INTERNATIONALIZATION AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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DECLARATION

This research is my original work and has not been presented in any other institution for any academic award.

Signed………………………….. **Date…………………………..**

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D61/79000/2015

This research project has been submitted for examination with my approval as the University Supervisor.

Signed……………………………….. Date…………………………….

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DEDICATION

This project is dedicated to my husband Albert Kiarie Njoroge and my children Alfie Njoroge Kiarie and Osteen Gitau Kiarie

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I am indebted to a number of people who have supported me intellectually, morally and financially in the process of undertaking this project.

To God almighty for his goodness and never ending blessings.

To my parents, Mr. George S Gitau and Mrs. Grace N Gitau who have been a great inspiration in my life, I thank you both for your financial support and your kind words of encouragement. I will forever be indebted to you for bringing me up to be a person who appreciates and values Education.

Prof. Justus Munyoki, my supervisor, your kindness, support and willingness to guide me has been profound, May God’s glare always shine upon you and your family. I also thank and appreciate the entire MBA fraternity for their hard work and support.

Last but not least I would like to appreciate all the commercial banks in Kenya, for their support.

God bless you all.

ABSTRACT

Many firms are increasing their foreign investment commitment to maximize their returns, as a result attention is growing on internationalization strategies and processes required to enter foreign markets without suffering crippling setback, as a result, firms adopt a gradual approach to internationalization, and may for a start do so by offloading excess domestic capacity into the international market. This study sought to investigate the effect on internationalization and performance of commercial banks in Kenya with a focus on the Upsalla Model and innovation theory in an attempt to find an answer to the research objective; understanding the relationship between internationalization and performance of commercial banks in Kenya. Commercial banking in Kenya has been fraught with ups and downs since the early 1896 when National Bank of India set up base in Mombasa. The objective of this study was to determine the effect of internationalization on the performance of commercial banks in Kenya. The study used a cross sectional survey and the target population were all commercial banks with operations in foreign markets. Data was collected using a questionnaire that was designed to capture the various variables under study. The questions were on a five point likert scale. The data collected was analysed using descriptive statistics including the mean, standard deviation and covariance of variation. Relationships were tested using correlation and linear regression analysis. The findings indicate that all the four variables significantly influence performance. Market knowledge was found to significantly influence performance. Market commitment was also found to significantly influence performance. The companies' current activities were found to be significantly influence performance of commercial banks. Commercial banks that intent to internationalize reportedly consider their current activities. Commitment decisions were reported to significantly influence performance. From the results it could also be concluded that commercial banks need to consider their current activities such as existing products, existing operational structures, and current strategic intentions if they are to register increased performance. Finally, it can also be concluded that commitment decisions need to be made with a lot more care and insightful consideration of the relevant variables.

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CHAPTER ONE

INTRODUCTION

1.1 Background

Firms internationalize in order to survive competition or to pursue other opportunities for growth that such moves offer. Many firms are increasing their foreign investment commitment to maximize their returns, as a result attention is growing on internationalization strategies and processes required to enter foreign markets without suffering crippling setback, as a result, firms adopt a gradual approach to internationalization, and may for a start do so by offloading excess domestic capacity into the international market (McDonald & Parker, 2011). The context of internationalization in recent years indicate that firms are facing less barriers to foreign expansion and internationalization is less risky today compared to pre-globalization period, although the competitive pressures are still a force to reckon with domestically. Tariff reforms and investment regulation changes have made internationalization a lot easier to undertake and more profitable, allowing firms to invest in new markets and to achieve considerably profitable economies of scale

Theories that have been used to explain internationalization process, address situations in which large manufacturing firms originating from developed countries and opt to expand their operations to other countries, and it seems each theory developed in specified setting and was supposed to explain behaviours of firms in that context, however the case may not hold in an entirely different environment and may notably explain behaviour in the changed context adequately, as such it is important for each theory to be subjected to realities of the international market that they wish to venture into (Buckley, 1990). This study focused on the Upsalla model and innovation theory in an attempt to find an answer to the research objective; understanding the relationship between internationalization and performance of commercial banks in Kenya.

Commercial banking in Kenya has been fraught with ups and downs since the early 1896 when National Bank of India set up base in Mombasa. The banking industry is controlled by the Central Bank of Kenya Act, which came into being in the early 1966, and has been reviewed severally to address developing issues in the industry like technological advancements that the world is experiencing today. The Central Bank of Kenya plays the supervisory role, which is to safeguard the deposits of the customers and business entities. There are 24 commercial banks in Kenya with a long history of service to a variety of international Clients (Mullei, 2006)

1.1.1 The Concept of Internationalization

The concept of internationalization refers to business activities of a firm that take place in two or more countries for purposes of increasing shareholders value. This may entail services or production of goods (Hejazi & Santor, 2010). Calof and Beamish (1995) define internationalization as the process through which firms adapts its strategies, structures and resources to the international environment. Schweizer et al. (2010) defines internationalization as the process in which a firm endeavour to position itself within a multitude of networks in a foreign market, and that internationalization is an entrepreneurial activity. Luostarinen and Welch (2012) defines internationalization as the process through which a firm gets more involved in international operations, and the main focus is on market selection and the method of entry.

Several scholars view internationalization as functions of investment in foreign markets as a result of rational risk analysis (Buckley & Casson, 2011), Bilkey & Tesar (1977) consider internationalization as an ongoing process of change in which the firm's involvement in foreign markets is a function of its knowledge increment and resource commitments. The concept of internationalization involves complex decision making processes which facilitates the establishment of a profitable relationship between the firm and the international market and includes a learning process and continuous re-evaluation of the firms' involvement in the international market.

