables were the marketing, supply of wide variety of products, organizational learning and experience, social and environmental concerning and relations with customers. Organizational learning and experience, the broad diverse supplies were the main factors of internationalization that gave a competitive advantage to the domestic and ornamental ceramics.

Ahokangas, Juho, Haapanen (2010) study about temporary competitive advantage and internationalization was based on the resource-based view. The paper suggests that the development of temporary competitive advantages utilized in the internationalization of high-technology firms are the result of increasing market dynamism and continued resource evolution. Liang, Lu, & Wang (2012) in their article about the Outward internationalization of private enterprises in China say that their analysis of 553 Chinese private enterprises show that a resource endowment advantages vis-à-vis foreign-invested enterprises, organizing capability advantages vis-à-vis state-owned enterprises, and organizing capability disadvantages vis-à-vis foreign-invested enterprises are the reason why Chinese private firms are likely to venture abroad.

There are gaps that can be identified in the studies that were made. Some of the above studies like the ones done by Cafferata (2009), Pereira, Fernandes, and Diz (2009), Liang, Lu, & Wang (2012) have been done respectively specific locations like Italy, Portugal and China. The same result might not be obtained if the same researches are done in Kenya as the information does not include all countries. The studies have been done in separate industries, Ahokangas, Juho, Haapanen (2010) has been done in High-technology firms while Cafferata (2009) studied Small and Medium-Sized

Manufacturing Firms. They are also geared towards the manufacturing industry and not services. These differences bring a nuance in the result obtained while doing a research. The researches have been done some years back, the latest here is the one done by Liang, Lu, & Wang in 2012. The economic environment is dynamic and the result obtained 3 years ago might not be the same now. There is also the fact that there are many competitive advantage theory and each research chose different theories. This does not give a holistic view of the competitive advantages that internationalization provides. The current research focuses on Kenyan commercial banks, shows recent results and includes all the strategies of gaining competitive not just a part of it.

2.5. Summary

Four types of theories constitute the theoretical foundation on which the study will be based. There are: the theories of international trade which discuss of the impact of free trade on a country's economic growth, the theories of direct investment that explain how countries choose a location based, the theories of firm's internationalization which focuses on the process of internationalization and the theories of competitive advantage cites the different strategies that can be used to achieve the advantage.

As banks are part of the service industry, it is important to notice that internationalization in the service industry has been the component of international trade that has grown the fastest and especially financial services trade have grown by 32% in 2007 (WTO, 2009). Research has been done before on the internationalization of service industry and on the relation between internationalization and competitive advantage.

However, there is a gap as the researches have either been done in other countries (Cafferata2009), in the manufacturing industry or a long time ago as the latest research was done in 2012, more than 5 years ago (Liang, X., Lu, X., & Wang, L.2012) or the research was based on the relationship view and on another service, (Ahokangas,Juho, Haapanen 2010). The hereby research is focusing on Kenyan commercial banks, has recent results and includes a wide range of competitive strategies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

It is important to choose the right research methodology to do a certain study or the results might not reflect what was desired or the results might be biased. This chapter talks about the research methodology appropriate for this study and why it is. It also talks about how the data will be collected and analyzed.

3.2. Research Design

The study used a cross sectional descriptive research design as it is be the most appropriate one for this particular study. According to Grimes and Schulz (2002) cross sectional studies/prevalence studies which are a type of descriptive studies ascertain exposure and outcome at the same time. To gather information about what people believe in, their perception, their personal views Cross-sectional surveys are preferred (Creswell, 2008).

“Descriptive research is restricted to factual registration; there is no quest for an explanation why reality is showing itself this way. It is objective or neutral. It is making inventories” (Lans and Voordt, 2002). This is why it is perfect for the research which is seeking to know the extent of internationalization of banks and how this affects their competitive advantage.

3.3. Population of the Study

All items in any field of inquiry constitute a ‘Universe’ or ‘Population (Kothari, 2004). Polit and Hungler (1999) refer to the population as an “aggregate or totality of all the objects, subjects or members that conform to a set of specifications”.

The item considered here is a single Kenyan commercial bank. The population therefore is the sum total of Kenyan Commercial banks of Kenya. According to the CBK report 2012 Kenya has 44 licensed commercial banks.

3.4. Sample Size

For Webster (2016) “a sample is a finite part of a statistical population whose properties are studied to gain information about the whole”. When a sample is dealing with people, it is as “a set of respondents (people) selected from a larger population for the purpose of a survey” (MugoFridah W., 2002).

The research uses a purposive sampling method also called judgmental sampling. The target is the indigenous commercial banks that have internationalized their operations. The study excludes commercial banks that do not have at least one branch outside Kenya. For this purpose 9 banks will be selected.

3.5. Data Collection

Data collection was done using primary and secondary data. Kothari (2004) defines primary data as those which are recollected or newly collected, and secondary data as the ones that have been collected by another person and which have passed through a statistical process.

This decision was made because some information is already available while others were collected from respondents. And the data collection tool is a questionnaire guide that helped in answering needed information and collecting qualitative and quantitative data. It was administered to 1 relevant officer per bank.

3.6. Data Analysis

Kothari (2004) says that “the term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data-groups”. Descriptive statistics was be used to analyze the data. Rankings and Likert scale data were crucial in the analysis.

The analysis was done using necessary software like excel and manual calculations and involved drawing tables, charts and pies. There is also the use of text to describe and clarify the findings. Analysis will also include making conclusion, comparing and citing the necessary information collected in the survey.

