INTERNATIONALIZATION OF BANKS: A CASE OF INDIGENOUS KENYAN BANKS

BY:

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D E C L A R A T I O N

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

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

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DEDICATION

The completion of this research project could not be achieved without the blessings of the Almighty God who gave me the strength to pursue this study and the courage to withstand its challenges.

I dedicate this work to my family. Dad - though not here physically, we are together in spirit. Mamma, Sal, Lo, B and Po, all of you inspired me towards success. I could not have done this without you.

ABSTRACT

The aim of this paper is to study internationalization of banks with emphasis on indigenous Kenyan banks. The paper seeks to determine the factors influencing internationalization of homegrown Kenyan banks and to establish the challenges facing these Kenyan financial institutions when they venture beyond national borders. This research design is based on a census survey of the Kenyan indigenous banks that have internationalized. The method of data collection is through self-administered semi structured questionnaires. Data is analysed using descriptive statistics to summarise the responses through graphical representation and distribution of scores.

The number of respondents for the study was five. These firms in the study have been in existence for over ten years, while most have been in international business for over two years. The findings indicate that increased brand identity, increased revenue, increased profit and long-term growth are major factors influencing internationalization. Further, the findings reveal that stability of currency and the nature of legal systems are major challenges that indigenous Kenyan banks faced when internationalizing. On the other hand, these findings indicate that timing of entry is not a major challenge faced during internationalization.

The study also indicates that certain factors are influencing indigenous Kenyan banks to go beyond borders and that these firms employ various means to overcome the challenges faced during internationalization. Therefore, the study reveals that the homegrown financial institutions that have gone beyond borders are influenced by a number of factors including the urge to increase their market share and profitability. On the other hand, in order to overcome the challenges facing internationalization of

indigenous Kenyan banks, these firms offer staff exchange programmes between the home company headquarters and the one that has internationalized among other measures.

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LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
COMESA	Common Market for Eastern and Southern Africa
EAC	East Africa Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
MNC	Multi National Company
PWC	Price Waterhouse Coopers
SADC	Southern African Development Community
SME	Small and Meduim Enterprise
SPSS	Statistical Package for the Social Sciences

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A growing number of companies from the emerging markets have been compelled to internationalize due to globalization. Globalization characterizes the integration of international markets for goods, services, technology, investment and labour (Paul, 2009). According to Daniels, Radebaugh and Sullivan (2011), globalization is the integration of world economies through reduction of barriers to movement of trade, capital, technology and people. Globalization has enhanced expansion of businesses beyond national borders, a process known as internationalization, which leads to increasing involvement in international business (Welch & Luostranien, 1988).

Any company aspiring industry leadership in the twenty-first century must not aim at domestic but global market leadership (Thompson, Strickland & Gamble, 2007). Ekai (2010) and Guracha (2008) justified that global competition for African businesses is not an option but an economic imperative. In order to remain relevant in the global market, Kenyan firms need to compete globally. Equally, in order to create a vibrant and globally competitive financial sector as outlined in the Vision 2030 for the financial services, the indigenous Kenyan banks need to internationalize. The Kenya government needs to not only aim at attracting foreign investors, but also promote internationalization of indigenous firms.

Firms operate in an environment, which consists of uncontrollable and controllable forces. The uncontrollable factors affecting the operating environment of international business according to Yabs (2006) are physical forces, economic forces, socio-cultural forces, financial forces, political forces, legal forces, labour forces and

ecological forces. The controllable forces as pointed out by Ball and McCulloch (1993) are the factors of production and the organizational activities. Management of organizations have some command over the controllable elements unlike the uncontrollable ones.

The international business environment is increasingly changing and becoming more challenging. Technological innovations, globalization and increased competition at both the national and international level have precipitated the changing business environment. Therefore, in international business, firms must deal with the domestic environment, foreign environment and international environment (Ball & McCulloch, 1993). Domestic environment is composed of the forces originating in the home country that are uncontrollable. The foreign environment is composed of uncontrollable forces originating outside the home country, surrounding and influencing the firm. The interactions between the domestic and foreign environment forces and between the foreign environmental forces of two countries when an affiliate in one country does business with customers in another consist of the international environment.

1.1.1 The Concept of Internationalization

Cavusgil, Knight and Riesenberger (2008) describe internationalization as the expansion of firms abroad, a process that is growing significantly. The outcome of continual learning and commitment to foreign markets equally describes internationalization. A firm can penetrate a particular foreign market via exporting, contractual agreements or direct investment (Buckley & Ghauri, 1999). The strategic drivers for internationalizing firms are markets, labour, natural resources, value chain control, financial incentive and technology (Rasiah, Gammeltoft & Jiang, 2010).

Homegrown firms internationalize to gain access to new customers, to enhance their competitiveness, to capitalize on core competencies and to spread their business risk. Firms must counter the challenges of internationalization in order to have sustainable businesses. Indeed, when crossing the border, specific advantages gained from emerging markets firms multinational companies (MNCs) can enable them exploit opportunities in other emerging markets, or create a framework aimed towards developing the resources to acquire and manage assets in other countries (Fornes & Butt-Philip, 2011). Contractor, Kundu and Hsu (2003) and Dunning (1993) hypothesised that internationalization is good for firms and leads to better performance.

Planning and decision making process of an internationalizing firm involves the financial and human resources available. Companies plan and decide the choice of market, the target customers, mode of entry and the timing of entry. This includes product positioning, the business model, the pricing, promotion and the distribution channel. It is imperative for organizations venturing across borders to properly plan and decide their markets and mode of entry to ensure competitiveness.

1 • 1.2 The Kenyan Banking Industry

Commercial banks in Kenya are licensed and regulated by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The CBK falls under the Ministry of

Finance docket. It is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. By August 2011, CBK had licensed 43 commercial banks and 1 mortgage finance company. Of these, 31 are locally owned and 13 foreign. (Central Bank of Kenya website, 5th August 2011).

