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FACTORS INFLUENCING INTERNATIONALIZATION OF CAPITAL MARKETS IN KENYA

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ABSTRACT
Companies internationalize because of many factors that include profit motives, costs minimization, market diversification, new opportunities and saturated domestic market. Kenya's capital market has been described as narrow and shallow. The level of internationalization in the Kenyan capital market is a problem that has affected adversely the levels of revenues earned within the international market. This study set out to examine factors that influence internationalization of capital markets. The study adopted a descriptive survey. Qualitative data through questionnaires was used. Descriptive statistics was employed for data analysis. Study findings reveal that capital markets development is influenced by the macroeconomic and institutional factors, capital markets internationalization has been realized to a moderate extent, investment security, globalization, information availability, quality systems and size of organization affects investment in other capital markets and barriers to capital markets internationalization include unfavourable political landscape. The study concludes that regional and global integration is important for stock market development in Kenya. The study recommends that the government of Kenya alongside other governments in the region should strengthen the regional integration to accelerate the level and pace of internationalization of capital markets in Kenya and the region. There need to be deliberate policy efforts by governments and players in the sector towards mitigating against the identified barriers to capital markets growth and capital markets internationalization. Also firms should make use of technological advances and innovation to enhance investment security, information availability and quality systems for greater efficiency, synergy and effectiveness.
Keywords: capital markets, internationalization, drivers, development, Kenya

INTRODUCTION
Concept of Internationalization
Welch & Luostarinen (1988) define internationalisation as "the process of increasing involvement in international operations". Given the organisational and environmental complexity, which increases with the extension of a firm's international activities (Verbeke, Li & Goerzen 2009), it seems legitimate to adopt a more holistic definition of internationalisation as "the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments" (Calof & Beamish 1995). This adaptive approach implies that internationalisation should be regarded not merely from the perspective of entering foreign markets, but more broadly that of developing and managing international operations.
Companies internationalize because of many factors that include profit motives, costs minimization, market diversification, new opportunities and saturated domestic market (Welch & Luostarinen, 1988). The internationalization process of a firm involves many processes that are interlinked and the firm that wants to internationalize should always take these factors into considerations. Welch & Luostarinen, (1988) indicate that these factors include market knowledge, resources availability, strategies to be used and the market environment.

Organizations are recognized in various ways especially in the internationalization process which has been of much attention to many scholars, academicians and business people in recent years. Companies have played a great role in the global economy in the recent years with many of them going international or at least having the idea of internationalizing their operations. Firms have expanded their operations to international markets and use their diversification into international market as an important tool and competitive advantage to achieve the much anticipated growth.

Capital markets

The capital market plays a significant role in the national economy. A developed, dynamic and vibrant capital market can contribute significantly in the speedy economic growth and development. It mobilizes funds from people for further investments in the productive channels of an economy, activating idle monetary resources and puts them in proper investments. Capital market also helps in capital formation. Capital formation is net addition to the existing stock of capital in the economy. The capital market enhances production and productivity in the national economy. As it makes funds available for long periods of time, the financial requirements of business houses are met by the capital market. Further it helps in research and development. This helps in increasing production and productivity in the economy by generation of employment and development of infrastructure. The lack of an advanced and vibrant capital market can lead to underutilization of financial resources. The developed capital market also provides access to foreign capital for domestic industry. Thus the capital market definitely plays a constructive role in the overall development of an economy. Capital markets consist mainly of Stock (equity) and Debt markets. The capital market provides an avenue for raising the long-term financing needs of business through equity and long term debt by attracting investors with a long term investment horizon.

The capital market in Kenya is made up of stock market, bonds, development financial institutions, and pension funds. While the stock market has been in existence since 1920s, it failed to pick the growth momentum and currently, the market has just about 50 listed firms which are less than what the country inherited at independence. The bonds market is in its infancy stage almost getting to its youthful stage. In Kenyan capital markets play an important role in structural adjustment processes. Assistance to their development can be legitimate and useful component of foreign assistance structural adjustment package. In Kenya, capital markets center around three core institutions – the regulatory authority, stock exchange and clearing and settlement facility.

Statement of the Problem

It has been observed that well functioning capital markets increases economic efficiency, investment and growth. Kenya's capital market has been described as narrow and shallow. The stock market and private bond market have been raising less than 1% of growth financing. The vision 2030 development plan aims to achieve an annual economic growth of 10% with an investment rate of 30% to be financed mainly from mobilization of domestic resources.

