GLOBAL FINANCIAL CRISIS AND PERFORMANCE OF COMMERCIAL BANKS IN UGANDA; A CASE STUDY OF EQUITY BANK, KABALAGALA

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCE IN PARTIAL FULLFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR'S DEGREE IN INTERNATIONAL BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

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DECLARATION

I, **ELENGA OTENDI BERTIANE GRHACE**, hereby declare that this dissertation is my original work as a result of my own efforts and has never been submitted before to any other university or institution of higher learning for award of a Degree.

Signature ....

Date ...16/10/2013...

APPROVAL

This is to certify that this research dissertation has been done under my supervision and submitted to the college of Economics and Management Sciences, Kampala International University, in partial fulfillment of the requirements for the award of Bachelor's degree in International Business Administration with my approval as the candidate's university supervisor.

Mr. MBAGO RONALD

Signature ....

Date ....15/11/2013....

SUPERVISOR

DEDICATION

This piece of work is heartily dedicated to my beloved parents, Dad Elenga Alain Christian and mum Adoua Bertille Victoire. My Uncle Guy Adoua and Regina aunt Adoua. My brothers Maba Christopher and Maba Christian Jeremie, who helped me in the completion of this work.

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I acknowledge the Lord Almighty GOD for the gift of life and for seeing me through my studies and I say Ebenezer. I further acknowledge my friends like Kalemba Samuel and Lea Kwonke for their friendliness and moral that they gave to me during my studies.

I also acknowledge my beloved family for their encouragements, prayers, advices and being there for me in the ups and downs I went through during my university education.

Finally, I acknowledge my supervisor Mr. Mbago Ronald for the guidance during this research and all the lecturers in the college of applied economics and management sciences.

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ACRONYMS

KCB Kenya Commercial Bank

ICT Information Communication Technology

ATM Automated Teller Machine

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ABSTRACT

The study examined the relationship between globalization and performance of local commercial banks in Uganda. Its objectives was to examine the level of globalization in commercial banks in Uganda; to examine the contribution of globalization towards the financial performance in commercial banks in Uganda; and to find out the contribution of globalization towards employee performance in commercial banks in Uganda.

Descriptive research design was used in this study. The researcher sought to describe the strategic responses adopted by the local commercial banks through observation and interpretation techniques. The population of study used in research was 60 staff and customers of Equity bank Kabalagala branch.

The study found out that the respondents agreed with the statements, the majority (22) employees to a less extent agreed that their organization had merged or acquired other financial institution outside Uganda. Majority of 18 employees agreed to a less extent that the bank outsources its noncore business activities in order to concentrate with core business in order to gain competitive edge. Finally a large majority of 20 employees agreed to a very great extent that banks had anti fraud and money laundering investigation sections.

After a close look at the findings and conclusion the following recommendations were made; Local commercial Banks should continue with the strategic responses that they had put in place to cope with globalization and its effects Competition; Information Technology; Fraud.

The dynamic external environment dictates that customers' needs and expectations continue to increase. Therefore, on the basis of the suggestions by the respondents, the bank should continue diversifying its products and services so as to keep up with the competition and the customers' ever increasing expectations.

Globalization is a phenomenon whose effects will continue to be all over across the world (global village). The bank should continue to equip its management with current information globalization so as to enable them formulate strategies that will give the business a competitive advantage.

CHAPTER ONE

Background of the study

Deakins and Mackay (1995) notes that globalization is unstoppable. Regardless of geography, industry or income, companies are globalizing to gain new customers and access new market. The question of globalization and its impact therefore cannot be ignored by the Commercial Bank Managers. Being an environmental change, failure to address it and respond appropriately will impact on the banks' market share and profitability which is an important indicator of their performance.

A bank-oriented system as is prevalent in Uganda today is characterized by customers' needs versus banks' responses to these needs. Until recently, banks remained rigid and unresponsive to customers' needs. However, in the recent past, there has been a paradigm shift such that the banks have become the servants and the customers have become the masters. This may be attributed to the changes in the environment and in the world which have in turn changed customer's needs (Bank of Uganda Annual Report, 2006). As a result of globalization, customers travel internationally more often and hence are more informed and so demand high quality products and services from the banks.

Globalization Effects on Banking: The environmental conditions facing many banks have changed rapidly. Today's global competitive environment is complex, dynamic, and largely unpredictable. To deal with this unprecedented level of change, commercial banks in Uganda have engaged themselves in a lot of thinking so as to formulate and implement strategies that will enable them match this complex global competitive environment. Examples of such strategies include merges and acquisitions, strategic alliances, outsourcing, down-sizing and diversification of products.