The indigenous banks are home grown, or those banks that started operations in Kenya that are locally owned or have government participation. Thirty commercial banks and one-mortgage financial institution are indigenous (Central Bank of Kenya website, 28th September 2011). Of the locally owned banks, three have significant shareholding by the Government and State Corporations while 27 are private financial institutions (Central Bauik of Kenya website, 5th August 2011).

The Kenyan banking sector has seen developments in legal and regulatory framework through the operationalizing of the Proceeds of Crime and Anti-Money Laundering Act in 2009, issuance of guidelines in agency banking, and rolling out of the credit information sharing mechanism. The sector has continued to grow in assets, deposits, profitability and innovation of products and its offerings. The strategy of expanding the branch network, both within Kenya and in the greater East African region, automation of service needs and globalization challenges has enhanced the growth (Price Waterhouse Coopers, Banking in Kenya websites, 5th August 2011). The Kenyan banking sectors' continued expansion into the East African region will foster its growth momentum. Equally, the sector is expected to play a pivotal role in financing initiatives key to propel Kenya to a middle-income country as envisaged in the Vision 2030 (Bank Supervision Annual Report, 2010).

U2 **Research** Problem

Internationalization of firms is the ability companies have to increase their business dimension internationally in a systematic way (Cavusgil et al., 2008). Seth, Nolle and Mohanty (1998) justified that a multinational company (MNC) can internationalize to follow its clients and seek new market opportunities. In the service industries, client-following behaviour tends to have a greater incidence of occurrence (Qian & Delios, ?008). Information and client knowledge is the most important input of banking activities.

The innovation of financial products, regulatory reforms, information technology, and growth in international trade has propelled the evolution of banks within the international financial system (Hejazi & Santor, 2010). Hence, the banking ^••iivities, Kenyan financial institutions included, are increasingly becoming international. International practices and standards introduced through internationalization of financial systems can enable countries to build a quality, robust and efficient financial system (World Trade Organization-World Bank, 2000).

Research done on internationalization include Ersson and Tryggvason (2007) studying the internationalization of Nordic banks. They found that Nordic banks internationalized to follow customers and escape the saturated home market, that they **depend on** the firms' strategy for selection of entry strategy and that these banks used **local** management to reduce cultural impediments. Cuerzo-Cazurra, Maloney and **Manrakhan** (2007) studied the causes of the difficulties faced by firms in internationalization. They argued that the difficulties in internationalization of firms' is **based** on their loss of advantage due to transfer of resources abroad, creation of d'sadvantage by resources transferred abroad and lack of complementary resources required to operate abroad. They acknowledged that when market-seeking firms internationalize they must face new competitors and new customers unlike resource seeking firms.

Previous studies carried out on internationalization locally focussed on the agricultural industry, small and medium enterprises (SMEs) and manufacturing industry. Guracha (2008) researched on the influence of political risk factors on internationalization decisions of horticultural exporting firms in Nairobi. He established that during internationalization decision-making process, political risk factors influence horticultural firms, and that the political factors need to be analysed before choosing the mode of entry and the mode of investment.

Ekai (2010) studied challenges to the internationalization of Kenyan small and medium enterprises (SME). He noted that the number of countries in which the SMEs transact had a direct relationship with the duration majority of the SMEs have been in operation. Further, he concluded that SMEs face a number of challenges when internationalizing, including relation to the country they deal with, affecting the industry in which they operate. Ogot (2008) researched on factors influencing business internationalization in motor vehicle sector, focussing on General Motors East Africa. He found that despite the sluggish performance, Kenya motor vehicle export business is viable and the internal and external factors influence its success.

Thus far, there has been very little research done on internationalization of Kenyan **indigenous** banks. Hence, this study addressed the research question: What influences and or inhibits internationalization of Kenyan indigenous banks?

1.3 Research **Objective**

This research study addressed the following objectives:-

i. To determine the factors influencing internationalization of indigenous Kenyan banks.

ii. To establish the challenges facing internationalization of Kenyan indigenous banks.

1.4 Value of the Study

The findings of this study will increase our knowledge about internationalization by highlighting the factors influencing internationalization and the challenges that the indigenous banks have to face while establishing their investments across Kenyan borders. This will benefit both the banking and non-banking industries. Future scholars will also benefit from the study, by adopting the recommendations that enables them advance research in addressing internationalization of indigenous Kenyan firms in the banking industry and other industries as well.

The tripartite agreement between East Africa Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and Southern African Development **Community** (SADC) creates a **vast** free trading area (Appendix 3). The study **will** highlight valuable information beneficial in formulating and implementing the requisite policies on trade agreements between the three trading blocs. The internationalization of Kenyan firms would be achievable and successful if the necessary policies and practices are in place, enabling the homegrown businesses to take advantage of the available opportunities regionally and by extension internationally.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

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

2.2 International Business

Griffin and Pustay (2010) postulate that international business consist of business transactions between parties from more than one country, hence business activities that involve crossing national borders (Ball & McCulloch, 1993). International business contributes a significant portion of gross domestic product (GDP) and it increases as the economy develops (Yabs, 2006). It involves international trade, foreign manufacturing and the growing service industry. The service industry includes transportation, tourism, banking, construction and mass communication. The financial service industry has globalized and is increasingly becoming competitive (Gordon, 2011).

Managers are under intense pressure to increase the sales and profits of their firms. Indeed when faced by a mature, saturated market at home, firms begin to search for new markets across their borders, venturing into the regional market (Ball &

McCulloch, 1993). Rugman and Verbeke (2004) reported that nine of the world's 380 largest firms as truly global, 320 being home based and needing a regional, rather than a transnational solution to strategy and structure. Regional growth requires top management decision and large amounts of firm's resources. At the same time, it is future oriented affecting long-term prosperity of the firm, multifunctional and multi-business consequences of the firm and considers the firms' external environment.