Migration of trading and issuance of stocks abroad seem to be the trend. Large firms have gained enormously in access to global equity markets, which are deeper and more liquid. But this poses a serious problem for the small and medium enterprises. (Torre & Schmukler, 2007). The level of internationalization in the Kenyan capital market is a problem that has affected adversely the levels of revenues earned within the international market. There exists limited research that focuses on capital market internationalization in Kenya. This study examines factors that influence the speed and level of internationalization of capital markets in Kenya.

Study objectives

The main objective of this study was to examine factors influencing internationalization of capital markets in Kenya. Specific objectives were to: establish factors that drive development of capital markets, establish the extent of capital market internationalization in Kenya, establishing factors that influence firms to invest in other capital markets and barriers to internationalization of capital markets from the Kenyan perspective.

LITERATURE REVIEW

Theoretical Review

Network Theory

Uppsala-model has been challenged by network theorists in recent years, whose fundamental argument is that modern high-technology firms do not exhibit the incremental process; rather they achieve a faster internationalization through the experience and resources of network partners (Chen & Yhen, 2011). All firms in a market are considered to be embedded in one or more networks via linkages to their suppliers, subcontractors, customers and other market actors (Johanson & Mattsson, 1993).

According to Donnelly (2013) a network is a set of two or more connected business relationships, in which each exchange relation is between business firms that are conceptualized as collective actors. Network theorists see a firm's internationalization as a natural development from network relationships with foreign individuals and firms (Johansson & Mattson, 1993). Networking is seen as a source of market information and knowledge, which are often acquired in longer term when there are no relationships with the host country. Therefore, networks are a bridging mechanism that allow for rapid internationalization (Scott-Kennel, 2013). The emphasis of the network approach is in bringing the involved parties closer by using the information that the firm acquires by establishing close relationships with customers, suppliers, the industry, distributors, regulatory and public agencies as well as other market actors. Relationships are based on mutual trust, knowledge and commitment towards each other.

Firms establish and develop position in the market in relation to other actors in a foreign network (Johansson & Mattson, 1993). Firms, when going abroad are engaged in a domestic network with the main goal to develop business relationships in a foreign country. The position of a firm in the local network determines its process of internationalization since that position determines their ability to mobilize their resources within the network. All firms in the market are related in a way to other actors, whether they are local or international. As actions take place on the firms interacting in the network, their activities should be coordinated in order to get a better profit from those relationships. For instance a firm can have better understanding with a supplier, or with other companies. Coordination in the market comes from the interaction of the firms involved in the network, where price is only one of the many factors influencing decision (Grøgaard, Gioia & Benito, 2013).

Uppsala Model

The Uppsala model was originally initiated by Johanson & Wiedersheim (1975) as an outcome of empirical observations regarding the internationalization of Swedish firms, with no restriction concerning their sizes. The findings showed that most Swedish firms favour gradual involvement in foreign markets rather than large investment commitments. Johanson and Wiedersheim believed that the gradual internationalization is typical for firms operating in small domestic markets. The model was further developed by Johanson & Vahlne (1977; 1990). The Uppsala model is a behavioural oriented model which proposes that internationalization is a dynamic process in which firms gradually increase their operations in a foreign environment (Johanson & Vahlne, 1977). An emphasis is put on the firms' international experimental knowledge as a critical aspect that influences the international decisions. In other words, firms learn from their current international activities and the acquired knowledge about the market and its operations affects their future commitment decisions and activities. Boris & De Haaff (2013) argues that as a result of the long learning process, the expansion of operations to foreign markets takes place incrementally.

Firms commence internationalization with irregular export activities and over a period of learning from ongoing activities they increase their international commitment through agents, followed by possible establishment of a subsidiary and potential subsequent production in the foreign country .The Uppsala model also suggests that when firms choose foreign markets their decision is also influenced by the psychic distance between the two countries (Johanson & Vahlne, 1990). Psychic distance refers to differences in language, culture and business practices among countries that may hamper business communication between firms. For that reason firms decide to commence international activities in neighbouring and similar countries with regard to the above mentioned factors, followed by successive establishment of operations in more distant countries.

After three decades, the Uppsala model still dominates in the internationalization literature. However, despite the broad use, the model is criticised by many authors. According to Johanson & Vahlne (1990) the model is mainly criticised for being too deterministic, as it refers to the series of stages that a firm goes through during the internationalization process. Andersen (1993) argues that the incremental models are vague and lack detail in explaining the movement from one stage to another. Bell (1995) suggests that the internationalization process is not as simple as the traditional models indicate.