3.7. Summary

This research is using a cross sectional descriptive research design because the study will be using data collected at the same time. The population is the sum total of the 44 registered commercial banks in Kenya. Since we are interested by the banks that have at least one branch outside Kenya, the sampling was purposive. It included the indigenous Kenyan commercial Banks that have internationalized their operations.

Data collection was done using primary collected using a questionnaire and secondary data from studies previously done. One person was interview per banks. Tables, pies and charts, texts and software like excel were used as crucial analytical tools in this study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1. Introduction

This chapter contains descriptions, discussions, analysis and conclusions made out of the data collected to answer the research question. It has tables and graphics which aid in understanding and summarizing the data.

Out of the 9 banks desired, information was received from 5 banks while at the time of the research the numbers of banks that have internationalized their operations were 7. The respondent included 3 branch managers, 1 human resource manager and 1 operations officer. The chapters give general information. It tackles the extent of internationalization of the banks and the impact of internationalization on their competitive advantage.

4.2. General information

The study has been conducted using 5 banks out the 9 banks targeted. One respondent was supposed to answer from each bank, we therefore have 5 respondents. One bank did not allow information to be given, one is on receivership and one has merged with another international bank. So 55.55% of targeted banks were used in the study, we also have 55.5% of the respondents required.

Out of the respondents 60 % were branch managers, 20% were managers of other departments while 20% worked in operations department as officers, 60% of the respondents had completed their degree while 40% had completed their masters. They therefore had the capacity and knowledge to answer the questions that had been given to them.

4.3. Extent of internationalization of the banks

This question was asked to determine the level of involvement of the banks outside Kenya. All of the banks studied have internationalized their operations in at least 2 countries outside Kenya. KCB seems to head the list by operating in 5 host countries followed by equity and I&M bank which are in 4 countries besides Kenya. They also have benefited the most from the internationalization in terms of the percentage of profit. I&M come first with 15-19% of its profit coming from outside operations followed Equity and KCB with 10-14%.

NIC Bank has internationalized their operation in 3 countries outside Kenya while the Cooperative bank of Kenya has internationalized its operation in 2 countries. The Cooperative bank have gained less than 5% of their profit from outside subsidiaries, while NIC financial statements as at 30th June 2015 showed a profit received from Uganda of Kshs. 2,315,000 and a profit received from Tanzania of Kshs. 38,445,000. This represents approximately 2% of their total profit which amounts to Kshs. 2,240,978,000. This means that less than 5% of NIC's profit is from their foreign operations.

The total foreign assets of most banks are over Kshs.20, 000,001. This means that they have made considerable investments in other countries. Compared to the foreign assets they have, Kshs.20, 000,001 seems to be a gross understatement which reflects the major involvement of Kenyan banks outside Kenya. According to Ben Gasore (2014) in December 2014 equity Rwanda assets were at Rwf90.7 billion, US\$ 133.25 million which is approximately Kshs.13.5 Billion as per current rates in December 2014. KCB which is Kenya's biggest bank in Uganda has an asset base of Kshs300 billion (\$122 million). The NIC bank of Uganda called NC Bank recorded in 2014 a

total asset of Kshs.156.8billion.The least recorded foreign asset is of the Cooperative Bank who in 2012 had total assets of US\$ 15Millions which is approximately according to current exchange rates Kshs.1.5 Billion.

When it comes to the number of branches KCB and Equity have the most with over 10 branches outside Kenya. NIC has 7 branches while I&M has 5 branches. The Cooperative Bank of Kenya comes last with 4 branches.

Table 4.1. The Extent of internationalization of the 5 Kenyan banks

Banks	Countries of operation	Total foreign assets	oversee Branches	Profit from foreign operations
Equity	5	Over 20,000,001	over10	10-14%
Cooperative Bank	2	Over 20,000,001	4	Under 5%
NIC	3	Over 20,000,001	7	Under 5%
KCB	6	Over 20,000,001	over 10	10-14%
I&M	5	Over 20,000,001	5	15-19%

Source: Survey data, 2015

The Foreign assets will not be considered since it gave us the same results for all the banks. According to the information collected above the Banks would be ranked as follows:

- 1st. KCB with 6 countries , over 10 foreign branches and 10%-15% foreign profit
- 2nd. Equity with 5 countries, over 10 foreign branches and 10-15% foreign profit
- 3rd. I&M with 5countries, 5 foreign branches and 15-19% foreign profit
- 4th. NIC with 3 countries, 7 foreign branches and under 5% foreign profit
- 5th. Cooperative with 2 countries, 4 branches and under 5% foreign profit

Table 4.2. Ranking of Banks according the extent of the internationalization of operations.

Banks	Countries of operation	oversee Branches	Profit from foreign operation	Rankof countries	Rankof branches	Rankof Profit	Mean of the ranks	Final rank using the mean
Equity	5	10	14%	2.5	1.5	2.5	2.166667	2
Cooperative	2	4	5%	5	5	4.5	4.833333	5
NIC	3	7	5%	4	3	4.5	3.833333	4
KCB	6	10	14%	1	1.5	2.5	1.666667	1
I&M	5	5	19%	2.5	4	1	2.5	3

Source: Survey data, 2015

4.4. Competitive strategies' effectiveness in gaining Competitive advantage through Internationalization.

The study used the Porter's Competitive strategies, the Resource Based View and the Relationship View Strategies as the main competitive strategies used by companies to gain competitive advantage. They were chosen due to the importance given to them by Hui-Ling Wang (2014) in his book Theories for competitive advantage.