2.3 The Concept of Internationalization

Hill (2011) acknowledged that international firms build brand loyalty and gain experience in a potentially future economic star by investing early. Advantages accrue to early entrants into an economic potential market unlike late entrants who suffer lack of brand loyalty and experience necessary in that particular market. Further, good indicators of potential long-run benefits of doing business in a specific country is hinged on the economic system, property rights regime and market size. Lower level of economic growth is associated with countries having poor property rights and rampant corruption.

Globalization, enhanced by the shrinking geographical distance, the internet, and opening up of markets has precipitated the expansion of companies into foreign markets (Thompson et al., 2007). There are various factors influencing companies to internationalize. These firms encounter challenges when crossing national boundaries.

2.3.1 Factors Influencing Internationalization

At the early stages of internationalization (Welch & Luostarinen, 1988), companies tend to approach markets that are close physically and culturally. Here, the targeted markets appear simpler, familiar and less costly to penetrate. Pearce et al. (2010) hypothesised that firms internationalize for reactive or proactive reasons. The overriding reason for companies to adopt proactive global strategy is having decreased competitiveness. Other proactive reasons are economies of scale, growth opportunities, having access to resources and cost saving, and the incentives that come with internationalizing. Globalization of competitors, trade barriers, regulations and restrictions, and customer demands are the reactive reasons for internationalizing firms (Deresky, 2008).

Firms operating in principally domestic environment decide on their globalization such that they are either proactive or reactive (Pearce, Robinson & Mital, 2010).Firms enjoy first mover advantages by introducing new products or services by being proactive when internationalizing. Organizations may choose to be reactive whereby they take a more conservative approach when internationalizing and follow other firms once customer demand is established. Hence when internationalizing, companies choose to be proactive or reactive.

Firms internationalize in order to gain access to new customers. This offers potential for increased revenues and profits, long-term growth, and is more attractive for a mature home market. Companies will internationalize to achieve lower costs of production and to enhance competitiveness. By leveraging its competencies and capabilities into a competitive advantage position, firms go international to capitalize on core competencies. Firms go across borders to spread their business risk instead of depending entirely on domestic market operations.

2.3.2 Challenges of Internationalization

The environment in a new country differs from the firm's home country owing to a number of variations in geography, climate, people, institutions, religion, language or culture (Cuervo-Cazurra et al., 2007). Firms venturing beyond national borders face risks and uncertainties. Saimee (1999) observed that economic and cultural impediments are evident in foreign market selection. Service companies face higher limitations in a more developed market than a less developed market. Cultural impediments on the other hand include the human resource incompatibility, language, religious beliefs and attitudes towards business in the new market (Wild, Wild & Han, 2010). State of the economy in the new country, stability of its currency, level of taxation and inflation are the economic impediments in a foreign market.

Foreign market risk is an inherent challenge facing internationalizing firms (Oviatt & McDougall, 1997). It includes liability to foreignness or nationality of the firm which could be government based such as a host country government blocking the foreign firm in doing business or consumer based such that the host customers have their own bias against the nationality of the firm affecting its foreign firms business. Liability of infrastructure whereby a firm can opt to purchase an existing structure, lease, or construct in the new country (Cuervo-Cazurra et al., 2007). Government regulations, government bureaucracy and political stability influence the decision by firms to enter the foreign market and its site location.

2.4 The Global Banking Industry

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

The integration of the financial and monetary activities is growing globally due to the evolution of financial and monetary regulation worldwide, new technological development payment systems and Internet use, increasing global and regional interdependence of financial markets, and growing role of single currency system (Cavusgil et al., 2008). Revolution in communication, information processing and the growth in cross border trade and capital flows has enhanced the evivlu'ion of international institutions and agreements (Clark, 2002). This is the same for international banking, where today, banks take and hold deposits in any currency, regardless of bank location. The speed and efficiency of transfer and settlement has increased leading to geographic location being irrelevant.

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

2.5 Foreign Market Entry

The basis of foreign market selected for business expansion is on assessing the long-run profit potential of that country (Paul, 2009). For an organization to enter a foreign market, it has to take into account its core competencies and the local business environment (Wild et al., 2010). The mode of foreign market entry can be exporting, contractual or investment (Buckley & Ghauri, 1999). Zhang, Zhang and Liu (2007) argued that the choice of market entry, when to enter and learning how to enter is a concern to firms. Investors face competitive disadvantage when entering a foreign market due to lack of knowledge of that particular market (Johanson & Vahlne, 1977). Locating geographically close to firms holding local knowledge is important for a foreign firm. In this instance, a foreign investor locates close to Foreign Direct Investment (FD1) firms in the same industry or locates close to an FDI froir, ti»e same country of origin (Tan & Meyer, 2011).

The first mode of foreign market entry is exporting. This involves expanding sales, diversifying sales and at the same time enabling, the firm to gain international experience (Wild et al., 2010). Exporting avoids most of the cost of doing business abroad and is regarded the most straightforward mode of selling in a foreign market (Buckley & Ghauri, 1999). Deresky (2008) posits that exporting as an international expansion strategy, has relatively low risk and little investment is involved, hence the most preferred primary foreign market entry strategy (Cavusgil et al., 2008).

Contractual agreement is the second mode of market entry. They are long-term, non-equity associations involving a company and another in a foreign market (Paul, 2009). For intangible products, contractual agreements into a foreign market are used. These are licensing, franchising, management contracts and turnkey projects. Licensing involves international licensing, combining the advantages of technology, licensing multinational skills and local knowledge of the licensee (Buckley &Ghauri, 1999).

When undertaking foreign entry, patent rights and trademarks are licensed. Franchising is less risky and known in the fast food industry. It involves one company supplying another with intangible property and other assistance over a period (Deresky, 2008). A management contract entails a company supplying another with managerial expertise for a certain period (Wild et al., 2010). Turnkey projects are projects undertaken by foreign companies based on the 'Build, Operate and Transfer' principle (Paul, 2009, p 337). It is less risky than FDI but on the contrary, there is no long-term interest for the company undertaking a turnkey project in the foreign country.