The Banking Industry in Uganda; prior to Uganda's independence in 1962, Government-owned institutions dominated most banking in Uganda. In 1966 the Bank of Uganda, which controlled the issue of currency and managed foreign exchange reserves, became the Central Bank. Uganda Commercial Bank, which had fifty branches throughout the country, dominated commercial banking and was wholly owned by the government. The Uganda Development Bank was a state-owned development finance institution, which channeled loans from international sources into

Ugandan enterprises and administered most of the development loans made to Uganda. The East African Development Bank, established in 1967 was jointly owned by Uganda, Kenya, and Tanzania. It was also concerned with development finance. It survived the breakup of the East African Community in 1977 and received a new charter in 1980.

In the 1960s, other commercial banks included local operations of Bank of Baroda, Barclays Bank, Bank of India, Grindlays Bank, Standard Chartered Bank and Uganda Cooperative Bank. During the 1970s and early 1980s, the number of commercial bank branches and services contracted significantly. Whereas Uganda had 290 commercial bank branches in 1970, by 1987 there were only 84, of which 58 branches were operated by government-owned banks. This number began to increase slowly the following year. In the late 1990s and early 2000s, the Ugandan banking industry underwent significant restructuring. Several indigenous commercial banks were declared insolvent, taken over by the central bank and eventually sold or liquidated. These included Cooperative Bank, Greenland Bank, International Credit Bank, Teefe Bank and Gold Trust Bank which were closed or sold. Uganda Commercial Bank was initially privatized through a sale of its majority shares to a purported company from Malaysia. However it later came to light that the actual buyer was a partnership between Greenland Bank (which itself was insolvent) and some politically connected individuals. A second privatization sale was conducted, with the Standard Bank emerging as the winner.

The privatized Uganda Commercial Bank was merged with the former Grindlays Bank which Standard Bank already owned and had renamed Stanbic Bank. The combined new bank is now known as Stanbic Bank (Uganda) Limited. As of 2008, Stanbic Bank (Uganda) Limited is the dominant commercial bank in Uganda, with about 27% of all bank assets and about 20% of all bank branches. Nile Bank Limited, an indigenous institution, was acquired by the British conglomerate, Barclays Bank in January 2007 and merged with its existing Ugandan operations to form the current Barclays Bank (Uganda). A moratorium on new commercial bank licenses was declared in 2004, with the passage of a new banking bill in Parliament, which established new banking institution classification guidelines. There are four classes of lending financial institutions under the new regulations as outlined below.

The moratorium on new banks was lifted in July 2007. During the eighteen (18) months that followed the lifting of the moratorium, eight (8) new commercial banks were licensed. These included Kenya Commercial Bank, Equity Bank and Fina Bank, all from Kenya. Global Trust Bank and United Bank for Africa trace their roots from Nigeria. Ecobank is headquartered in Togo and Housing Finance Bank is an indigenous operation. Three other banks, ABC Bank (Kenya), Access Bank from Nigeria and CRDB Bank from Tanzania, have publicly declared their intention to start banking operations in Uganda in 2009.

As of December 2009, total commercial bank assets in Uganda are estimated at US$4.1 billion (UGX 7.58 trillion). The number of bank accounts in the country is over five (5) million. This represents a 16% penetration; given Uganda's population is 32,000,000. In April 2009, Bank PHB, Nigeria's fifth largest bank, bought 80% ownership of Orient Bank, Uganda's 8th largest commercial bank. This brings the current number of Ugandan banks with major investments from Nigeria to three (3).

Problem Statement

The question of globalization cannot be ignored by the Commercial bank managers as failure to respond to it will have direct impact on the banks' market share and profitability. Globalization in the banking industry has brought about certain issues in the banking industry. These include Competition, Fraud, and Money Laundering, Employee mobility and Government regulations. As a result of globalization, customers travel internationally more often and hence are more informed and so demand high quality products and services from the banks. Today's global competitive environment is complex, dynamic, and largely unpredictable. To deal with competition and the unprecedented level of change, commercial banks have come up with strategies that will enable them match this complex global competitive environment. Examples of such strategies include mergers and acquisitions, strategic alliances, outsourcing, down-sizing and diversification of products. This research therefore sought to investigate the effects of globalization and the performance of local commercial banks in Uganda.

Purpose of the study

The study examined the relationship between globalization and performance of local commercial banks in Uganda.

Specific objectives

i. To examine the level of globalization in commercial banks in Uganda.
ii. To examine the contribution of globalization towards the financial performance in commercial banks in Uganda.
iii. To find out the contribution of globalization towards employee performance in commercial banks in Uganda.

Research questions

The study focused to answer the following questions:

i. What is the level of globalization in commercial banks in Uganda?
ii. What is the contribution of globalization towards the financial performance in commercial banks in Uganda?
iii. What is the contribution of globalization towards employee performance in commercial banks in Uganda?