The impact of internationalization on these strategies determines the level of competitive advantage gained by the company. Since each and every sub-strategy of the different strategies increase competitive advantage and internationalization impacts those strategies, the sub-strategies have been regarded in this context as the potential advantages of the internationalization of the banks. Therefore the more a strategy's component is gained or brought by internationalization, the more the organization gains competitive advantage.

If we use the Likert scale ranking to analyze the data we will have rate [1-2] as Very important advantages [3-4] important advantages, [5-6] average importance, [7-8] least important and [9-10] not important. Using that scale to analyze the data we found that 65% of the total advantages were ranked as Very important, 14% were Important advantages, 9% were of Average Importance, 10.25% were Least Important, and 1.75% are Not Important at all.

Table 4.3. The Likert scale distribution of data collected.

Likert Scale	Equity	KCB	Cooperative	NIC	I&M
Not important	0	0	4	0	0
Least important	0	0	4	2	5
Average Importance	0	0	3	2	5
Important	0	0	5	3	7
Very important	26	26	10	19	13

Source: Survey Data, 2015

Internationalization brings more competitive advantage through differentiation; 52% of the advantages of internationalization were rated Very important. The seconds in position were the Resource based view and the Relationship based strategies which had each 45% of their internationalization advantages rated as Very important, and the last one was the cost leadership strategy which had 36% of its sub-strategies as Very important advantages. Only the Cost Leadership strategy had also 6% its component rated as least important advantages brought by internationalization while other strategies had none (0%). The internationalization of operations of banks in Kenya has therefore improved their competitive advantage through mainly differentiation. Cost Leadership as a strategy turns out to be the strategy was impacted less by internationalization. And the rank of the strategies remain the same if we summarize further the data into a 3 Likert scale data with Important, Average and Not important as the rates. Differentiation has 98%, RBS has 87%, RVS has 85% and Cost Leadership 68% of advantages rated Important (table 4.6).

4.5. Competitive strategies and Internationalization

Cost leadership helps companies gain advantage over competitors by reducing operations costs. Cost leadership advantages used in the study are Efficient scale, standardization, design for low production cost, control of overhead and R&D, avoidance of marginal customers. The question for this part of the study was to know whether internationalization helped them achieve these advantages.

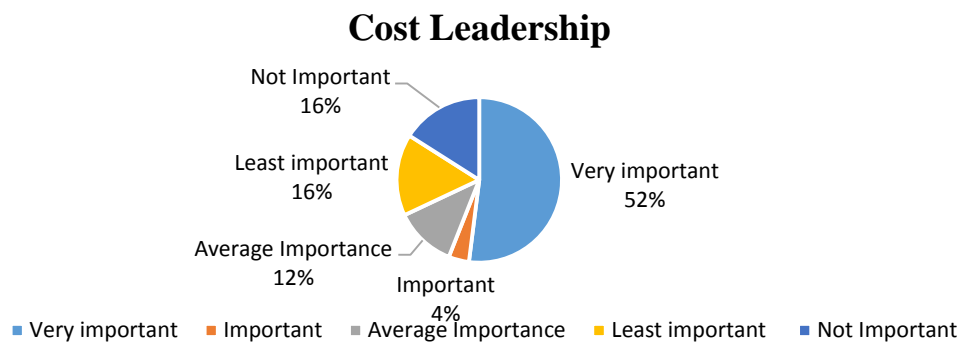


Fig 4.1. Percentage of the Likert scale ranking for the Cost Leadership Strategy.

Source: Survey Data, 2015

According to the data collected Cost leadership compared to other strategies brought less significant advantages of internationalization to the banking industry. Only 52% of the strategies were rated Very important advantages which is less than other strategies. Although internationalization impacts positively the banks competitive advantage through cost leadership, it is not the main strategy boosted by internationalization. In fact it has 16% of advantages ranked as Not Important while others have no strategies that they have not benefited from. Standardization was the advantage the most gained through internationalization.

Differentiation on the other hand seeks uniqueness in the industry. The differentiation advantages used in this study are the increase in or betterment of quality, innovation, design, credibility, brand name, reputation, environmental posture, customer service and integrated service. The study wanted to establish whether internationalization has helped in gaining the advantages of differentiation.

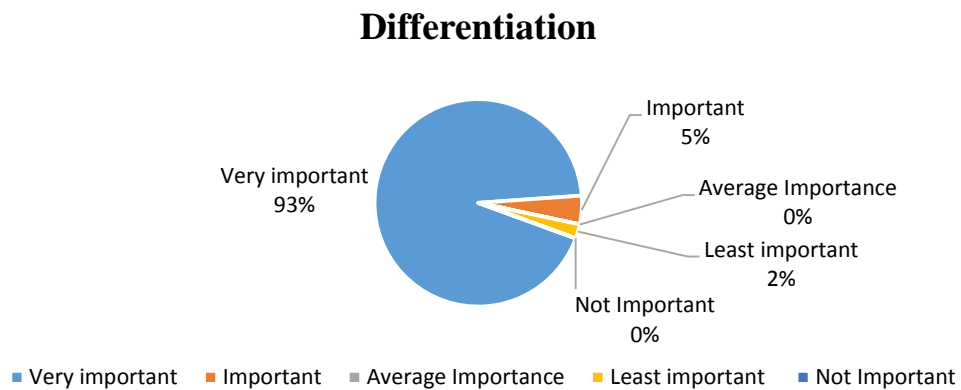


Fig 4.2. Percentage of the Likert scale ranking for the Differentiation Strategy.