Investment or FDI is the third mode of entry into a foreign market. Buckley and Ghauri (1999) acknowledge that foreign investment is an important step of internationalization. Establishment of branches or subsidiaries and mergers and acquisitions enable firms to invest in a foreign country. Mergers and acquisitions are the chosen investment modes when there are well-established incumbent firms in the market. Subsidiary establishment is a foreign market entry mode when the firm in question has embedded skill, routines and culture (Paul, 2009).

2.6 International Competition

Globalization has sophisticated business competitiveness. The linkages of international networks binding countries, institutions and people in an interdependent global economy (Deresky, 2008) have characterized the global competition. The increasingly borderless world, technological advancements and the rise of Brazil, Russia, India and China, known as the BRIC, has propelled global competition.

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

2.7 Summary

Nowadays, at some point or level, most companies must face internationalization (Heino, 2008). Firms have to be able to adjust their operations from local to international level in order to be successful through various means that include global expansion of markets, mergers and acquisition. Internationalization of firms as observed in this chapter is a significant aspect of international business. Aharoni and Ramamurti (2011) acknowledged that internationalization of firms is a means of building globally competitive organizations.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodology carried out in the study. The research design was descriptive in nature with a small population study. The researcher in this chapter discusses the mode of data collection and eventual analysis.

3.2 Research Design

The research design used in this study was a census survey since the study is descriptive in nature. Saunders et al. (2007) acknowledged that a census is feasible when it is possible for a researcher to collect and analyse data from every possible group member. Cooper and Schindler (2006) posit that a descriptive study is concerned with finding out who, what, when, or how much questions of a research; and its purpose is to determine and report the way things are (Mugenda & Mugenda, 2003). Further, a survey answers the 'what' question paused in the research objective (Saunders, Lewis & Thornhill, 2007).

The research conducted for this study was cross sectional. A cross sectional survey justifies why a study is undertaken once and at a particular time by the researcher (Cooper & Schindler, 2006). As a descriptive study, the cross sectional census survey described the current state of affairs in internationalization of Kenyan banks.

3.3 Population

The target population of this study was eight; see Appendix 3. The eight financial institutions are the only indigenous Kenyan banks that have internationalized or crossed the Kenyan borders. Being a small population justifies why sample selection was meaningless (Mugenda & Mugenda, 2003).

3.4 Data Collection

The researcher used a structured questionnaire as a :ool for collecting primary data from the study; see Appendix 2. These self-administered questionnaires were hand-delivered by the researcher to the respondents. The researcher thereafter collected the questionnaires. The use of a questionnaire as a data collection instrument enabled the researcher to obtain important information about the population (Mugenda & Mugenda, 2003).

The questionnaire was semi structured and entailed both open and closed ended questions aimed at obtaining general information of the company under study. The open-ended questions enabled a greater depth of response from the respondent. The closed-ended questions offer respondent alternatives when answering (Mugenda & Mugenda, 2003). The five point likert-type response format in the subsequent sections of the questionnaire dealing with the objectives of the study engaged the respondent when rating the intangible components of the research. Oppenheim (1992) posits that likert scales are reliable due to the greater range of answers permitted to respondents. The advantage of the questionnaire as a data collection instrument for this research is its simplicity and versatility.

The questionnaire was administered to one respondent per financial institution. The respondents targeted by the researcher were senior managers in the international business department or marketing department from the eight indigenous banks that have internationalized. These senior managers had sufficient knowledge in international business, providing the relevant information required to ascertain the factors influencing internationalization of indigenous banks and the challenges facing their institutions.

3.5 Data Analysis

The study was descriptive in nature implying that the researcher analysed the quantitative data collected via questionnaires by using descriptive statistics. Ghauri and Gronhaug (2005) justify the use of descriptive statistics as a means through which the researcher can effectively and meaningfully summarize and organize data. The summary statistics of variables, the distribution of scores and graphical representation were obtained from the analysis of the data collected in the study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the data analysis, results and interpretations sought from the research. The census study obtained a response .ate of 63%, whereby five out of the eight indigenous banks that have internationalized responded. The data collected was analysed using descriptive statistics and the information provided in three sections. The first section deals with the general information of the firms under study; the second section addresses the factors influencing internationalization of indigenous banks, while the last section discusses the challenges facing internationalization of indigenous Kenyan banks.

4.2 General Information

The researcher obtained the responses from two senior managers in the international or diaspora business department and three senior managers from marketing department. These respondents were knowledgeable on matters dealing with factors influencing internationalization and the challenges faced by their institutions when internationalizing. Data from the respondents was collected and analysed using Microsoft Office Excel. The positions of respondents are represented in percentages in the table 4.1 below.

Table 4.1: Current Position

Current Position	Respondents	Percentage
Senior Manager International Business Department	2	40%
Senior Manager Marketing Department	3	60%
Total	5	100%

Source: Survey data

The organizations surveyed have been offering financial services for a period of time as represented in figure 4.1. This means that these indigenous financial institutions have been in operation for over ten years. Two of these banks have been in business for over 41 years; one bank has been in operation between 31 to 40 years, while two banks have been providing financial services between 11 and 20 years. The information is graphically represented in figure 4.1 below.