Scope of the study

Geographical scope

The study was carried out in the Equity Bank Kabalagala branch, located in Kabalagala trading center and along the Kampala Ggabba road about three kilometers from the city center on Kisa Kya main building.

Content scope

The study will look at performance in two angles; financial performance and employees performance.

Significance of the study

This study will be useful to different interested groups such as:

i. Commercial banks and other financial institutions may learn more on the best practices in the industry so that they can cope with the dynamic environment surrounding them.

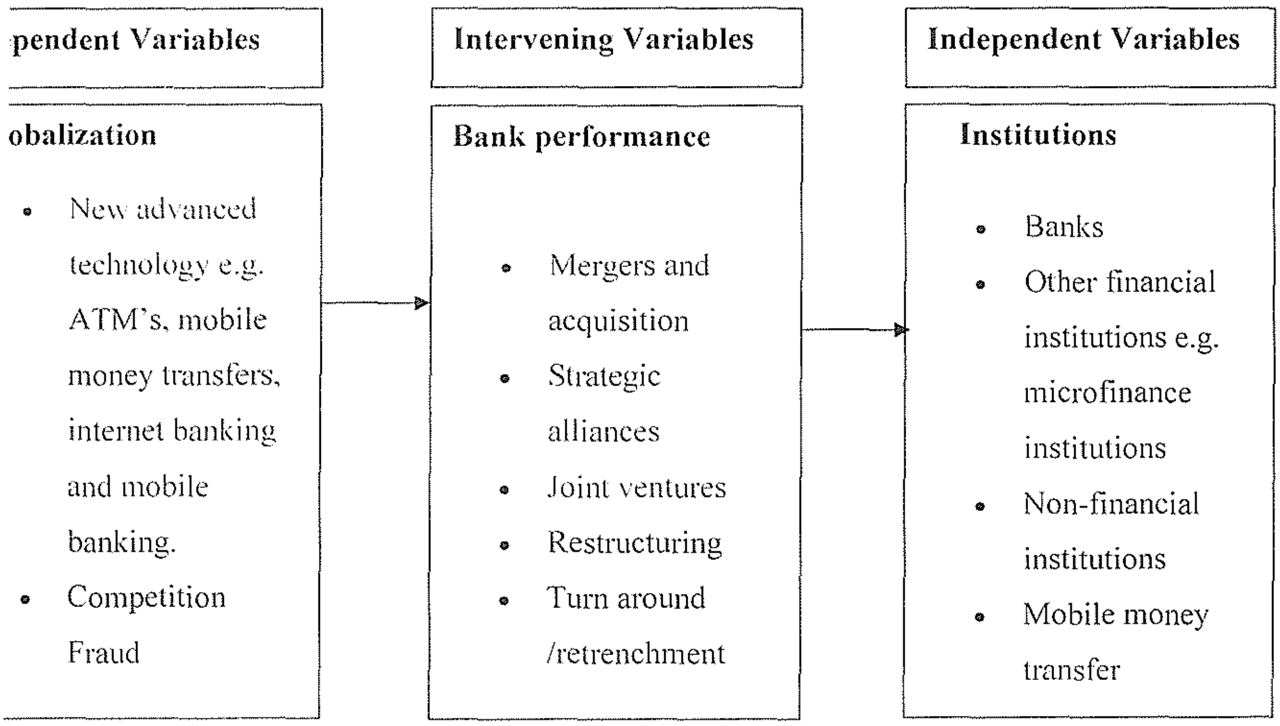
ii. The government - who will know and improve on its role in as far as, facilitating banks' strategic response to globalization, is concerned.

iii. The study also enables bank customers to understand why the banks behave the way they do and why they engage in such cut throat competition.

iv. It also enables Academicians to further their studies and come with more research information.

Conceptual Framework

The following model conceptualizes the interaction of variables in this study.



Source: Resaerch conceptualization

The above conceptual model shows that globalization is independent to the performance of local commercial banks in Uganda. In order to gain a competitive edge a bank must elicit some strategies. These strategies are indicated in the model .They include mergers and acquisitions, strategic alliances, joint ventures, organization restructuring and turnaround/retrenchment.

CHAPTER TWO

LITERATURE REVIEW

Introduction

According to Yabs, 2006 globalization refers to the interconnectedness of world's economies and ease of exchanging good and services, as well as traveling of people. This has been made easier by advancements of science and technology especially telecommunications and coming into use of wide-bodied aircraft. According to Daniels et al (2001,) Successful business of the future will treat the entire world as their domain in terms of meeting their supply and demand requirements. In such a globalized market, the domestic company will not be sustainable competitive. Globalization is not a new concept but there are relatively new factors that have contributed to its recent prominence, such as the opening of new markets for South African business and new communication and transport technology, resulting in a major expansion of international trade and investment.