Source: Survey Data, 2015

The internationalization of operations of banks has helped in developing greater differentiation. In the study the differentiation strategy has more advantages birthed by internationalization, it rated 93% of the sub-strategies as Very important advantages gained through internationalization. This means that most of the competitive advantages gained by Kenyan banks by internationalization are through differentiation. Brand name, reputation and credibility were the most important advantages in this strategy.

The resource based view on the other side looks at the resources built internally by the company in order to compete with others firms. The advantages of internationalization through RVB are flexibility, new products, supply of services, organizational learning and experience, Supply of Services (large and diverse), Strategic planning, incentive and support, mergers and acquisition (intra-industry).

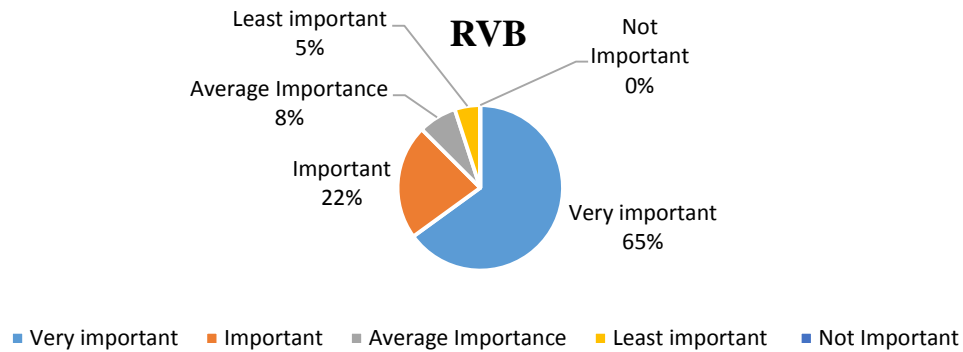


Fig 4.3. Percentage of the Likert scale ranking for the Resource Base View Strategy.

Source: Survey Data, 2015

The resource based view comes in as second in terms of having 65% of the advantages ranked Very important in the study. This indicates that the resource based view strategies have been impacted positively by the internationalization of operations of banks. Although internationalization has not brought advantages as it did through the differentiation strategy it brought significant impact. Internationalization therefore helps to build the internal capacity of the organization and increase their competitive advantage with strategic planning of the firm the most important advantage.

The relationship view strategy helps in gaining competitive advantage through inter-firm linkages and through relational rent. The sub-strategies here are: investment in relation-specific assets, substantial knowledge exchange, combining of

complementary but scares resource or capabilities which result in the joint creation of unique products/services/ technologies, and lower transaction cost than competitive alliances, owing to more effective governance.

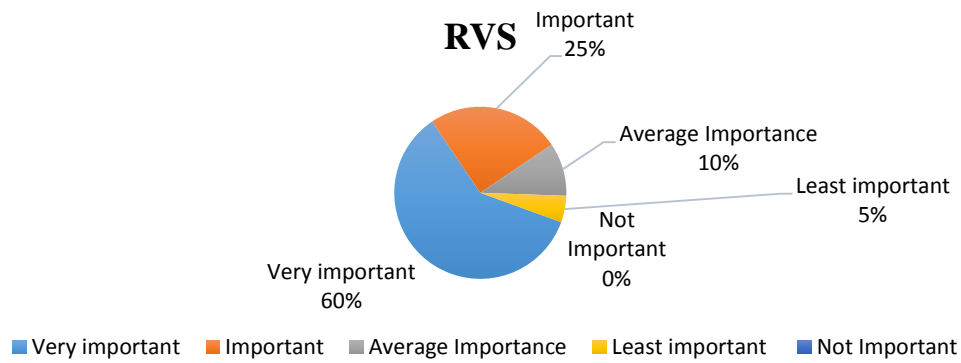


Fig 4.4. Percentage of the Likert scale ranking for the Relationship View Strategy.

Source: Survey Data, 2015

The Relationship view Strategy has 60% of the advantages ranked Very important. Internationalization therefore helps the bank to gain substantial competitive advantage through the Relationship view. It means that the linkage with other firms allowed the banks to gather tangible or intangible resources and benefits. The most important advantage was the combining of complementary, but scares, resource or capabilities which result in the joint creation of unique products, services or technologies

4.6. Banks and competitive advantage

According to the data collected, the competitive advantages varies with the banks and to be able to give more understanding we have two tables, **Table 4.4** which summarizes the data and **Table 4.5** is the analysis. **Table 4.5** groups the data differently, the ones previously ranked Very important and important, will be grouped as important, average remains the same and the least important and not important will be grouped as Not important.

The data shows that Equity and KCB had all their competitive advantages rated as Important according to Table 4.5. With 84 % of total data rated Important, they each got 20% of their advantages rated as Important, with a rank of 1.5 each. We can even notice that in Table 4.4, all the advantages they gained were rated Very important. They benefited the most from their internationalization.

Table 4.4 Summary of data collected using the Likert Scale

Banks	Very important	Important	Average Importance	Least important	Not Important
Equity	26	0	0	0	0
KCB	26	0	0	0	0
Cooperative	10	5	3	4	4
NIC	19	3	2	2	0
I&M	13	7	5	1	0

Source: Survey data, 2015

NIC Bank is the 3rd Bank by having 17% of the 84% percent of the data rated Important. Then we have I&M with 15% of the 84% and a rank of 4 and lastly there is Cooperative Bank with 12% of the 84% percent of the data rated important and a rank of 5.