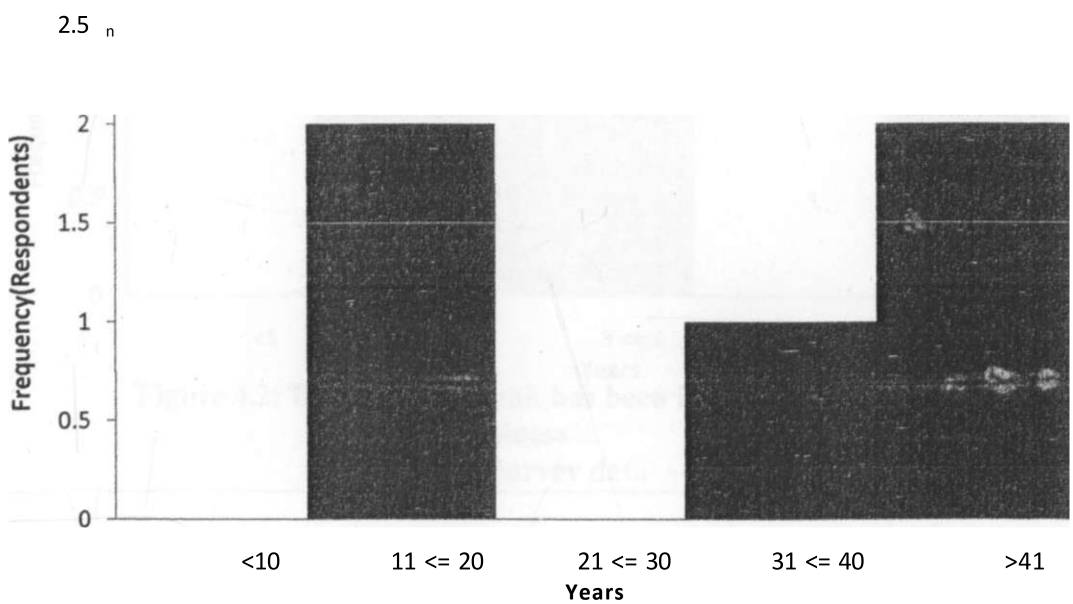

Figure 4.1 : Duration the bank has been in business
Source: Survey data

The Kenyan indigenous banks are staking their claim in international business by venturing beyond the national borders. Therefore, figure 4.2 summarizes the length in time that the surveyed banks have been in international business or when these financial institutions internationalized.

The year that the indigenous Kenyan banks started internationalizing confirmed the response offered by the respondents on the duration their banks have been in international business. Two financial institutions have been in international business for over 6 years, two have been doing business beyond Kenyan borders between 3 to 4 years and one indigenous bank has been in international business between 1 to 2 years. This information is graphically represented in figure 4.2.

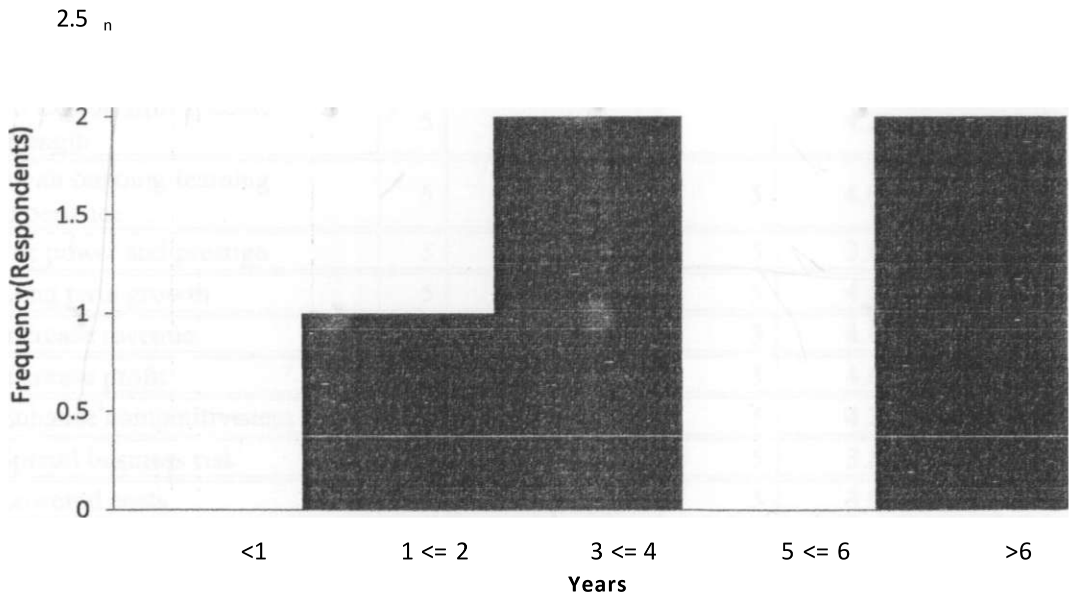

Figure 4.2: Duration the bank has been in international business
Source: Survey data

4.3 Factors Influencing Internationalization

The first objective of the research was to determine the factors influencing internationalization of indigenous Kenyan banks. The respondents provided information on what influences their organizations to internationalize. Their level attitudes were measured by a five point likert scale where: 1 = "Strongly disagree", 2 = "Disagree", 3 = "Uncertain", 4 = "Agree" and 5 = "Strongly agree". Data was collected, coded and analysed using the SPSS software. The results are summarised in table 4.2

Table 4.2: Factors Influenciii2 Internationalization

	N	Minimum	Maximum	Mean	Std. Deviation
Follow customers	5	3	5	4.00	.707
International competition	5	4	5	4.20	.447
Government regulations	5	1	5	3.20	1.789
Government incentives	5	1	5	2.80	1.483
By chance	5	1	2	1.20	.447
To exploit firm specific strength	5	4	5	4.20	.447
As an ongoing learning experience	5	3	5	4.00	.707
For power and prestige	5	3	5	3.60	.894
Long term growth	5	4	5	4.60	.548
Increase revenue	5	4	5	4.60	.548
Increase profit	5	4	5	4.60	.548
Enhance competitiveness	5	4	5	4.20	.447
Spread business risk	5	2	5	3.80	1.095
Lowered costs	5	2	5	3.00	1.225
Additional resources	5	2	5	3.20	1.095
Synergy	5	4	5	4.20	.447
Protect home market	5	2	4	3.00	.707
Economies of scale	5	3	4	3.80	.447
Trade barriers	5	2	5	3.40	1.140
Reputation of bank	5	4	5	4.20	.447
Increase brand identity	5	4	5	4.60	.548
Saturation of local market	5	1	4	2.60	1.342
Improvements in information technology	5	4	5	4.20	.447
Improvements in infrastructure	5	2	5	3.80	1.095
Valid N (listwise)	5				

Source: Survey data

The research revealed that long-term growth, increased revenue, increased profit and increased brand identity for the indigenous Kenyan banks surveyed had the highest level of agreement with a mean of 4.60. This implies that these four factors highly influence internationalization of indigenous Kenyan banks concurring with Dunning (1993) and Contractor et al. (2003) that these factors are ensure better performance. A standard deviation of 0.548 justifies that the observations are closer to the average, meaning less variability of scores and hence the institutions surveyed agreed that these factors influenced their movement beyond Kenyan borders.