1.1.2 Organizational performance

Measurements of performance in firms is indicated in terms of return on asset (ROA), which shows the revenues a firm has generated from one unit of assets, and ROA indicates profitability of the firm and the most preferred indicator of the success of a firm (Thomas & Eden, 2004). Another financial measure of firm success is return on equity (ROE), which indicates the rate of return on shareholders' equity, used by Grant (1987) to assess efficiency and performance of a firm is return on investment, which is used to assess efficiency and performance of a firm while return on sales indicated the profit margin of the firm.

Performance in this study is viewed as the net output of value creating activities that a firm is undertaking in more than one country, which provide for an improved financial position and profitability of the firm. The performance of the firm is of interest to a number of stakeholders that require financing from the activities of the firm, and these include tax obligation to the authorities, income pay to employees, interest and dividend pay to investors, all of which need to be accomplished by the firm through availability of sufficient funds, and as such internationalization is seen in the context of an activity that creates value to the firm and contributes to the ability of the firm to satisfy the different interests of the stakeholders in the long-run (Hahn & Hungenberg, 2001). When organizational, technological and raw materials are not available in the home market, firms look for the international markets for the resources.

1.1.3 The Banking Industry in Kenya

The banking industry is regulated by the Central Bank of Kenya, and there are both indigenous and foreign owned banks providing a range of products and services to clients locally and internationally. Adequate capital is a requirement that banks have to adhere to if they are to be allowed to operate in Kenya. There are banks that have always made some profit like Kenya Commercial Bank of Kenya while others have also folded up over the years, and capital is important for the banks so that in the event a bank becomes insolvent, system disruption is minimized (McAleer, 2009).

Regulatory capital is mandatory overtime, with advancement in risk quantification methods and technology, the use of economic capital has extended to applications that require precision in the quantification of risk (Mullei,2006). Apart from the Central Bank of Kenya, other institutions involved in regulating commercial banks include the Kenya Bankers Association which is more of a lobby group for commercial banks and also the Financial Services Deepening (FSD).

1.1.4 Commercial Banks in Kenya

Commercial banks in Kenya just like in all economies play a critical role. The Vision 2030 in Kenya outlines a number of pillars including the economic pillar. The economic pillar lays down a blueprint of the economic imperatives for the country to attain the objectives as outlined in Vision 2030. The economic pillar details the critical role that the commercial banks in Kenya are expected to play in moving the economy forward. This pillar envisages a vibrant commercial banking sub sector that is capable of stimulating economic development.

Commercial banking in Kenya is regulated by the Central Bank of Kenya. The CBK gives direction to the commercial banks on what is permissible in relation to accepting deposits, withdrawals, investments, minimum liquidity ratios and general issues of governance. Currently, there are 42 commercial banks operating in the country and these banks are classified into tier one, tier two and tier three. These tiers are derived on the basis of bank size and market capitalization.

1.2 Research Problem

Studies on internationalization have in the past addressed a range of questions that include a firms' motivation for going into foreign markets, the nature of a firms' geographical expansion, the market entry modalities, and organizational capacity; many of these studies have approached the issues in the context of well-established multinational organizations from the developed world, however, very few studies focusing on the commercial banking sector in the developing world have been generated. And there is still scarce information and knowledge available on how a single firm is affected by the internationalization process, especially from the Kenyan bank's point of view.

The banking industry is rapidly changing and competition is also increasing in the sector, as a result internationalization is becoming an option for industry players to increase their revenue base. This is likely to provide new challenges that require firms to make incremental adjustments to address risks as well as opportunities in the foreign markets that they seek to venture into. Another difficulty facing banks is lack of knowledge about international environment, which can also have an influence on the performance of a firm if the right decisions and strategies are not applied. Firms in Kenya are still in their early stage of internationalization, and more so commercial banks, and research in the area is also inadequate and cannot possibly inform decision making authoritatively on internationalization. The insufficiency of knowledge is one of the factors that this study will be addressing, especially concerning the association between the internationalization process and the performance of commercial banks in Kenya.

Studies done both locally as well as internationally, have explained the process of internationalization. Ovadje (2016) studied the influence of internalization on culture in Africa. Mutongi (2006) studied the internationalization of paint manufacturing firms in Kenya and reported that most of them are guided by the stage model. Ochieng (2011) studied the internationalization of manufacturing firms in Kenya generally. Mativo (2011) studied the internationalization of Bidco refineries. This study was based on a manufacturing firm. Kitavi (2013) examined the factors affecting the internationalization of Davis & Shirtliff in the East African region. Makunyi's study on the internationalization process of commercial banks in Kenya does not address performance. This study sought to answer the following research question; What is the effect of internationalization on the performance of commercial banks in Kenya?

1.3 Objectives of the Study

The objective of this study was to determine the effect of internationalization on the performance of commercial banks in Kenya.

1.4 Value of the Study

This study benefits companies currently involved in international business and even those that are still thinking of internationalizing their operations. The realization that there might be relationships between the process a company uses to internalize and the performance of that company will stimulate interest in managers on the choice of the process.

The study adds onto the existing body of knowledge on internationalization and how it is related to performance. Literature on each of the two variables individually is in plenty but the relationship between the two has not been adequately tested.