Table 4.5 Analysis of the Likert scale data

-	Data in numbers			Data in percentage			Rank of important advantages
	Important	Average	Not important	Important	Average	Not important	
Banks							
Equity	26	0	0	20%	0.00%	0.00%	1.5
KCB	26	0	0	20%	0.00%	0.00%	1.5
Cooperative	15	3	8	12%	2.31%	6.15%	5
NIC	22	2	2	17%	1.54%	1.54%	3
I&M	20	5	1	15%	3.85%	0.77%	4
Total of the columns	109	10	11	84%	7.69%	8.46%	-
Total of the data	130			100%			-

Source: Survey data, 2015

4.7. The Relation Between the extent of Internationalization of Operations of the Banks and their Competitive Advantage

The analysis previously done in the study clearly shows that in most cases, internationalization helped banks acquire greater competitive advantage as 84 % of the total advantages were rated as Important in the 3 Likert scale (table 4.5). The analysis of the strategies demonstrates that the differentiation strategy is the one impacted the most by the internationalization and consequently the one who brings more advantages to the Banks. It has 98% of the advantages rated as Important in the 3Likert scale (table 4.6).

Despite the fact that Cost leadership was less impacted by internationalization, KCB and Equity respectively 1st and 2nd in the extent of internationalization analysis have gained all the competitive advantages of internationalization related to the Cost Leadership strategy. It means that better cost management, cost reduction, efficient scale were achieved through the internationalization of their operations. But the

Cooperative bank of Kenya, who had presence in just 2 host countries, had less Cost Leadership advantages. NIC which comes in the third place in the extent has also gained more advantages than I&M. This indicates that the more a bank internationalizes, the more cost leadership advantages it gets.

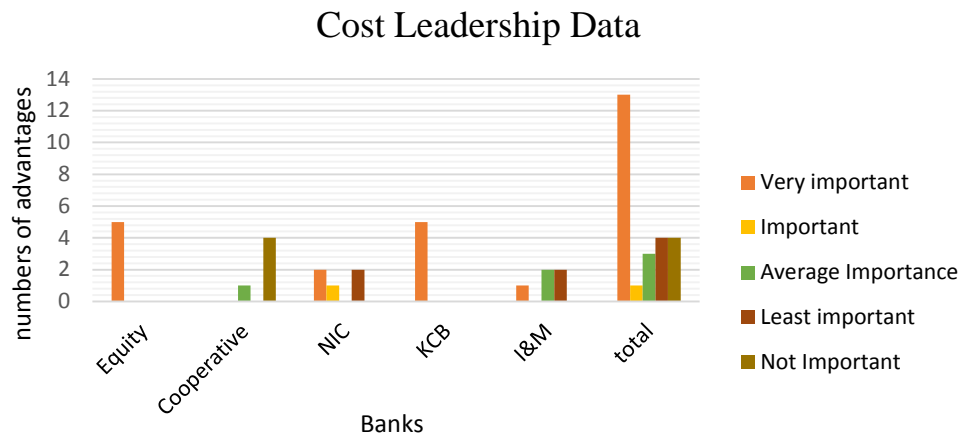


Fig. 4.5. Graphical representation of Cost Leadership advantages

Source: survey data, 2015

This pattern can also be observed in the differentiation strategy. The more the extent of internationalization of a bank is the more the differentiation of the firm. Internationalization impacted the differentiation strategy the most as 93% of differentiation advantages were rated Very important and 98% rated Important in the 3Likert scale data.

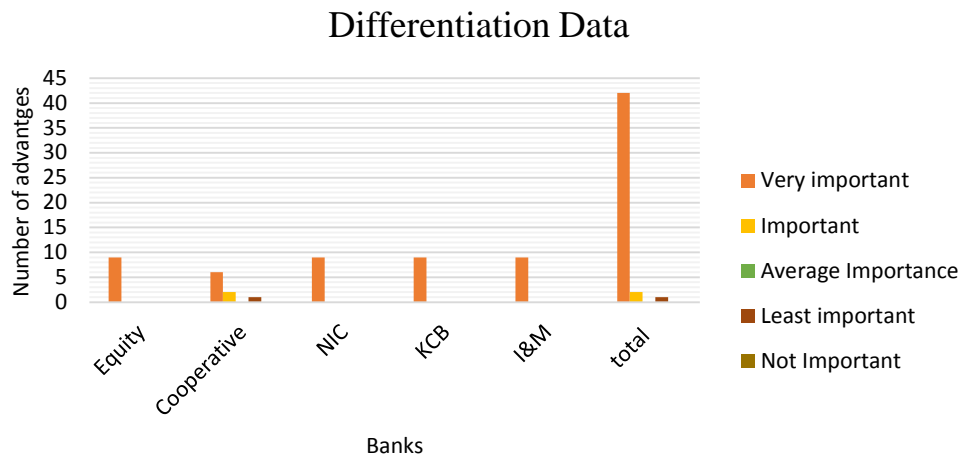


Fig. 4.6. Graphical representation of Differentiation advantages

Source: survey data, 2015

We notice from the RBV data, that Equity and KCB like in the other strategies gained more advantages than other banks. However, the Cooperative Bank which extent of internationalization is less than I&M, has more advantages rated Very important than I&M does, and the later has more advantage rated important than the Cooperative bank does. But if we summarize the data further in three categories important, average, and not important as in table 4.5, I&M still maintain its 4th place both in internationalization and competitive advantage.