Other factors that the indigenous Kenyan banks agreed influenced their organisations to internationalize include following customers, which is in agreement with Seth et al. (1998), international competition and exploiting their specific strength. Learning experience is in concurrence with Fornes and Butt-Philips (2010), improvements of information technology as with Rasiah et al. (2010), enhancing competitiveness, synergy, and the reputation of the bank are factors that had high levels of agreement with a small variability from the mean values.

Power and prestige has a measure of agreement averaging 3.60 and a standard deviation of 0.894. Spreading business risk, economies of scale and improvements in infrastructures are factors of internationalization have the same level of agreement from the respondents with mean scores of 3.80. Their respective standard deviations are, 1.095, 0.447 and 1.095. This verifies that power and prestige, spreading business risk and improvements in infrastructure have greater variability than economies of scale. Therefore, these factors influence internationalization of indigenous Kenyan banks from the data surveyed.

On the other hand, the banks surveyed had a mean of 2.8 and a standard deviation of 1.383 on governmental incentives and protecting home market as factors that influenced internationalization of their organisations. The level of uncertainty here is evident, implying that these financial institutions are generally not sure governmental incentives and protection of home market are factors that have influenced their firms to internationalize.

Other factors that had level of uncertainty from the respondents are governmental regulations, lowered costs of labour, additional resources and trade barriers. Although their mean scores were slightly above average, their levels of variability obtained from their respective standard deviations were greater. Having an average of 2.60 and a standard deviation of 1.342 from the data collected, saturation of local market was a weak factor to have influenced internationalization of indigenous Kenyan banks. This is justified as a factor of internationalization that has less influence on indigenous Kenyan banks going beyond borders, having a high rating that is drifting towards uncertainty.

The surveyed indigenous banks generally disagreement that they ventured beyond Kenyan borders by chance or accidentally with a mean of 1.2 and a standard deviation of 0.447. From this observation, there is a small variability of scores from the average level of disagreement, justifying that none of the indigenous Kenyan banks surveyed internationalized by chance.

4.4 Challenges Facing Internationalization

The second objective of the research was to establish the challenges facing internationalization of Kenyan indigenous banks. Respondents provided information onthe challenges their organizations faced when internationalizing. Their attitudes were measured by a five point likert scale where: 1 = "Strongly disagree", 2 = "Disagree", 3 = "Uncertain", 4 = "Agree" and 5 = "Strongly agree". Data was collected, coded and analysed using the SPSS software. The results are summarised in the table 4.3 below.

Table 4.3: Challenges Facing Internationalization

	N	Minimum	Maximum	Mean	Std. Deviation
Political stability	5	2	4	2.80	1.095
Liability to foreignness	5	1	4	2.20	1.095
Extent of bureaucracy and red tape	5	1	4	3.00	1.225
Transparency and corruption	5	1	4	3.00	1.225
Extent of regionalization and free trade	5	1	4	3.00	1.414
State of local economy	5	2	5	3.40	1.140
Stability of currency	5	4	5	4.20	.447
Financial resources	5	2	5	4.00	1.225
Inflation level	5	3	5	4.00	1.000
Taxation level	5	2	5	3.20	1.304
Liability to infrastructure	5	1	4	2.80	1.304
Target market	5	1	4	2.80	1.304
Customers	5	1	4	3.00	1.414
Entry mode	5	2	5	3.60	1.140
Timing of entry	5	1	3	2.00	.707
Size and growth of national market	5	1	4	2.40	1.140
Size and growth of regional market	5	1	4	2.20	1.304
Quality of marketing and distribution	5	2	4	3.00	.707
Language	5	1	5	2.40	1.517
Religious belief	5	1	4	2.40	1.140
Attitude towards business	5	2	5	3.40	1.342
Multicultural organization	5	2	5	3.60	1.140
Organizational changes	5	3	5	4.00	.707
Availability of skilled labour	5	1	5	3.40	1.517
Quality of managerial workforce	5	1	5	3.60	1.673
Involvement of labour unions	5	1	5	2.80	1.483
Employment regulations	5	1	4	3.20	1.304
Nature of legal systems and laws	5	3	5	4.20	.837
Core banking	5	1	4	2.40	1.140
Mobile banking	5	1	4	2.40	1.140
ATM network	5	1	5	2.80	1.643
Valid N (listwise)	5				

Source: Survey data

The survey revealed that stability of currency and nature of legal systems received the highest mean score of 4.2. The standard deviations for these two challenges were 0.447 and 0.837 respectively. From the indigenous Kenyan banks surveyed, the respondents agreed that these were the main challenges faced during internationalization of their firms due to less variability of scores in the distribution.

Inflation levels in line with Saimee (1999), financial resources, and organizational changes are challenges that the respondents faced when internationalizing with a mean score of 4.0 but a standard deviation of 1.000, 1.225and 0.707 respectively. Organisational changes had less variability compared to financial resources and inflation levels, justifying that the firms agreed on the organisational changes more than the inflation levels and financial resources.

The mean scores from entry mode, multicultural organization and quality of managerial workforce was 3.6, but the respective standard deviations were 1.140, 1.140 and 1.673. This implies that the organizations surveyed agreed that entry mode, multicultural organization and quality of managerial workforce are challenges they faced when internationalizing. This notwithstanding, the attitude scale on agreement was widely spread from the average score.