Future scholars can benefit from the study, by adopting the recommendations made to advance research in internationalization of indigenous Kenyan firms in the banking industry and other industries as well. The recommendations are based on the deficiencies or challenges encountered in the current study and will therefore be immensely useful.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains the theoretical framework and both theoretical and empirical literature review on the process of internationalization and performance.

2.2 Theoretical Framework

The study was based on the Upsalla model, the I- model and the eclectic theory.

2.2.1 The Upsalla Model

The Upsalla model also known as the stage approach looks at internationalization as a learning process upon which more experience is gained from the foreign markets. Johanson and Vahlne (1977) assert that the internationalization process involves the acquisition, integration and utilization of knowledge when handling international operations. Johanson and Vahlne (1975) undertook a study of Swedish firms and observed that the firms follow an internationalization path in stages that include initial operations in the local market followed by development of an export market then follows a second stage in which firms develop international collaboration arrangements using intermediaries who undertake the function of building the relationship with partners and developing the international market place. The third stage involves development of a production plant in the foreign market. Thus the process of internationalization is rather not a short term process but a long term process in which a firm goes through a change pattern and includes a learning process taking into consideration the risks involved in venturing into the international market (Johanson & Vahlne, 2009).

The stage theory indicates that current knowledge of foreign markets determines strategic performance and affects the change of the current business activities (Johanson et al. 1975). The stage theory puts emphasis on the knowledge possessed by the foreign market that it seeks to venture into and how that knowledge influences the decisions by the management to enter a particular foreign market. The move into foreign markets in most cases targets neighbouring countries in the initial stages and gradually extends to other countries that are much farther away. The initial contact is made by direct order from clients since the firm at this stage is not inclined towards international market, but then as the orders increase in quantities, the firm becomes interested in export following the initial positive results it is getting from clients, then follows through by moving from working with agents to establishing a fully-fledged foreign office or branch, and if the results prove to be favourable, the firm is then likely to open a production plant in the foreign country (Johanson et al., 1990).

According to Johanson and Wiedersheim (1975), there are four different approaches of international market entry that has several stages of international involvement that include export via independent representatives; lack of regular export activities overseas production unit and establishment of an overseas sales subsidiary. A number of limitations to the stage model theory: That large firms with a lot of resources at their disposal have as a result more capacity and in a better position to internationalize much more freely than smaller firms that have to weigh the risks much more thoroughly; and that it is possible for a firm to exploit the experience it had in one market to another market without having to go through the same stages again.

Johanson and Vahlne (1977) elaborates further on internationalization aspects, and describes the structure in terms of resource commitment for the foreign markets, market commitment, and acquisition of knowledge about the foreign markets. The change that takes place includes decisions to commit resources and strategies for improving the performance of the activities of the business.

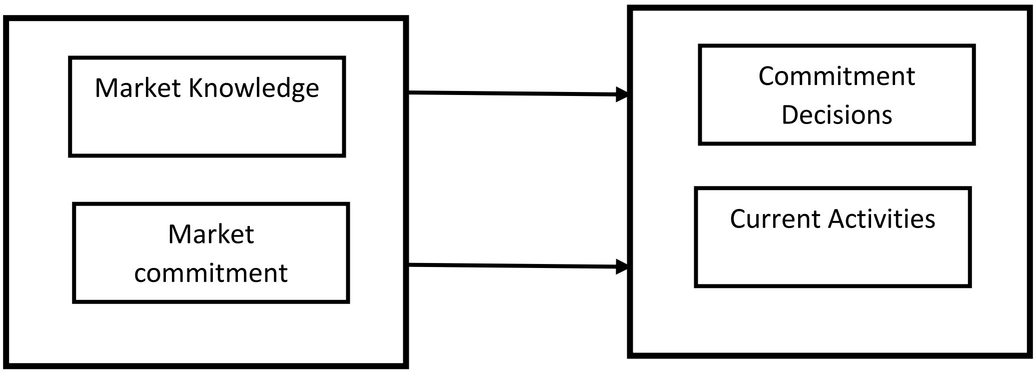

Figure 2.1: The Internationalization Process of the Firm

Source: Johanson and Vahlne, 1977

According to figure 2.1, there are a number of factors that jointly make up the firm's internationalization process. These factors according to Vahlne & Johanson(1977) are a firm's knowledge of the market, level of market commitment, commitment decisions of the firm and the current activities of the firm in international markets.

2.2.2 Innovation Related Approach (I-model)

The Innovation approach model sees internationalization in a similar vein to that of the stage approach model except for the adoption of new product as the end result (Rogers, 1962). The innovation related approach takes a more favourable attitude in comparison to the stage approach model to international expansion. The innovation approach model opens up firms for doing business in new ways and is less averse to risks. The processes of innovation approach include four stages: awareness, interest, intention and adoption. Each of the steps in internationalization in regard to innovation approach are processes that are about innovation (Cavasugil, 1980).

Leonidou and Katsikeas (1996). In the stage model approach, the firm is seen as not being interested in internationalization from the start, but with innovation approach model that is the main interest of the firm although both models are behavioural oriented. The gradual approach that is indicative of internationalization process is explained by lack of knowledge on the part of the firm regarding the process, and the uncertainties associated with the decision to go for internationalization.

2.2.3 Eclectic Theory

According to Dunning (2002), this theory identifies three factors, including location advantage, ,ownership advantage and internalization advantage, which dominate transnational firms overseas direct investment. Gray (1981) explains the internalization advantage and location advantage of transnational banking and gives the explanation on the economics phenomenon. Dunning (1981) viewed the location factor as an important factor that can explain competitiveness of firms in the international market.