In addition, Bell (1995); Coviello and Munro (1995) and Jones (1999) argue that the incremental approaches often are not applicable to smaller high technology firms compared to larger manufacturing firms, mainly because they do not internationalize in a stepwise manner. Moreover, Forsgren (2002) suggests that the Uppsala model deals only with learning through firms own experience and fails to incorporate other dimensions.

Karabulut (2013) has responded to such criticism by reviewing the Uppsala model. They believe the old model, although still applicable to some firms, does not necessarily apply to those firms that internationalize more rapidly and exploit the advantages of business networks, i.e. the network approach to internationalization.

Factors Influencing Internationalization

Different forces have fostered the recent wave of capital market development and financial globalization. These forces can be grouped into three categories namely government policies, technological and financial innovations, and demand and supply side factors. First, governments have helped markets to develop by liberalizing the financial sector. This liberalization process entails many measures. The typical policies adopted include the liberalization of domestic interest rates, stock markets, and the capital account of the balance of payments. These measures were intended to enable market forces to operate, make the financial sector more efficient, promote the emergence and use of securities markets, and allow cross-country diversification (Boris, & De Haaff, 2013).

Second, technological advances have facilitated the use of capital markets, allowing trading at lower cost and making clearing and settlement activities more efficient. Also, financial innovation has helped in the development of new instruments that enable investors to diversify and hedge risk. Another part of the financial innovation process has been the securitization of assets, most notably of mortgage and consumer loans, which fosters capital market development. This process of technological and financial innovation has been aided by the emergence of large international financial conglomerates, operating worldwide and offering a wide range of financial services (Karabulut, 2013).

Third, changes in the demand side have also provided an important boost to capital markets. Investors have discovered new ways to diversify their portfolios by holding securities instead of bank deposits. The emergence of mutual and pension funds has enabled investors to purchase securities at low cost and, at the same time, diversify their investments in an array of assets and across countries. This has allowed workers to save including, for their retirement and the children's education through investing in securities markets.

Factors driving the development of the capital markets

Capital markets have been exhibiting growth in the Kenyan economy despite the fact that there is high heterogeneity across different regions and global boundaries. The growth in the capital markets comes about because of financial globalisation associated with increased capital flows over different geographical boundaries, security issuance, substantial foreign direct investment present in the financial sector, and the increasing level of trade occurring abroad. Two major factors drive the development of the Kenya Capital market such as reforms, macroeconomic and institutional factors. The macroeconomic and institutional factors include factors such as monetary stability, the legal environment, fiscal policies (Boris, & De Haaff, 2013).

Recently, studies have shown that financial development is closely related to a healthy economy while at the same time financial development tends to cause growth. Four variables have the ability of affecting the bond and the stock markets such as the level of disposable income, the country's macroeconomic policies, financial market size, and the institution (Karabulut, 2013). The fact that developed countries have a stronger larger financial market is evident because of the high levels of GDP per capita. The fact that Kenya is still a developing country means that the available institutions are not of a higher quality compared to the ones available in the developed countries. In addition, there are minimal rights governing an individual's property and the rule of law, which affect financial development. Monetary and fiscal policies exhibit some relationship to the capital market. This is supported by the fact that financial contracting is difficult in environments with high inflation. Planning when uncertainty is exhibited in the level of future real values is a difficult task to undertake for firms and individuals (Donnelly, 2013).

As a result, the probability that they will engage in financial contracting when inflation is not predicted perfectly is minimal. However, high rates of inflation even if they are predicted have the ability of resulting into credit market friction, which further causes low investment and credit market fractioning. High rates of inflation within the Kenyan economy affect the relative prices resulting into the creation of incentives, which favour short-term projects and discourage long-run investments (Scott-Kennel, 2013).

The legal and the broader environment of an institution also have the ability of the development of the financial market. Law and enforcement has the ability of protecting investors, providing a clear definition of property rights, and providing support for the private contractual arrangements, which are crucial for the functioning of a financial market.

RESEARCH DESIGN AND METHODOLOGY

This study adopted a descriptive survey. A descriptive study attempts to describe or define a subject, through the collection of data and tabulation of the frequencies on research variables or their interaction (Chen, Hsu & Caskey, 2013). The target population of this study was all the 19 stockbrokerage firms licensed to operate at NSE that represented the study unit of analysis. The study adopted a census survey technique with emphasis on representatives of the departments in the stockbrokerage firms that are directly or indirectly involved in customers and business development which leads to the internationalization processes of capital markets. These departments were mainly research departments, dealing department and customer service especially the portfolio managers. The study used purposive sampling method and selected the heads from each of the selected departments in each stockbrokerage firms shown in Table 1.