The surveyed financial institutions had a mean of 3.0 on the extent of bureaucracy and red tape, transparency and corruption, extent of regionalization and free trade, customers and the quality of marketing and distribution. These challenges had varying levels of variability. It is evident from the data that generally, the respondents had less measure of variability on the quality of marketing and distribution with a standard deviation of 0.707 as compared to the other four challenges. Cuervo-Cazurra et al. (2007) acknowledged that new customers are a challenge to internationalized institutions.

Having mean scores of 3.4 and a widely spread variability, state of local economy, attitude towards business and availability of skilled labour are challenges that indigenous Kenyan banks surveyed had levels of uncertainty. Other challenges that had measures of uncertainty with an average score of 2.8 and high levels of variability from the respondents are political stability, liability to infrastructure, target market, involvement in labour laws and ATM network. Taxation level and employment regulations are challenges of internationalization that organisations face, but the data analysed reported a level of uncertainty on the attitude measurement scale.

The timing of entry had the least attitude of agreement score of 2.0 and a small spread of variability with a standard deviation of 0.707. From the data analysed, indigenous Kenyan banks had a high level of disagreement that timing of entry was a challenge they faced when internationalizing. Challenges of internationalization that include size and growth of regional market and liability to foreignness also received a high level of disagreement with a mean of 2.2. Other challenges faced by the indigenous Kenyan banks that had least levels of agreement on the attitude measurement scale are size and growth of national market, language, religious beliefs, core banking and mobile banking.

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 of Findings

The study aimed at determining whether there are factors influencing internationalization of indigenous Kenyan banks. It is evident from the research that long-term growth, increased revenue, increased profit and increased brand identity are the most influential factors that drive the indigenous banks to internationalize. Other factors that have influenced Kenyan banks to go beyond borders include following customers, international competition, exploiting their firm specific strength, as a learning experience, to enhance competitiveness, for synergy and to improve the banks reputation. Power and prestige, spreading business risk, economies of scale and improvements in infrastructures are also factors that influenced the homegrown or home-owned Kenyan banks to internationalize.

The indigenous Kenyan banks unanimously agree that their firms have not ventured beyond the national borders by chance or accidentally. Therefore, from the surveyed data, this is not a significant factor to have influenced the Kenyan indigenous banks to internationalize. Conversely, government incentives, protecting the firms' home market, government regulations, lowered costs of labour, additional resources and trade barriers are factors that registered levels of uncertainty on the aspect of influencing internationalization of homegrown Kenyan banks.

The study aimed at establishing the challenges facing Kenyan indigenous banks when they internationalize. From the analysed data, these financial institutions responded that they face a number of challenges during internationalization. These challenges include stability of currency, nature of legal systems, financial resources and inflation levels. Others were organizational changes, entry mode, multicultural organization and quality of managerial workforce.

The extent of bureaucracy and red tape, transparency and corruption, the extent of regionalization and free trade, customers and the quality of marketing and distribution are some of the challenges facing internationalization that had high levels of uncertainty from the respondents. With respect to the responses given, state of local economy, attitude towards business, availability of skilled labour, political stability and liability to infrastructure had levels of uncertainty. Other challenges which had respondents neither agreeing nor disagreeing were target market, involvement in labour laws, ATM network, taxation level and employment regulations.

On the other hand, various challenges of internationalization were insignificant to the indigenous Kenyan banks that have ventured beyond the national borders. Timing of entry, size and growth of regional market, liability to foreignness, size and growth of national market, language, religious beliefs, core banking and mobile banking were generally not important when these Kenyan firms internationalized.

5.3 Conclusion

These Kenyan banks benefit immensely from internationalization when venturing into new markets, expanding their businesses by tapping cross border transactions, hence facilitating regional integration. This in turn leads to growth in market share and growth of deposit base that leads to profitability. The indigenous Kenyan banks expand their brand identity and gain competitive edge by providing solutions to businesses in the region. These financial institutions gain reputation as a regional bank by providing greater customer reach across countries that in turn enables risk diversification. By operating across countries, these banks leverage foreign exchange and contribute to the communities where they operate.

The indigenous Kenyan financial institutions face a number of challenges when going beyond borders. To overcome some of these challenges, these banks obtain feedback survey from clients, offer tailor-made products to meet clients' needs across borders and have partnership agreement with local banks or buying out an existing bank. Other measures to overcome internationalization challenges are co-opting local shareholders in the host country and staff exchange programmes. Employing local staff to help reduce cultural barriers as a means of overcoming the challenges of internationalization concurs with Ersson and Tryggvason (2007). These banks adhere to the local laws and regulations, fostering good relations with government and regulators, and actively working with the regulator in order to improve business environment and address emerging issues. Some of the institutions have overcome the challenges of internationalization by employing experienced staff from multinationals organizations.

5.4 Limitations of the Study

The researcher encountered limitations when undertaking the study. Non-response from three out of the eight indigenous Kenyan banks that have internationalized was a drawback for the census survey. One of these non-respondents, though willing to respond on a peisonal level was kind enough to explain the company policy for not responding to the questionnaire. The other two non-respondents were not willing to offer any response. The researcher had no control of the population under study despite the non-response rate representing thirty-seven percent of the total population.

Generalization of the data analysed provided information required for the study. Indeed the challenges facing internationalization of indigenous Kenyan banks had quite a number of uncertain responses. This implies that some of the respondents were either unwilling to give their feelings or were not conversant with the challenges, hence the high level of uncertainty with respect to the measure of attitude.

5.5 Suggestions for Further Research

The growth of businesses beyond borders prompts the need to research the indigenous Kenyan firms that have internationalized. This research can be replicated on the indigenous Kenyan institutions in other industries that have internationalized. This should provide knowledge on the reasons for internationalization and the measures to overcome the challenges encountered in order to propel the Kenyan firms to succeed in the global economy.