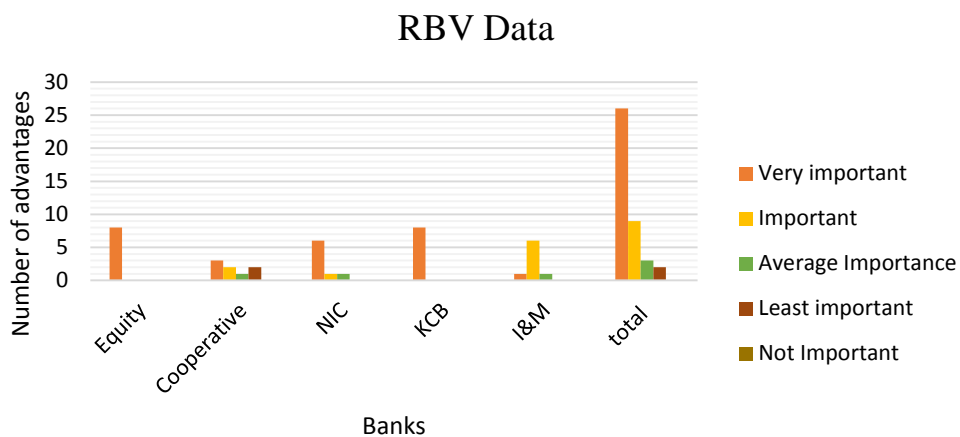


Fig. 4.7. Graphical representation of RBV advantages

Source: survey data, 2015

The relation view strategy globally has the same pattern as the other strategies, the more there is internationalization the more the competitive advantage. We can notice a different pattern as NIC has advantages rated Very important more than I&M which internationalization is more extended. But, the addition of the Very important and important in the 3 Likert scale data gives NIC the 3rd place both in internationalization and competitive advantage.

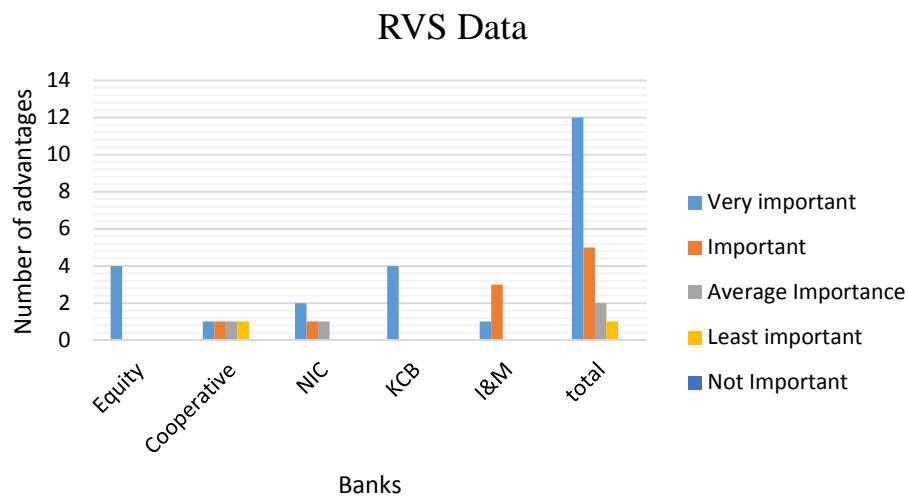


Fig. 4.8. Graphical representation of RVS advantages

Source: survey data, 2015

Table 4.6. Percentage of the advantages with 3 point Likert scale

Strategies	Important	Average Importance	Not Important
Differentiation advantage	98%	0%	2%
cost leadership	68%	12%	20%
RBV	87%	8%	5%
RBS	85%	10%	5%

Source: Survey Data, 2015

The mean rank from table 4.2 represents the ranking of banks using the extent of their internationalization while the rank of Banks from table 4.4 represents the ranking of the banks according to the number of important advantages they got. The first rank here is in representation of the extent of internationalization while the second represents the competitive advantages.

Table 4.7. Ranking of the Banks and correlation analysis

Banks	Mean Rank for extent of internationalization	Rank of banks (important advantages)	correlation
Equity	2.166667	1.5	0.799657
Cooperative	4.833333	5	
NIC	3.833333	3	
KCB	1.666667	1.5	
I&M	2.5	4	

Source: Survey data, 2015

The correlation of this two data gave 0.799657. It shows that the data are strongly correlated, there might not be a perfect relation but it is enough to say that there is a strong relation between the two data. This means that the extent of internationalization has a great impact on the competitive advantage gained by Commercial Banks in Kenya.

4.8. Discussion of the findings

The first answer gotten is that the banks which have a larger extent of internationalization tend to gain more competitive advantages. Buch, C., Koch, C., & Koetter, M. (2012) found that “banks with higher shares of foreign assets, in particular those held through foreign branches, have higher market power at home”. Meaning that the higher a bank invests outside the home country the better it gains market power which is a significant competitive advantage. KCB and Equity are more

likely to gain market power than other Banks since they have invested in more countries. However in another result they found is that foreign presence in a large number of foreign countries is more likely to reveal above-average probabilities of distress. They found that commercial and savings banks are more likely to improve their risk-return trade-off than cooperative banks which tend to worsen their risk-return trade-off. This might be one of the reasons why the Cooperative bank might be having fewer advantages.