Strategies adopted by commercial banks in response to globalization

There are various strategic responses to the environmental challenges. Such responses require that the firm develops a strategy that responds to internal environment (strengths and weakness) and external environment (opportunities and threats), in order to achieve good performance. According to this perspective, the central thrust in strategy is to achieve a long-term sustainable advantage over the key competitors of the bank in every business in which it participates (Majluf and Hax, 1991). In this approach, strategy is used to support the search for favorable competitive position. There are various strategic responses. These include merges and acquisitions; retrenchment /turnaround; hostile takeovers; strategic alliances; vertical and horizontal integration; restructuring; divestiture and liquidation. For purposes of this study, only a few of these strategies will be considered. These are mergers and acquisitions; retrenchment / turnaround; strategic alliances and restructuring.

Mergers and Acquisitions

Scholes and Johnson (2004) define acquisition as where an organization develops its resources and competencies by taking over another organization. They further say that the need to keep up with a changing environment often dominates the thinking acquisition. Effective and efficient operation is a key to success in the global, competitive environment (Weihrich and Koontz, 1993, page 704). As a result of the European Community 1992 programme, many large multinational firms took steps to prepare for possible protectionist measures. These strategic choices were mainly acquisitions, mergers strategic alliances (Joint ventures or agreements for Co-operation) and rationalization. The objective of the programme was to create a single market through the removal of trade barriers and free movement of goods, people, services and capital (Weihrich and Koontz, 1993).

There are various motives for mergers and acquisitions. One for them is the speed with which it allows the company to enter new product and market areas. Other reasons are the competitive situations, deregulation, financial motives, lack of resources or competences to complete successfully, cost efficiency and expectations by key stakeholders. Mergers on the other hand are more typically the result of organizations coming together voluntarily because they are actively seeking synergistic benefits, perhaps as a result of the common impact of a changing environment in terms of either of opportunities or threats or of the excessive costs of innovation (Scholes and Johnson, 2004).

Strategic Alliances

Two or more organizations share resources and activities to pursue a strategy. This is because organizations cannot always cope with increasingly complex environments (such as globalization) from internal resources and competences alone. Hence, through co-operation, the need to obtain materials, skills, innovation, finance or access to markets may be readily available. Coalitions are a natural consequence of globalization and the need for an integrated worldwide strategy. In many industries, coalitions can be a transitional state in the adjustment of firms to globalization, reflecting the need of firms to catch up in technology, cure short-term imbalances between their global production networks and exchange rates, and accelerate the process of foreign market entry (Wortzel H.V. and Wortzel L.H., 1997).

Joint ventures

This typically arrangements where organizations remain independent but set up a newly created organization jointly owned by the parents" (Scholes and Johnson, 2004). According to Robinson Pearce (2004), it is the options for increasing resource capability through external emphasis to allow the business extend its strengths into competitive arena that it would be hesitant to enter alone. The other various forms of strategic alliances are licensing, franchising and subcontracting. According to Scholes and Johnson (2004), in franchising the franchise holder undertakes specific activities such as manufacturing, distributing or selling, but franchiser is responsible for the brand name, marketing and probably training. Licensing is common in science-based industries, where for example the right to manufacture a patented product is granted for a fee. With subcontracting, a company chooses to subcontract particular services or part of a process: for example, increasingly in public services responsibility for waste removal, cleaning and Information Technology services may be subcontracted to private companies (Scholes and Johnson, 2004).

Restructuring

Business restructuring is an integral part of the new economic paradigm. As controls and restrictions give way to competition and free trade, rationalization and reorganization are necessary. The rationale for business combination, acquisitions, mergers and spin-offs, divestitures and de-mergers coexist without any contraindications (Ramanunjam, 2002).It is based on the notion that some activities within a business's value chain are more critical to the success of the business strategy than others. It is the change of structure by concentrating on only the activities that add value to the organization.

Retrenchment / Turnaround

This is a strategy of diversified company with ailing subsidiaries. A business can find itself with declining profits. In many cases strategic managers believe the firm can survive and eventually recover if a strenuous effort is made over a period of a few years to fortify basic distinctive competencies (Robinson and Pearce, 2004) this is known as retrenchment. It is accomplished through cost reduction and /or asset reduction. It involves lay off of employees, drop items from a production line and even eliminate low-margin customers. "Since the purpose is to reverse current negative trends, the method is often referred to as a turnaround strategy" (Robinson and Pearce, 2004).