Cho (1983) identifies how transnational banks could attain the short term benefit through distinction of products, and gain long term advantage through the distinction of perceptible products. Internalization theory, eclectic theory and innovation theory are the main theories that best explains overseas expansion of banks.

2.3 The Process of Internationalization

According to the Uppsala internationalization model (Vahlne & Johanson, 2006) the international evolvement of a firm rises gradually. The entry of a firm into new markets is to a large extent determined by the demographic aspects which could be split into language differences, political systems, cultures among other factors in addition to the physical distance which create the gap between the firm and the market (Johanson & Wiedersheim-Paul, 2005). The process of entry into international markets by a company begins with the psychically close markets. As the company gains more knowledge about the international market, the company's commitment to the actual market abroad rises thus it eventually penetrating into the new market with greater psychic distance.

This view therefore implies that a clearer distinction needs to be drawn between the experimental knowledge which is obtained through experience and the objective knowledge which is obtained through learning. The second category of knowledge lays emphasize on the contribution of learning and commitment building on the discovery and construction of opportunities which involve other firms within the network than about reduction of uncertainty experienced by one firm. This implies that the opportunities identified by a certain firm at a given time are determined by accumulated levels of knowledge and commitments. All this helps in the reduction of psychic distance (Johanson & Vahlne, 1990). The theory provides a reasoned explanation on how and why companies internationalize. It also forces managers to plan the internationalization of their firms in a programmed manner.

2.4 Challenges of Internationalization of Business Operation

Challenges in internationalization of services include customer preferences, most customers prefer core activities from; their own countries, countries with the same culture as them, and those countries with economically progressive culture. Customers have greater preference for domestic services due to strong nationalistic feelings and beliefs; customer conservatism or patriotism could prevent them from purchasing items originating from abroad. Further, cultural elements including materialism, religious beliefs, education, language, gender role, the family structure, customs, time orientation and manners are have a close relationship with the national culture (Griffin & Pustay, 2010). Additionally, there is a strong relationship between the content of the information and socio-cultural values. Differences in technological, socio-cultural, governmental and legal frameworks make it necessary to use various services in order to deliver the information content (Ubreziova, Bujnakova & Majorova, 2009).

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

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

2.5 Foreign Market Entry Process

According to Blakenburg (1995) the process of market entry by foreign agent is brought about by the interactions between the firm actors and the networks that the firm has established. These interactions enable the actors to understand each other and all the activities being undertaken within the network which makes it a learning process (Vahlne & Johanson 1990). This process involves the establishing and positioning the firm in the foreign market (Ghauri & Holstius, 1996). Axelsson and Johanson, (1992) assert that internationalization is also viewed as an extension of network which occurs through: Establishment of new national networks for the company, the development of already existing links in foreign markets which implies to penetration and the development of coordination between associations in various national networks.

According to Blankenburg (1995) A successful entry into foreign markets leads to the establishment of exchange relationships in the foreign market will grow long-term sustainable links will be used by the firm to reach the desired position in the new market network. It describes the direct relationship of the firm with other firms. The development of market positions is influenced by other factors within the surrounding network and not just the individual firm's strategic decisions.

The level of firm' internationalization is thus determined by the degree of internationalization within the network. It can therefore be concluded from a network perspective that the establishment of foreign market is of great concern to firms as they seek to establish and develop network positions abroad (Mattsson & Johannson, 1988). Thus the firm's pattern of internationalization can be easily determined by the number of international network relationships they have and the extent to which they develop and terminate the relationships. Axelsson and Johanson (1992) argues that the entry into a foreign market is a process that takes time since it's a learning processes process that involves trial and error. Thus the firm gains future experience from these learning processes. Some firms do not however follow the stipulated protocol and often make mistakes which become new sources of knowledge .The most vital aspect in entry into a new market is the positioning, orientation and proper timing of the entry. Firms gain more understanding and familiarize with a network through entry and acting within it through orientation. Positioning enables a firm to establish itself within the best network whereas timing is vital so as to properly utilize on the market opportunity o entry when it avails itself.

2.6 Knowledge and Internationalization Process

Internationalization is viewed as a subject open for additional knowledge which is determined by the association between the acquisition of knowledge regarding the internalization of business operations and staying committed to international markets (Vahlne& Johanson, 2003), The international expansion of firms is mainly brought about by knowledge (Forsgren, 2002). Learning leads to the acquisition of knowledge .The process of learning involves the transformation of experiences from the market into beneficial knowledge (Jansson, 2007). Figueirade et al. (2011) posits that a great division exists between the process of knowledge acquisition and the actual firm's learning processes, since knowledge acquisition entails the the utilization and adaptation of the knowledge which bring about effective learning.

The process of learning requires time thus contributing to firm's internalization processes' incremental character (Vahlne & Johanson, 1977). The firm's knowledge about the market determines the perception of the firm about existing risks in the market. Firms with little knowledge regarding foreign markets tend to assume that more risks exist even above the actual situation which unnecessarily increases their uncertainty about their international business relations (Johanson & Vahlne, 2003). Knowledge on business networks is closely related to knowledge on business relationship development as described by Vahlne and Johanson(2006). The acquisition of knowledge from business network towards enabling a firm to reach an insider network position (Vahlne& Johanson, 2009). Both market-specific and general knowledge is obtained from the firm's business network (Chetty &Eriksson, 1998), thus it is established based on social capital, which refers to accumulated resources within the business framework (Agndal& Chetty, 2007). Social capital is viewed relationship-based norms which are split into social relationship resources and social through the relationships in business networks (Jansson, 2007).