The study also reveals that the banks gain more advantages from differentiation and less from cost leadership when they internationalize their operations. Despite the fact that cost leadership is the strategy less impacted by the internationalization of banks, the banks with a larger extent of internationalization have gained all the advantages from that strategy. We might deduce that the more bank invest outside the home country the better their cost management. But a study by Galema R., Koetter M., Liesegang C. (2013) finds that “banks are more likely to operate affiliates in foreign markets if parents have low marginal cost relative to domestic peers and if they are cost leaders in terms of their marginal cost relative to destination market incumbents. Less profitable, more risky, and larger banks are more likely to operate affiliates abroad”. This implies that instead of cost leadership being impacted by internationalization, the extent of internationalization rather depends on the cost leadership of the banks.

We have also found that the more a bank internationalizes the more it gains competitive advantages. But internationalization affects some strategies more than others with differentiation strategy being first followed by RBV, RBS and lastly Cost Leadership. So a bank gain more from differentiation, then from its internal resources,

from relations and lastly from cost leadership. However Cafferata (2009) is more specific, he talks in terms of success factors. He says that in the international market product features such as high technical standards, product innovation and organizational efficiency together with strong ties with important customers are more relevant success factors than relations with commercial intermediaries, customer service and the use of advanced equipment.

The study found that the extent of internationalization is closely related to the competitive advantage gained by the banks in Kenya. A correlation with the rank of the banks according the extent of internationalization and the ranks done according to the percentage of advantages rated as important gave a correlation of 0.799657 which means that there is a strong positive correlation. But it does not take into consideration the other variables that might impact the competitive advantage of banks that have internationalized their operations.

4.9. Summary

The data was summarized into a five scale Likert data to get more information about the importance of the advantages and into a 3 Likert scale data for further analysis. Using the 3 Likert scale, it was found that 84% percent of the advantages of internationalization were ranked as important. Therefore internationalization has a major impact on the competitive advantage gained by commercial banks in Kenya.

The advantages of internationalization are greater when the extent of internationalization is greater. This pattern was observed with all the strategies and with all the banks. Differentiation seems to be the strategy that is impacted more by the internationalization since 93% of its advantages were rated as Very important in the 5 Likert scale data and 98% as Important in the 3 Likert scale data.

Cost Leadership is the last strategy impacted by internationalization. According to Buch, C., Koch, C., & Koetter, M. (2012) this might not be due to the extent of internationalization. Cost leadership may rather be the one affecting the extent of internationalization.

The correlation of the ranks of banks according to the extent of internationalization and their ranks according to the percentages of advantages rated as important gave a positive correlation of 0.799657. There is then a strong correlation between the extent of internationalization and competitive advantage. This does not consider other factors impacting the competitive advantages of banks when they internationalized their operations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

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

5.2. Summary

The study determined the extent of internationalization of operations of the banks. It also ranked them according to who internationalized the most. KCB was with 6 countries, over 10 foreign branches and 10%-15% foreign profit. It was followed by Equity with 5 countries, over 10 foreign branches and 10-15% foreign profit. I&M was third with 5 countries, 5 foreign branches and 15-19% foreign profit and followed NIC with 3 countries, 7 foreign branches and under 5% foreign profit . The last was Cooperative Bank of Kenya with 2 countries, 4 branches and under 5% foreign profits.

Using the 5 Likert scale to analyze the data from the different competitive strategies, Cost leadership compared to other strategies brought less significant advantages of internationalization to the banking industry. As much as 52% of the cost leadership advantages were rated Very important advantages gained through internationalization, 16% were rated as Not important. The internationalization of operations of banks has helped in developing greater differentiation. In the study the differentiation strategy has more advantages birthed by internationalization as 93% of the strategies were

rated as Very important advantages. The resource based view come in as second by having 65% of the advantages ranked Very important meaning that internationalization helps build the internal capacity or internal resource of the organization. Also part of competitive advantage of Kenyan banks has been gained through linkage with other firms that allowed them to gather tangible or intangible resources and benefits as the relationship view has 60% of the advantages ranked as Very important.

Equity and KCB have gained all of the advantages gained through internationalization rated as Very important. They have gained all the advantages from cost leadership, differentiation, from Relationship with other firms and the building of internal firms' resources. All the other banks did not gain as much advantage. Cooperative which was the last bank in the internationalization gained fewer advantages. It seems like the more the banks have internationalized their operations the more they gained advantage from them.

Using the 3 Likert scale (Important, Average, Not important) we find that 84% of the total advantages were rated as Important. Meaning that internationalization in a greater extent positively impacts competitive advantage. After ranking the banks according to their extent of their internationalization and also according to the number of the advantages rated as Important in the 3 Likert scale data (Table 4.6), a 0.799657 correlation of these two data was found. This means that the data are strongly correlated. It was concluded that the extent of internationalization may not perfectly impacts competitive advantages of banks, but there is strong relationship that is worth considering when Banks decide to internationalize their operations.

5.3. Conclusion

Despite the fact that not all the advantages of internationalization were beneficial to the banks, internationalization has had a significant impact on their competitive advantage. The more the internationalization takes place the more banks seem to have gained competitive advantage even though it is not a perfect relationship.

Internationalization increases differentiation and increases cost. This leads to less competitive advantage being gained through cost leadership and more through differentiation. However cost seems not to be a problem for the banks that have internationalized more. But this might be closely related to the fact that the parent company have low marginal cost in comparison to domestic peers and are cost leaders in terms of their marginal cost relative to destination market incumbents if we use the analysis of Buch, C., Koch, C., & Koetter, M. (2012). Internationalization also increases tangible or intangible resources while it helps in building favorable and beneficial relationship with others firms. Although they do not bring as much benefit as differentiation does.