Global business

Global business involves all those commercial activities between two or more countries. These commercial activities may be undertaken by private companies, with a view to profit making or by the government organization in which case there is generally no profit motive (Daniels et al., 2001). In this case, global business and international business are used interchangeably.

Global commercial activities involve the movement of resources, goods, services and skills over international borders. Resources include raw materials, capital, people and technology. Goods on the other hand refer to half-finished or finished products. Services include accounting, advertising communications, computer services, advisory services, education and training, legal opinions and banking services while skills cover management and technical skills (Daniels et al, 2001). This study will therefore endeavour to find out whether indeed the commercial bank under study is involved in these global commercial activities.

Impact of Globalization on Banking Services

Competition in the industry has force Ugandan banks to move into previously uncharted waters like mortgage finance, and a few that have ventured into this area have had to lick their wounds. With low interest rates accruing from government securities these days, banks have been forced to move back to their core business of lending money to customers.

The banking sector has witnessed stiff competition forcing banks to re-package their service and products to satisfy the needs of the customers and retain their market share. Institutions are therefore increasingly offering e-banking services for both residents and non residents. Islamic banking has emerged as a new market product. In response to this, some of the institutions have redefined their business strategies while leveraging on innovative and affordable products to capture this new market segment. In the long run, the success and soundness of the financial institutions and the entire sector will depend on the achievement of operational efficiency through the application of prudential practices, good corporate governance and robust risk management frameworks (Bank of Uganda Annual Report of 2006).
But generally, the banking sector in Uganda has grown tremendously over the last or so posting an overall profitability of Ushs.14.9bn in 2004, a 6.5percent improvement from UgShs.14bn in 2003. According to the Banking survey 2005 in a local business and finance journal Market Intelligence, this profitability is attributed to interest from loans to customers.

Financial institutions remained 45 in number between June 2007 and June 2008. During the period under review CFC Bank and Prime Capital Bank merged with Stanbic Bank, and Prime Capital and Credit, respectively two new banks, Gulf African Bank and First Community Bank were licensed in November 2007 and May 2008, respectively. The two banks offer Sharia compliant products. The sector experienced rapid expansion with branch network increasing by 44.6 percent from534 branches in June 2007 to 772 branches in June 2008.Operating forex bureaus increased from 96 to 109 as at the end of June 2008 (Central Bank Annual Report 2008).

According to Bank of Uganda Annual Report 2008, banking institutions will need to cope with continuously changing business environment and a continuous flood of new requirements via robust ICT platforms, while staying sufficiently agile. Secondly, the world is undergoing a "Knowledge Revolution" whose consequences will exceed even those of the industrial revolution. Hence banks will be expected to continue aggressively designing new products that leverage on ICT to remain competitive. Down streaming into the retail market segment is also expected to continue particularly with the anticipated licensing of deposit taking Microfinance Institutions in 2008. Additional capital injection is also expected as banking institutions expand into the region in search of growth opportunities in line with trends towards regional and economic integration. Competition will also intensify as Pan-African banking groups from South and West Africa target Uganda as their East and Central Africa regional hub.

Diversification into other financial services such as insurance, securities and financial advisory services is also anticipated as consumers increasingly seek "one stop financial supermarkets." These developments are expected to enhance banking products being offered and bring more Ugandans into the banking space. Lifting of the moratorium on the licensing of new Foreign Exchange Bureaus will lead to new entrants in the Forex Bureau sector, in year 2008. This is expected to improve service delivery and generate more competition and efficiency in the market sector. Enactment of the Proceeds of Crime and Anti-Money Laundering Bill expected in 2008 will require the establishment of appropriate systems by institutions to identify and prevent anti-money laundering and combat financing of terrorism activities in Uganda. Uganda as a regional trade and financial hub, is highly exposed to money laundering threats, therefore, it is imperative that the Ugandan financial system aims at building very robust anti-money laundering system.

Modern communication media have made possible to exchange commercial information rapidly and efficiently. This has facilitated the creation of new markets increased competition. It is a question of which bank moves faster than the other so as to embrace this technological renewal. An excellent practical example of technological renewal relates to electronic currencies. According to Daniels et al (2001 p6). Peter, while writing in January 1993 "National Geographic" gives the following personal illustrations: "I m in Paris, it's late and I need money quickly. The bank I go to is closed, of course, but outside sits an ATM, an automated teller machine - and look what can be made to happen, thanks to computers and high-speed telecommunications. I insert my ATM card from my bank in Washington, DC and punch in my identification number and the amount of 1500 francs roughly equivalent to $300. The French bank's computers detect that it's not their card so my request goes to the CIRRUS system's inter-European switching centre in Belgium, which detects that it's not a European card. The electronic message is then transmitted to the global switching centre in Detroit, which recognizes that it's from my bank in Washington. The request goes there, and my bank verifies that there is more than $300 in my account and deducts $300 plus a fee of $1.50. Then its back to Detroit, to Belgium and to the Paris bank and its ATM - and out comes $300 in French francs. Total elapsed time 16 seconds (Wehrich and Koontz, 1993). This is a clear example of the impact of globalization in banking services. Hence technology has become one of the strategic drives in this industry.