Table 1: Sample Distribution

Department	No. of Brokerage firms	Frequency of interviewees in each department	No of interviewees
Research Department	19	1	19
Dealing Department	19	1	19
Customer Service Department	19	1	19
Total			**57**

This survey relied on qualitative data collection methods. These methods were in line with the chosen research design and were able to fit diverse experiences into predetermined response categories. Further, this facilitates easy results interpretation, summarizing, categorizing, and generalizing. Primary data was gathered through a semi-structured questionnaire to facilitate a probing inquiry. The questionnaire had both open and closed ended questions. According to Yin (2009), questionnaires are the most effective and reliable and also inexpensive compared to other data collection methods.

A pilot study was undertaken on at least four respondents to test the reliability and validity of the questionnaire. The rule of thumb was that 1% of the sample should constitute the pilot test (Cooper & Schilder, 2003). Sparrow, Farndale, & Scullion (2013) indicate that a pilot test is conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. According to Corbin and Strauss, (2008), a pilot study is conducted when a questionnaire is given to just a few people with an intention of pre-testing the questions.

The results of the reliability analysis revealed that the instrument was appropriate for the study. The analysis involved questionnaires from seven respondents and the Alpha coefficients were all greater than

0.7 indicating an acceptable reliability of the instruments.. A higher value; close to one, shows a more reliable generated scale. Cooper & Schindler (2003) has indicated 0.7 as an acceptable reliability coefficient. This result is presented in table 2.

Table 2: Results of Reliability Test

Variable	Cronbach's Alpha	No. of items
Factor influencing capital market internationalization	.8390	4

Reliability and validity testing was carried out. Cronbach's alpha (α) was utilized as a measure of internal consistency. The measure indicates the extent to which a set of test items can be treated as measuring a single latent variable (Cronbach, 1951). The recommended value of 0.7 was used as a cut-off of reliabilities. Questionnaires were subjected to peer review to check whether questionnaire measures what it purports to measure (Giovannetti, Ricchiuti, & Velucchi, 2013).

Out of the targeted 57 respondents, a response rate of 82.5% was achieved. Borsboom (2005) asserts that response rate of 50% is adequate, while a response rate greater than 70% is very good. This implies that based on this assertion; the response rate in this case of 83% is very good.

Collected data went through the process of editing, coding, entering and cleaning. Data collected was analyzed using descriptive statistics. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each factor. Data analysis was done with help of software programme SPSS

RESULTS AND DISCUSSION

Factors driving the development of the capital markets in Kenya

The study sought to establish the factors driving the development of the Capital markets in the Kenyan Economy. From the findings, the respondents indicated that the growth in the capital markets comes about because of financial globalisation associated with increased capital flows over different geographical boundaries, security issuance, substantial foreign direct investment present in the financial sector, and the increasing level of trade occurring abroad. Respondents also indicated that two major factors driving the development of the Kenya Capital market include reforms, macroeconomic and institutional factors. The macroeconomic and institutional factors include factors such as monetary stability, the legal environment and fiscal policies (Beck & Fuchs, 2004).

Further, the study sought to establish whether regional integration is important for stock market development. From the findings, the respondents indicated that regional integration is important for stock market development. Regional and global integration can bring greater efficiency, synergies, and economies of scale. In addition, it can also attract the foreign flow of funds; foster risk sharing and portfolio diversification; act as an impetus to financial sector reforms, thereby broadening the competitiveness of regional financial systems and minimizing the risks of financial instability; facilitate capital market development; and lead to economic growth. According to Demirguic-Kunt et al., (2008) regional integration is important for stock market development in smaller emerging countries.

Extent of Internationalization of capital markets in Kenya

The study sought to establish the extent to which internationalization of the capital market in Kenya has taken place. From the study findings majority of the respondents indicated that it has been done to a moderate extent. From the findings the respondents indicated that capital can move freely between countries and viewed the internationalization of capital markets from the perspective of how freely information and securities move. According to Johanson & Valhne (1977) when a firm gathers knowledge, experiences and networks by exporting, it is in a little while able to take the next step and expand its speed of internationalizing.

Also the study sought to establish the requirements for capital market internationalization in Kenya. The respondents indicated that capital market internationalization requires the utilisation of one among the six generic strategies available, such as export orientation, business transfer, global integration, franchising, licensing, foreign subcontracting, and export partnership. Through export orientation, a firm has the ability of entering a foreign market without necessarily outsourcing to other capital markets available. Value creation process takes place domestically while sales are carried out internationally.