2.7 Distance and Internationalization Process

According to (Clark & Pugh, 2001) distance is a factor in the internationalization process which prevents the expansion of markets across various countries and could be used to explain different firm's internationalization behavior differences (O'Grady & Lane (1996), this concepts holds the presumption that the variation between foreign market environment regarding previous experience of the firm affects the accumulation of knowledge in the new market which results in uncertainties when conducting business activities. Psychic distance was therefore termed as the international business concept and the foundation of internationalization. This ideology was described by Johanson and Wiedersheim (2005) as factors limiting information flow between firms and the market.

This definition is based on the behavioral theory of the firm as postulated by Cyert and March (2013). Hallén and Wiedersheim-Paul (1994), also gave another definition for psychic distance as the "difference in perceptions between buyer and seller regarding either needs or offers". The concept of cultural distance is also mostly used in the measurement of the differences that exist between international markets with regard to FDI and its measurements Hofstede (1980): individualism/collectivism, power distance, avoidance, uncertainty and feminine/masculine attitudes.

2.8 Empirical Review

Chatterjee and Lim (2000) supports a positive relationship exists between internationalization and performance. Further according to Hamel (1991) engaging in strategic alliances could lead to many organizational complexities and implementation difficulties. Firms may therefore need to internationalize to forestall some of these challenges. Bloodgood et. al. (1996) reports that firms need to have international operations to remain competitive in the market as it allows access to international expertise, technologies and innovations. This argument therefore supports the assertion that there are certain desirable outcomes associated with international business. Jones (1999) established the relationship between the value of cross-border activity and small firm growth and further concluded that firms that are extensively networked are among the most successful in the domestic market.

In their study, Burpitt and Rondinelli (2000) conclude that financial success in initial years through exporting activities motivates firms to further internationalize in subsequent periods. Burgel et al. (2001) also found that firms with international operations reported higher sales and productivity growth but not employment growth particularly in software sector. Parnell (2002) suggested the inclusion of qualitative measures instead of traditional metrics such as ROI, ROA, sales revenue growth and market share among others.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methods and procedures that were employed in the study in order to come up with the solutions to the research question. The chapter discusses the research design, the target population and sampling design, data collection methods, as well as the methods used in analyzing and presenting the data

3.2 Research Design

The study used a cross sectional survey on the commercial banking industry in Kenya. A cross sectional study is where the researcher records information on the subject of study without manipulating the study environment. It is a snapshot of the population. Mugenda and Mugenda (2003) sees a cross sectional study as a process of collecting data from members of a population to determine the current status of the population concerning one or more variables.

This was the appropriate method for this study, it avails descriptive data on the various aspects of internationalization that the study sought to establish. Data for the study was therefore collected from the relevant members of the population at only one point in time. Cross sectional surveys enable the researcher to collect data across many subjects.

3.3 Research Population

A population of study is defined as the totality of persons, events, objects or other subjects that may of interest to the researcher (Mugenda & Mugenda, 2003). When determining the population of the study, the researcher is strictly guided by the research question and design.

The target population were all commercial banks with operations in foreign markets. Among the 42 commercial banks licensed to operate in Kenya as at 30th, April, 2017, 13 commercial banks have operations in foreign countries. A sufficient number of elements from the population of commercial banks were selected, and that population was studied to understand its' internationalization process and performance characteristics of the subjects (Sekaran, 1992).

3.4 Data Collection

The study utilized primary data only. The data was collected using a questionnaire that was designed to capture the various variables under study. The questions were on a five point likert scale. This kind of questions enabled the computation of the statistics necessary to answer the research questions and objective. The questionnaire consisted of six(6) parts. Part one was designed to capture data relating to the demographic statistics of respondents, Part two was designed to capture data on demographics of respondent institutions. Parts three, four, five and six were meant to collect data on the variables of the study.

Respondents were the business development managers or strategy managers in each bank. These were identified as respondents because given the information sought, the researcher believed that they were best placed to provide it. One business manager or strategy manager was interviewed per bank.

3.5 Data Analysis

The data collected was analysed using descriptive statistics including the mean, standard deviation and covariance of variation. Relationships were tested using correlation and linear regression analysis. Statistical Package for Social Scientists

(SPSS) version 21 software package was used as a tool to help analyse the data. This study used the following regression model.

$$Y = \propto + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$$

The elements in the model are as follows:

Y	=	Firm Performance
X_1	=	Market Knowledge
X_2	=	Market Commitments
X_3	=	Commitment Decisions
X_4	=	Current Activities
ε	=	Error Term

The model was tested using correlation analysis and multiple regression analysis..

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

The objective of this study was to establish the relationship between internationalization and performance of commercial banks in Kenya. Data collected has been summarized by use of tables. Descriptive statistics were used to get a general idea about the data and finally regression analysis carried out to test the relationship between the independent and the dependent variables of the study. This chapter presents data analysis and subsequent interpretation of the findings.

4.2 Number of years worked in the Bank

This question was meant to determine the number of years the respondent had worked with the respondent institution. The respondents were asked to indicate the number of years worked in the bank .The results are presented in Table 4.1.