5.4. Limitations of the Study

The limitation of the study came from the fact that during the period of the study some of the banks had some difficulties and were no longer fit to be included in the study. Some of the banks that had internationalized their operations have now been acquired by foreign banks, and others have merged or had joint ventures with foreign banks. This narrowed down the population of the study.

It was also hard as the banks were not willing to give the information required at first. The information collected were not too sensitive, however some banks did not give very honest answers because other banks were involved.

5.5. Suggestion for Further Research

This study involved many banks and therefore did not allow the researcher to go into greater details of the extent of internationalization of the banks. I propose that further research be done on the extent of internationalization of banks in Kenya. I also propose that the research be done as a case study to understand how internationalization has impacted the competitive advantage of each of the banks. The study can also be done using each of the competitive strategies to understand the impact of internationalization on each of them.

5.6. Recommendations policy formulation and practice

The Kenyan banks have been gaining a lot by internationalizing their operations to other countries. I propose that the government advocates more for free trade among the East African countries so that it may be easier to enter foreign markets. They may also consider a closer relationship with other trade blocks like COMESA to ease the internationalization of operations of banks beyond the borders of the East African community. Since there is an issue with cost while internationalizing operations the government should consider easing tax payments or ease on some restrictions on the banks that desire to start operating abroad. This will help banks that do not have enough resources to venture outside Kenya and remain competitive in the market.

The Bank Managers should do a thorough cost-benefit analysis before entering a market. Internationalization might not guarantee an increase in profits or in competitive advantage. They may review their policies and build relationship with other foreign companies for exchange of knowledge and information.

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APPENDICES

APPENDIX I

Questionnaire

The study hereby undertaken is for the purpose of answering two major questions: what is the extent of internationalization of commercial banks in Kenya? What is the relation between the internationalization of operations and the competitive advantage of Kenyan Commercial Banks?

Dear respondent,

I. Data sought from this questionnaire is purely for academic reasons and will be treated with absolute confidentiality.

II. Kindly respond to the following question as objectively as you can.

Please do not write your name anywhere on the questionnaire.

A. Bio Data (Tick the appropriate answers like this)

1. Age 20-24 25-34 35-44 45-54 55-64

Brack

et

2. Highes Certificate Diploma Bachelors Masters Phd

st Education Level

3. Gender: Male Female

4. Designation

B. Key Data Area

1. Data on Extent of Internationalization (circle the appropriate answers)

i. How many countries do your operations cover?(circle the appropriate number)

1 2 3 4 5 6 7 8 9 10 over 10

ii. What is the total amount of your foreign assets in Kenyan shillings?

- a. Under 5,000,000
- b. 5,000,001-6,000,000
- c. 6,000,001-8,000,000
- d. 8,000,001-10,000,000
- e. 10,000,001-15,000,000
- f. 15,000,001-20,000,000
- g. Over 20,000,001

iii. How many branches do you have outside Kenya?

1 2 3 4 5 6 7 8 9 10 over 10

iv. What proportion of your profit is attributable to your foreign operations?

- a. None
- b. Under 5%
- c. 5%-9%
- d. 10%-14%
- e. 15%-19%
- f. 20%-24%
- g. 25%-29%
- h. 30% and over

2. In order of importance (on a scale of 1 to 10 whereby 1 represents the greatest advantage and 10 is the least advantage) rate the different advantages of internationalization of your operations by ticking the appropriate box

i. Cost leadership as a Porter's Strategy

Advantages	1	2	3	4	5	6	7	8	9	10
Efficient scale										
Standardization										
Design for low production cost										
Control of overheads and R & D										
Avoidance of marginal customers										

ii. Differentiation as a Porter's Strategy

Advantages	1	2	3	4	5	6	7	8	9	10
Quality										
Innovation										
Design										
Credibility										
Brand Name										
Reputation										
Environmental Posture										
Customer Service										
Integrated Services										

iii. Resource Based view strategy

Advantages	1	2	3	4	5	6	7	8	9	10
Flexibility										
New Products										
Supply of service (Large and diverse)										
Strategic planning of the firm										
Organizational learning and experience										
Location										
Incentives and support (Public policy)										
Mergers and acquisitions (intra industry)										

iv. The Relational View Strategy

Advantages	1	2	3	4	5	6	7	8	9	10
Investment in relation-specific assets										
Substantial knowledge exchange										
Combining of complementary, but scarce, resource or capabilities which result in the joint creation of unique products, services or technologies										
Lower transaction cost than competitive alliances, owing to more effective governance										

Thank you for your cooperation. God bless you

APPENDIX II

LIST OF THE KENYAN INDIGENOUS BANKS

THAT HAVE INTERNATIONALIZED

1. Equity Bank
2. Kenya Commercial Bank Ltd
3. NIC Bank Ltd
4. Cooperative Bank Ltd.
5. Investment & Mortgage Bank Ltd.
6. African Banking Corporation Ltd.
7. Commercial Bank of Africa Ltd.

*Fina bank was acquired by GTB and Imperial Bank is on Receivership.

Source: Ngure (2012), Reuters (2013), Miriri & Drazen (2015) African Banking Corporation, Commercial Bank of Africa, Equity Bank, Imperial Bank, Investment & Mortgages Bank, Kenya Commercial Bank, Cooperative Bank of Kenya and NIC Websites.