Factors determining investing into other countries capital markets

One of the study objectives was to establish the extent to which various factors affected investing into other countries capital markets. These factors are investment security, globalization, information availability, quality systems and size of organization. According to the findings as shown in table 3, 62% indicated that the nature of the investments' security determined investing in other countries capital market to a very great extent, majority 81% indicated that globalization determined to a great extent, 62% indicated that information availability also determined to a very great extent, 71% indicated that quality of the systems determined to a great extent and lastly 52% were neutral that size of organization determined investment into other countries capital market. The study revealed that information availability determined to a very great extent, investment in other countries capital market. According to Sun (2009) the ability of firms to make use of available information and know how sets firms apart from the domestic enterprise because information is itself a key asset or resource that a firm leverages as it operates within the context of unfamiliar host countries

Table 3: Factors determining investing in other countries capital markets

Statement	Mean	Std DEV
Investments' Security	4.6	0.26
Globalization	4.8	0.32
Information intensity	4.6	0.24
Quality of the systems	2.0	0.28
Size of organization	3.6	0.19

This finding is based on responses on a likert type scale of between 1 and 5, where 1 and 5 represents to a very small and very large extent respectively

Barriers to the internationalization of capital markets in Kenya

The study sought to establish the respondents' level of agreement with the statements relating to the barriers to the internationalization of capital markets in Kenya. From the study findings as shown in table 4, 48% of the respondents agreed to a great extent that Kenya's political landscape is not conducive enough to support the internationalization of the capital market, 48% also agreed that fierce competition amongst financial intermediaries helps the capital markets retain and grow in its internationalization process. Further, 57% agreed to a very great extent that product offerings at the capital market have been updated and completely renewed for retaining strong market presence in the internationalization process and lastly, majority 62% agreed to a great extent that the availability of information is pertinent to Kenyans investing offshore and foreigners investing locally.

Study findings revealed that fierce competition amongst financial intermediaries helps the capital markets retain and grow in its internationalization process and that product offerings at the capital market have been updated and completely renewed for retaining strong market presence in the internationalization process. This finding concurs Ahokangas & Myllykoski (2011) observations that with internationalization it is easier than before for companies to cross borders, on the other hand, competition has become harsher, collaboration and subcontracting have become global, adoption of innovations has become faster and dependence of markets on each other has lessened.

Table 4: Barriers to the internationalization of capital markets in Kenya

Statements	Mean	Std dev
Kenya's political landscape is not conducive enough to support the internationalization of the capital market.	3.9	0.18
Fierce competition amongst financial intermediaries helps the capital markets retain and grow in its internationalization process.	4.1	0.22
Product offerings at the capital market have been updated and completely renewed for retaining strong market presence in the internationalization process.	4.7	0.05
The availability of information is pertinent to Kenyans investing offshore and foreigners investing locally.	4.6	0.24

This finding is based on responses on a likert type scale of between 1 and 5, where 1 and 5 represents to a very small and very large extent respectively

CONCLUSIONS AND RECOMMENDATIONS

The study concludes that the growth in the capital markets comes about because of financial globalisation associated with increased capital flows over different geographical boundaries, security issuance, substantial foreign direct investment present in the financial sector, and the increasing level of trade occurring abroad. Further the study concludes that regional and global integration is important for stock market development as this can enhance greater efficiency, synergies, and economies of scale internationalization of the capital market in Kenya has taken place. From the study findings majority of the respondents indicated that internationalization of capital markets has been achieved to a moderate extent and investment security, globalization, information availability, quality systems and size of organization affects investment in other capital markets. Also, Kenya's political landscape is not conducive enough to support the internationalization of the capital market, fierce competition amongst financial intermediaries helps the capital markets retain and grow in its internationalization process.

The study recommends that the government of Kenya alongside other governments in the region should strengthen the regional integration as this will accelerate the level and pace of internationalization of capital markets in Kenya and the region. The governments and players in the sector should direct efforts towards reducing the effect of the identified barriers to capital markets growth and capital markets internationalization. Policy framework should be developed to meet to accelerate the growth and internationalization of capital markets and make the financial sector more efficient, promote the emergence and use of securities markets, and allow cross-country diversification. Also the study recommends that firms should make use of technological advances and innovation to enhance investment security, information availability and quality systems for greater efficiency, synergy and effectiveness.

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