The period following the Second World War, saw a rapid and sustained growth in international business operations. This resulted in competition in the East especially in Japan, Hong Kong, South Korea, Singapore and Taiwan which in turn gave rice to far reaching changes in business environments in the West. The developing countries however remained slow participants in the international trade. For example in South Africa, by 2001/2002, its share in the international export market was less than 1%. This is attributed to a tendency to export only under conditions of surplus production, relatively high inflation and adverse climate.

Further, the information of regional trading blocs such as the European Union (EU) and the North America Free Trade Agreement (NAFTA) between the US, Canada and Mexico, the alliance of pacific Ocean countries, has influenced the proportional value of the international trade for which individual countries are responsible. These blocs generally did not favor the developing countries as they set trading conditions which favored them instead.

Multinational enterprises have contributed to the growth in world trade and have helped improve the welfare of the citizens in their countries of operation (Weihrich and Koontz, 1993). In Ugandan today, it is still not clear whether the multinational banks like Standard Chartered, Barclays and Citigroup have improved the welfare of the citizens. There is still a cry from the poor that these banks are too expensive for them and only seem to target the wealthy. This is in spite of the fact that they have offered employment, payment of huge taxes to the government and crucial products like home loans and personal loans. As a result, it is only the local banks that seem to have country wide network where the majority of the poor are based. There seems to be a belief that banks have not ventured into the countryside.

Global technology views the financial services sector in Africa as a growth area. Kevin Williams, director of "Temenos" South Africa, a Global subsidiary, says there is a shake-up occurring in banking because most countries are de-regulating and commercializing. Another reason for the expected growth is the fact that many African banks are faced with foreign competition (www.fm.co.za). This therefore implies that globalization has brought competition. But is this true for Uganda? Is there a chance of more foreign banks coming to Uganda? Are they expanding into the foreign markets? Do the international banks that exist in Uganda lend to the host country? Not much of this has been witnessed (Centre for Corporate Governance, 2004).

Banking in Uganda

Prior to Uganda's independence in 1962, Government-owned institutions dominated most banking in Uganda. In 1966 the Bank of Uganda, which controlled the issue of currency and managed foreign exchange reserves, became the Bank of Uganda. Uganda Commercial Bank, which had fifty branches throughout the country, dominated commercial banking and was wholly owned by the government. The Uganda Development Bank was a state-owned development finance institution, which channeled loans from international sources into Ugandan enterprises and administered most of the development loans made to Uganda.

The East African Development Bank, established in 1967 was jointly owned by Uganda, Kenya, and Tanzania. It was also concerned with development finance. It survived the breakup of the East African Community in 1977 and received a new charter in 1980. In the 1960s, other commercial banks included local operations of Bank of Baroda, Barclays Bank, Bank of India, Grindlays Bank, Standard Chartered Bank and Uganda Cooperative Bank. During the 1970s and early 1980s, the number of commercial bank branches and services contracted significantly. Whereas Uganda had 290 commercial bank branches in 1970, by 1987 there were only 84, of which 58 branches were operated by government-owned banks. This number began to increase slowly the following year, and in 1989 the gradual increase in banking activity signaled growing confidence in Uganda's economic recovery.

In the late 1990s and early 2000s, the Ugandan banking industry underwent significant restructuring. Several indigenous commercial banks were declared insolvent, taken over by the central bank and eventually sold or liquidated. These included Cooperative Bank, Greenland Bank, International Credit Bank, Teefe Bank and Gold Trust Bank which were closed or sold. Uganda Commercial Bank was initially privatized through a sale of its majority shares to a purported company from Malaysia. However it later came to light that the actual buyer was a partnership between Greenland Bank (which itself was insolvent) and some politically connected individuals. A second privatization sale was conducted, with the Standard Bank emerging as the winner.

The privatized Uganda Commercial Bank was merged with the former Grindlays Bank which Standard Bank already owned and had renamed Stanbic Bank. The combined new bank is now known as Stanbic Bank (Uganda) Limited. As of 2008, Stanbic Bank (Uganda) Limited is the dominant commercial bank in Uganda, with about 27% of all bank assets and about 20% of all bank branches..Nile Bank Limited, an indigenous institution, was acquired by the British conglomerate, Barclays Bank in January 2007 and merged with its existing Ugandan operations to form the current Barclays Bank (Uganda). A moratorium on new commercial bank licenses was declared in 2004, with the passage of a new banking bill in Parliament, which established new banking institution classification guidelines. There are four classes of lending financial institutions under the new regulations as outlined below.