Further research can be done to establish the factors that influence foreign companies to venture into Kenya or the East African region and how they face the challenges.

The results from this research will enrich the Kenyan firms to up their ways of doing business by ensuring that they have a competitive edge locally with the prospect of replicating the same beyond the national borders.

5.6 Recommendations for Policy and Practice

Trade agreements between trading blocs precipitate growth and development. Having a tripartite agreement between EAC, COMESA and SADC, the Kenyan Government and indeed the regional governments should formulate policies to precipitate internationalization of indigenous finns. These policies would leverage the homegrown institutions to take advantage of the vast free trading area.

The indigenous Kenyan institutions in the banking industry and other industries as well should be given incentives by the home government to internationalize. This will enable the firms gain competitive edge while expanding their businesses, hence improving their ventures both locally and internationally. In order to have a vibrant economy as envisioned in the Vision 2030, the Kenyan government needs to promote internationalization of the homegrown firms while at the same time attracting investors.

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APPENDICES

APPENDIX Is LETTER OF INTRODUCTION

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BNIVERSITY of HA1IQBI

SCHOOL OF BUSINESS

MB A PROGRAMMB

Telephone: 020-2059162
Telegrams' Varsity", Nairobi
TeJev 22095 Vareity

P.O. Btw 30197
Naiiubi. Kenya

DATE ol I ii /ion

TO WHOM IT MAY CONCERN

The bearer of this letter...^UpS^A... .fc MyOfit

Registration 1l^ltJMtf

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.

JUSTINE MAGUTU
ASSISTANT REGISTRAR
MBA OFFICE, AMBANK HOUSE

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
07 DEC 2011
MBA OFFICE
P.O. Box 30197 - 00100, NAIROBI

APPENDIX 2: RESEARCH QUESTIONNAIRE

THE CONTENTS OF THIS FORM ARE CONFIDENTIAL.

INFORMATION IDENTIFYING THE RESPONDENT WILL NOT BE DISCLOSED

UNDER ANY CIRCUMSTANCES.

PART A: GENERAL INFORMATION

1. Name of organization:

2. Current position in the organization:

Please put a mark **(X)** *in the box next to the right response:*

3. How long has your organization been in business?

|__| Less than 10 years
•H 11-20 years
• 21-30 years
• 31-40 years
I I Over 41 years

4. How long has your organization been in international business?

- Less than 1 year
- 1 - 2 years
- 3 - 4 years
- 5 - 6 years
- Over 6 years

5. Which year did your organization start internationalizing?

PART B: FACTORS INFLUENCING INTERNATIONALIZATION

6. **Why did your organization internationalize?**

Please use a scale of 1-5, where

1 = Strongly disagree, 2 = Disagree, 3 = Uncertain, 4 = Agree, 5 = Strongly agree

Factors Influencing Internationalization	1	2	3	4	5
Follow customers					
International competition					
Governmental regulations eg:- taxes					
Governmental incentives					
Accidental or by chance					
To exploit firm specific strength					
As an ongoing learning experience					
For power and prestige					
Long term growth					
Increase revenue					
Increase profit					
Enhance competitiveness					
Spread business risk					
Lowered costs eg:- labour					
Additional resources eg:- skilled personnel					
Synergy					
Protect home market					
Economies of scale					
Trade barriers					
Reputation of bank					
Increase brand identity					
Saturation of local market					
Improvements in information technology					
Improvements in infrastructure					
Others					

PART C: CHALLENGES FACING INTERNATIONALIZATION

7. Which challenges did your organization face during internationalization?

Use a scale of 1-5, where

1 = Strongly disagree, 2 = Disagree, 3 = Uncertain, 4 = Agree, 5 = Strongly agree

Challenges of Internationalization	**1**	**2**	**3**	**4**	**5**
Political stability					
Liability to foreignness					
Extent of bureaucracy and red tape					
Transparency and corruption					
Extent of regionalization and free trade					
State of local economy					
Stability of currency					
Financial resources					
Inflation level					
Taxation level					
Liability of infrastructure					
Target market					
Customers					
Entry mode					
Timing of entry					
Size and growth of national market					
Size and growth of regional market					
Quality of marketing and distribution					
Language					
Religious belief					
Attitude towards business					
Multicultural organization					
Organizational changes					
Availability of skilled labour					
Quality of managerial workforce					
Involvement of labour unions					
Employment regulations					
Nature of legal system and laws					
Core banking					
Mobile banking					
ATM Network					
Others					

8. What measures were undertaken to overcome these challenges?

9. What are the benefits of internationalizing your organization?

Thank you for your response.

APPENDIX 3: LIST OF KENYAN INDIGENOUS BANKS THAT HAVE INTERNATIONALIZED

Name of Financial Institution (Locally owned)	**Countries present across Kenyan borders**
African Banking Corporation Ltd. (ABC)	Uganda
Commercial Bank of Africa Ltd. (CBA)	Tanzania
Equity Bank Ltd.	South Sudan and Uganda
Fina Bank Ltd.	Rwanda and Uganda
Imperial Bank Ltd.	Uganda
Investment & Mortgages Bank Ltd. (I & M)	Tanzania and Mauritius
Kenya Commercial Bank Ltd. (KCB)	Tanzania, Uganda, South Sudan, Rwanda
NIC Bank Ltd.	Tanzania

Source: Central Bank of Kenya, African Banking Corporation, Commercial Bank of Africa, Equity Bank, Fina Bank, Imperial Bank, Investment & Mortgages Bank, Kenya Commercial Bank and NIC Bank Websites.

APPENDIX 4: MEMBERSHIP AND PROFILE

	COMESA	EAC	SADC	COMESA-EAC-SADC	Africa Union
Membership	15	5	15	26	54
Population in Millions	398	121	248	527	917
GDP in US$ Billions	287	47	379	624	1,065

Source: Mushiri, S. M. (2008). COMESA-EAC-SADC Task Force: Deepening economic integration within Southern and Eastern Africa. P. 4.