Table 4.1 Number of years worked with Bank

Years worked	Number	%	Cumulative %
Less than 10 years	2	15.38%	15.38%
10-15 years	7	53.85%	69.32%
16-20 years	2	15.38%	84.70%
21-25 years	1	7.69%	92.39%
26-30 years	1	7.69%	100%
Over 30 years	None	0%	
Total	**13**	**100%**	

Source: Research Data, 2017

Table 4.1 above shows that only 2 respondents have worked for that particular bank for a period of less than 10 years. A majority of the respondents (7) indicated that they have worked for that bank for between 10 to 15 years. Only two employees indicated that they had worked with the bank for more than 21 years. It is also clear that over 11 respondents have been with the respondent bank for periods of up to 26 years.

4.3 Number of years the Bank has been in Operation

The respondents were required to indicate the number of years the bank has been in operation in Kenya. The findings are presented in Table 4.2.

Table 4.2 Number of years the Bank has been in Operation in Kenya

Number of Years	Number	Percentage	Cumulative %
Below 10 years	2	15.4%	15.4%
10- 20 years	7	53.8%	69.2 %
20- 30 years	3	23.1%	92.3%
Over 30 years	1	7.7%	100.0%
Total	13	100%	

Source: Research Data, 2017

According to Table 4.2 above, 15.4% of the respondent banks have been in operation for less than 10 years. Over a half of the institutions indicated that they have been in existence for between 10 and 20 years (53.8 %). Only about 8% indicated that the bank had been in existence for over 30 years. It worth noting that over 75% of the respondent banks have been in existence for between 10 and 30 years.

4.3 Structure of Ownership of the banks

This question sought to establish the nature of the ownership of the commercial banks. Whether an institution chooses to internationalize or not may be dependent on the nature of ownership.The respondents were required to indicate the structure of ownership of the commercial bank. The findings are presented in Table 4.3.

Table 4.3 Ownership Structure

Ownership structure	Number	Percentage
Wholly locally owned	2	15.4%
Wholly foreign owned	0	0%
Both foreign and locally owned	9	69.2%
Wholly government owned	0	0%
Partly Private and Partly government owned.	2	15.4 %

Source: Research Data, 2017

Table 4.3 shows that almost 69.2 % of the respondent banks are show hybrid ownership i.e a combination of both foreign and local ownership. Those banks that are owned privately as well as government owned accounted for only 15.4%. This was the same percentage as those banks that are wholly locally owned. Probably it might be that there is a relationship between ownership and the managerial willingness to internationalize the operations of a commercial bank.

4.4 Descriptive Statistics

Descriptive statistics for the variables of the study were computed. Descriptive statistics provide an idea on the nature of the data i.e its spread and central tendencies. Means and standard deviation were used for this purpose.

4.4.1 Descriptive statistics for Market Knowledge

Descriptive statistics including the mean and standard deviation were computed. Descriptive statistics enable the researcher to get an understanding of the data in terms of central tendencies and general spread. These descriptive statistics were competed for each variable independently as presented in table 4.4.

Table 4.4 Market Knowledge

Statement	Mean	Std. Dev
The bank relies on secondary sources of information	4.57	.32
The bank employs services of local consultants to understand market needs	4.32	.24
The bank relies on secondary information to understand competition	4.11	.17
We cannot venture into a foreign market before we get full information	3.67	.34
The bank has a department specifically mandated to process and disseminate information	3.45	.24

Source: Research data, 2017

The findings indicate that commercial banks heavily rely on secondary sources of information (Mean= 4.57). This indicates that respondent banks use sources of information such as syndicated sources, government sources such as consulates as sources of information. Banks also indicated that they also use information provided by local consultants they engage in those foreign markets (Mean=4.32).

The findings also indicate that banks can venture into foreign markets before they get full information. This was supported by a moderately (Mean= 3.67). On whether banks had departments that are specifically mandated to handle market research, the response was also moderate (Mean=3.45).

4.4.2 Descriptive Statistics for Market Commitment

This part of the questionnaire sought to determine the considerations into the determination of levels of market commitment. The findings are presented in table 4.5.

Table 4.5 Market Commitment

Statement	Mean	Std. Dev
Level of commitment is commensurate with anticipated risk	4.76	.27
The bank only commits resources after ascertaining market viability	4.57	.23
Level of commitment is commensurate with expected returns	4.23	.25
Commitment is subject to resources at the bank's disposal	2.78	.31

Source: Research Data, 2017

A majority of the respondents support the statement that level of commitment is commensurate with the anticipated risk (Mean=4.76, Std.Dev= .27). The fact that banks only commit resources after ascertaining market viability was supported with a mean of 4.57. The statement that level of commitment is commensurate with expected returns was considered important (Mean = 4.23, Std. Dev.=.25). The resources at the banks disposal was not highly considered.

4.4.3 Descriptive Statistics on Commitment Decisions

This part of the questionnaire was meant to establish the kind of decisions that need to be made before any commitment and the level at which such decisions are made. The findings are presented in table 4.6.

Table 4.6: Commitment Decisions

Statement	Mean	Std.Dev
Commitment decisions are dependent on expected returns	4.76	.34
Decisions on level of commitment are made at the top	4.27	.34
Commitment decisions depend on environmental factors in the host market	4.13	.12
Commitment decisions are pegged on market potential	3.89	.32
The bank considers investment levels of competitors	3.56	.45

Source: Research Data, 2017

Table 4.6 above shows that the statement that commitment decisions are dependent on expected returns is considered quite important with a mean of 4.76 and a Std.Dev of 0.34. Decisions on the level of commitment in foreign markets are made at the very top. The implication here is that these are strategic decisions.(Mean= 4.27). The fact that commitment decisions depend on environmental factors in the host country was also considered important (Mean- 4.13). Consideration of the levels of investment by competitors is not considered very important (Mean=3.56).