Effects of globalization to the banking industry of Uganda

The moratorium on new banks was lifted in July 2007. During the eighteen (18) months that followed the lifting of the moratorium, eight (8) new commercial banks were licensed. These included Kenya Commercial Bank, Equity Bank and Fina Bank, all from Kenya. Global Trust Bank and United Bank for Africa trace their roots from Nigeria. Ecobank is headquartered in Togo and Housing Finance Bank is an indigenous operation. Three other banks, ABC Bank (Kenya), Access Bank from Nigeria and CRDB Bank from Tanzania, have publicly declared their intention to start banking operations in Uganda in 2009. During 2008 and 2009, several of the existing banks went on an accelerated branch expansion either through mergers and acquisitions or through several branch openings. As of March 2010, there are twenty three (23) licensed commercial banks in Uganda, with over four hundred (400) bank branches.

As of December 2009, total commercial bank assets in Uganda are estimated at US$4.1 billion (UGX 7.58 trillion).[6] the number of bank accounts in the country is over five (5) million. This represents a 16% penetration, given Uganda's population of 32,000,000. In April 2009, Bank PHB, Nigeria's fifth largest bank, bought 80% ownership of Orient Bank, Uganda's 8th largest commercial bank. This brings the current number of Ugandan banks with major investments from Nigeria to three (3). Rwanda formally joined the East African Development Bank in July 2008. Burundi, as well, is expected to join the bank in the near future.

CHAPTER THREE

RESEARCH METHODOLOGY

Research Design

Descriptive research design was used in this study. The researcher sought to describe the strategic responses adopted by the local commercial banks through observation and interpretation techniques (Chandran, 2004).

Study population

The target population included staff and customers of equity bank Kabalagala Branch. The staff from the bank and customers was of great help to the researcher in that they are involved and are well knowledgeable on the subject of the study.

Sample size

Out of the study population of 60 staff and customers of Equity bank Kabalagala branch.

The sample size will be gotten by a use of a formula. The Sloven's formula was used to determine the minimum sample size of the study population.

$$n = \frac{N}{1+N e^2}$$

Where

n = sample size

N population size

e level of significance 0.05

For this study:

Therefore the sample size will be:

$$n = \frac{70}{1+(200\text{x}0.05^2)}$$

$$n = \frac{70}{1+(70\text{x}0.0025)}$$

$$n = \frac{70}{1+0.175}$$

$$n = \frac{44}{1.175}$$

$$\mathbf{n = 59.57}$$

= 60 Respondents

Sampling techniques

In this study, both simple random and purposive sampling were applied to select the sample. Only respondents that met the purpose were picked.

Research instruments

The following are the methods of data collection that were used:

Interviews: This involved direct collection of data from the concerned employees of organization and all interview techniques were used to ensure that all respondents were free to answer and explain what they knew. It included verbal discussion with the targeted employee, members of staff, and top officials of the organization.

Observations: This was a very useful method in obtaining primary data as the researcher observed personally the performance of commercial banks in Uganda amidst globalization challenges and opportunities. This method was used in order to reduce or avoid biasness of the respondent and it enabled the researcher to observe and participate physically in his research.

Questionnaires: Both open-ended and close-ended questions were used in the questionnaire. Open ended questions were used to give the person answering the question the scope to give the information that seems to be appropriate, in other words to get detailed information. Closed questions were used to capture a specific simple piece of information. Therefore, in this study the questionnaire comprised of section A and section B, where section A contain closed ended questions and section B contain open-ended questions. Drop and pick method were used in the administration of the questionnaire.

Validity and Reliability of the Instrument

The construct and criterion validity of the global financial crisis and banks performance questionnaire will be empirically proved by experts which means it is standardized. Content validity index (CVI) ensured by subjecting the researcher devised questionnaires on global financial crisis and banks performance.

Reliability of the respondent's through the instruments of the questionnaire was established. The reliability of the research instruments concerned with the degree to which the research instrument gave the same result. The reliability was used test and pretest approach in the determination of accuracy of the research devised instruments. In this test-retest technique, the questionnaires will be self administered throughout the research to ensure that respondents fill the same questionnaire and the instrument provides the required information.

Data Analysis

Data was coded, entered and analyzed with the help of MS excel. Frequencies and Percentages were also used to facilitate easy understanding. Frequency tables, pie charts and bar graphs were used in presentation of findings because they represent research results more clearly and economically than in case with text presentation.