4.4.4 Descriptive Statistics for Current Activities

This part was meant to determine whether banks consider their current activities when making foreign market entry decisions.

Table 4.7 Current Activity

Statement	Mean	Std. Dev
The bank considers the existing products	**4.46**	**.21**
The bank takes into account current structures	**4.21**	**.32**
We consider current resource capabilities	**3.87**	**.25**
We consider our strengths and weaknesses	**3.34**	**.32**

Source: Research Data, 2017

The findings in Table 4.7 show that before entering a foreign market, banks are likely to consider their existing products more than anything else (Mean= 4.46). The current organizational structures of the bank are considered important in making internationalization decisions (Mean=4.21). The results also indicate that the current resource capabilities of the bank is a consideration when going international.

4.5 Regression Statistics

Regression of the variables of the study was performed to develop the regression equation. The independent variable i.e internationalization was explained by four indicators.

Table 4.8 Regression Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.634[a]	0.3345	0.39	0.4523

Predictors: (Constant), MK, MC, CD & CA

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.927	4	1.442	7.028	.000[b]
	Residual	6.138	12	0.205		
	Total	11.065	16			

a. Dependent Variable: BP

Predictors: (Constant), MK, MC, CD & CA

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.114	0.901		1.034	0.309
	MK	1.028	0.274	0.637	3.741	0.001
	MC	0.263	0.222	0.194	1.182	0.004
	CA	0.431	0.213	0.243	1.097	0.004
	CD	0.686	0.232	0.45	2.959	0.006

a. Dependent Variable: BP

The results of the regression model above indicate that the relationship between the indicators of internationalization and bank performance was significant (R Square= 0.335, F=7.028, P<0.05). The F ratio indicates that the relationship between market knowledge (MK), market commitment (MC), commitment decisions (CD) and current activities (CA) is significant at $P < 0.00$.

The regression equation used to predict the relationship between the indicators of internationalization and bank performance is as follows:

$$BP = 1.114 + 0.637\,MK + 0.194\,MC + 0.243CA + 0.45CD + \varepsilon$$

Where;

BP= Business Performance

MK= Market Knowledge

MC= Market Commitment

CA= Current Activities

CD= Commitment Decisions

The results indicate market knowledge has a higher influence on business performance followed by commitment decisions, current activities and market commitment respectively.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains a summary of the findings, a conclusion and provides recommendations for further studies in line with gaps identified in the process of carrying out this study. The summary is in line with the data analysis and findings as reported in chapter four.

5.2 Summary

The study set out to determine the effect of internationalization on the performance of commercial banks in Kenya. The variables of the study were internationalization as the independent variable and performance as the dependent variable. Internationalization was viewed from the perspective of the inputs into internationalization including; market knowledge, market commitment, current activities of the globalizing company and commitment decisions. Existing literature on internationalization was not found to discuss the effect of internalization inputs on performance.

To bridge the gaps identified in literature the objective of the study was formulated as being to determine the effect of internationalization on the performance of commercial banks in Kenya. The variables mentioned above were decomposed to items that could be used to collect relevant data from respondent institutions. Though no conceptual model was designed out of the literature review one could be inferred from the research problem.

5.3 Discussion

The findings indicate that all the four variables significantly influence performance. Market knowledge was found to significantly influence performance. This finding is consistent with Johnson and Vahlne (2000) who report that before embarking on internationalization it is necessary for firms to invest in information gathering. This information may relate to customer needs in the foreign market, the level of competition expected and the legislative requirements of the foreign country.

Market commitment was also found to significantly influence performance. This finding is supported by Bennet (2006). Bennet (2006) argues that the market commitment by a company intent on internationalizing is dependent on the expected returns, expected risk levels and the potential of the market i.e the outlook of the market.The companies' current activities were found to be significantly influence performance of commercial banks. Commercial banks that intent to internationalize reportedly consider their current activities. These considerations include the current product portfolio, current structure and current overall strategic intentions. This finding is in line with Bennet (2006).

Commitment decisions were reported to significantly influence performance. A number of authors in international business including Bennet (2006), Johnson and Vahlne (1977) and Czinkotta et al. (2011). They all concur that before internationalization can take place the firm a must consider certain factors before going abroad.

5.4 Conclusions

The objective of this study was to determine the effect of internationalization on performance of commercial banks in Kenya. The findings indicate that the constructs of internationalization are positively correlated with performance. The conclusion is that when the independent variable is manipulated upwards, the dependent variable which is performance responds accordingly.

This confirms that internalization inputs and the manner in which they are manipulated has an influence on performance of commercial banks. It can be concluded that for a commercial bank to report higher levels of performance, then market knowledge has to be made a lot more rigorous. Similarly for commercial banks to post higher performance levels market commitment has to be more intense.

From the results it could also be concluded that commercial banks need to consider their current activities such as existing products, existing operational structures, and current strategic intentions if they are to register increased performance. Finally, it can also be concluded that commitment decisions need to be made with a lot more care and insightful consideration of the relevant variables.

5.5 Recommendations for Policy and Practice

The findings have certain implications for policy. The regulatory institutions in Kenya including Central Bank of Kenya may have to insist on presentation of information about the market before any local bank moves out to foreign markets. The regulatory bodies in deed may have to require as a policy that commercial banks that wish to internationalize their operations deposit with them clear blueprints detailing the scale of commitments and the timescale.

On practice, managers in commercial banks may have to consider collection of information from the foreign markets before making the internationalization move. Many managers may be misguided to think that availability of resources to internationalize is the overwhelming consideration which is misleading. Collection of adequate and reliable information will make it possible for managers to allocate resources on the basis of actual market needs.

5.6 Limitations of the Study

This study was restricted to only those commercial banks which had internationalized. This therefore narrowed the scope of the study since there were only 13 commercial banks which had internationalized.

5.7 Suggestions for further research

This study was restricted to issues in internalization other than psychic distance between nations. Future studies need to incorporate this item in establishing the internationalization intentions of firms in Kenya. Literature has confirmed that indeed psychic distance is one of the greatest determinants of internalization.

This study focused on only one sector of the economy. There is need for further studies to incorporate other sectors possibly manufacturing. This is because the focus of this study was service industries which definitely have certain peculiarities not shared with the goods sector. A cross sectoral study is recommended.

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APPENDIX: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

Please tick (✓) one of the choices provided for questions 1 to 8

1. Information on Respondent

1) Title/Designation…………………………………………………………

2) Name of Bank …………………………………………………………

3) Highest level of formal education

O levels/A levels	( )
Diploma	( )
Postgraduate Diploma	( )
Bachelor's degree	( )
Master's degree	( )
Doctorate (PhD)	( )

4) How many years have you worked in this Bank?

Less than 10 years	( )
10-15 years	( )
16-20 years	( )
21-25 years	( )
26-30 years	( )
Over 30 years	( )

5) Number of years in operation of the Bank in Kenya

[ ] Below 10 years

[ ] 10-20 years

[ ] 21-30 years

[ ] 31-40 years

[ ] Above 40 years

6) What is the structure of ownership of the bank?

[ ] Wholly locally owned

[ ] Wholly foreign owned

[ ] Both foreign and locally owned

[ ] Wholly government owned

[ ] Partly Private and Partly government owned.

7) Indicate the asset base of the bank.

[ ] Below K Shs 10 billion

[ ] KShs 10-20 billion

[ ] KShs 21-30 billion

[ ] KShs 31-40 billion

[ ] above K Shs 40 billion

8) How many branches does the bank have in Kenya?

[ ] Below 5

[ ] 5-10

[ ] 11-15

[ ] 16-20

[ ] Above 20

PART B

9) How long ago did the bank go international?

[ ] less than 5 years ago

[ ] 5 – 10 years ago

[ ] 10 -15 years ago

[ ] more than 15 years ago

10) Did the bank go international using any deliberate process?

[ ] Yes

[ ] No

11) Re-organize the following in a manner that explains the process that the bank used for internationalization. Use labels of 1,2,3,4….to order the process

[ ] Franchising

[ ] Licensing

[ ] Buy-outs of existing banks in foreign countries

[ ] Establishment of subsidiaries in foreign countries

[ ] Registration of a completely new unit in the foreign country

12) What challenges did the bank come across in the process?

[ ] Regulatory challenges

[ ] Language barriers

[ ] Hostile political environment

[ ] Strange cultures

[ ] Competition

[ ] Getting proper personnel

[ ] Lack of communication infrastructure

[ ] Other…………………………………………………..

PART C: MARKET KNOWLEDGE

To what extent do the following statements describe market knowledge in your bank on a scale of, 1= Not at all, 2 = Small extent 3, = Moderate extent 4, =large extent and 5, =Very large extent

Statement	1	2	3	4	5
The bank relies on secondary sources of information					
The bank employs services of local consultants to understand market needs					
The bank relies on secondary information to understand competition					
We cannot venture into a foreign market before we get full information					
The bank has a department specifically mandated to process and disseminate information					

To what extent do the following statements describe market commitment in your bank on a scale of, 1= Not at all, 2 = Small extent 3, = Moderate extent 4, =large extent and 5, =Very large extent

Statement	1	2	3	4	5
The bank only commits resources after ascertaining market viability					
Level of commitment is commensurate with expected returns					
Level of commitment is commensurate with anticipated risk					
Commitment is subject to resources at the bank’s disposal					

PART E: COMMITMENT DECISIONS

To what extent do the following statements describe Commitment decisions in your bank on a scale of, 1= Not at all, 2 = Small extent 3, = Moderate extent 4, =large extent and 5, =Very large extent

Statement	1	2	3	4	5
Decisions on level of commitment are made at the top					
Commitment decisions are pegged on market potential					
Commitment decisions are dependent on expected returns					
Commitment decisions depend on environmental factors in the host market					
The bank considers investment levels of competitors					

PART F: CURRENT ACTIVITIES

Statement	1	2	3	4	5
The bank considers the existing products					
The bank takes into account current structures					
We consider current resource capabilities					
We consider our strengths and weaknesses					

PART G: BANK PERFORMANCE

To what extent do the following statements describe performance in your bank on a scale of, 1= Not at all, 2 = Small extent 3, = Moderate extent 4, =large extent and 5, =Very large extent

Non financial performance

Statement	1	2	3	4	5
The bank invests in research and development					
The bank's market share is larger than that of our competitors'					
Compared to competitors the bank's customer retention rate is higher					
Our Return on Assets is higher than that of our competitors					
Our bank's Return on Equity is higher than that of our competitors					