Ethical Considerations

In order to ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities will be implemented by the researcher:

1. Sought permission to adopt the standardized questionnaire through a written communication to the author.
2. The respondents and firms will be coded instead of reflecting the names.
3. Soliciting permission through a written request to the concerned officials of the selected firms in the study.
4. Requesting the respondents to sign in the Informed Consent Form.

Limitations of the Study

The study was faced with some limitations. One of them was lack of co-operation and response from some respondents. This was as a result of being too busy with their office work and not willing to be bothered with an exercise that they considered outside their immediate area of responsibility. Another limitation was time and financial constraints.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION, AND PRESENTATION

Introduction

This chapter contains summaries of the data findings together with their possible interpretation. The chapter is divided into four sections. The first section analyses the background information of respondent. The second section analyses the strategic responses to globalization. The third section analyses the effectiveness of the strategies adopted and the fourth section analyses the challenges to implementation of the global business strategies.

Twenty five (25) questionnaires were distributed to the respondents. Out of these, 22 responded by completing the questionnaires. Hence, the responses rate was 88%. Due to time constraints, this was considered sufficient and large enough to validate the sample of the study.

Background information of the respondents

This section of the study sought to find out from the respondents about their gender, working period, and position in the bank they are working in.

Respondent's gender

Table 1: Gender of respondents

Respondents	Frequency	Percentage (%)
Male	47	78
Female	13	22
Total	**60**	**100**

Source: Field data 2013

According to the data represented (78%) of the respondent were male and (22%) were female.

Number of years in the organization

This question sought to find out from the respondent the number of years he/she has been working in the current institution. Results are indicated in figure 2.

Table 2: Number of years in the organization

Respondent	Frequency	Percentage
0-5 years	11	19
6-10 years	38	63
11-15 years	7	11
over 16 years	4	7
Total	**60**	**100**

Source: Field data 2013

According to the data represented 19% of the respondents stated that they have been in the current institution for 0-5 years, 63% of the respondents have been working in the current institution for 6-10 years, 11% of them have been in the current institution for 11-15 years and 7% of them reported that they were in the current institution for over 16 years.

Experience in current position in years

This question sought to fine out from the respondent about their experience in their current institution. Results are presented in table 3.

Table 3: Current position in year

Respondent	Frequency	Percentage
0-2 years	18	30
3-5 years	35	59
6-9 years	4	7
over 10years	3	4
Total	**60**	**100**

Source: Field data 2013

It was observed that 59% of the respondents had experience of 3-5 years in the current position, 30% had 0-2 years of experience in the current position, 7% of the respondent had 6-9 years of experience and only 4% of the respondents had over 10 years of experience in the current position. It can be concluded that more than 50% of respondents in the study had enough experience leading to quality information in the study.

Strategic Responses to Globalization

This section covered the various strategic responses that the local commercial banks had put I lace in the wake of globalization. Results are as indicated in the following subsections.

Presence of branches outside the country

This question sought to find out from the respondents whether the institution had branches outside the country. Results are presented in table 4 below.

Table 4: *Branches outside Uganda*

Respondents	Frequency	Percentage
Yes	56	93
No	4	7
Total	**60**	**100**

Source: Field data 2013

According to the data represented, 93% of the respondents acknowledged that the institution had branches outside Uganda and 7% of them acknowledged that the institution never had branches outside Uganda.

Products for international customer

This question sought to find out from the respondents whether the institution offer product for international customers.

Table 5: Existence of products for international customers.

Response	Frequency	Percentage
Yes	21	84%
No	4	16%
Total	**60**	**100**

16% of the respondents stated that the institution never had product for international customers and 84% of them acknowledged presence of products for international customers. Some products mentioned include; western union money transfers, money gram, wire money, travelers cheque visa electron and MasterCard.

Strategies for globalization

This question sought to determine whether the local commercial banks h any strategies to handle the effects of global business. Results are presented in the table 6.

Table 6: Strategies to global business

Statement	1	2	3
My bank have merged or acquired other financial institution outside Uganda	13	36	11
My bank has formed strategic alliance with international financial services and money transfers institutions e.g. western union, money gram etc	43	12	5
My bank has forged joint ventures with international strategic partners	15	16	29
To accommodate the globalization my bank has undertaken restructuring .e.g. infrastructure development and improvement	16	36	8
To measure up with increasing global business competition my bank has undertaken turn round measures like retrenchment, rebranding of products etc	48	5	7

My bank outsources non core business activities in order to concentrate with core business activity in order to gain a competitive edge.	10	7	43
My bank has anti fraud and money laundering investigation section to curb these business ills	48	10	2

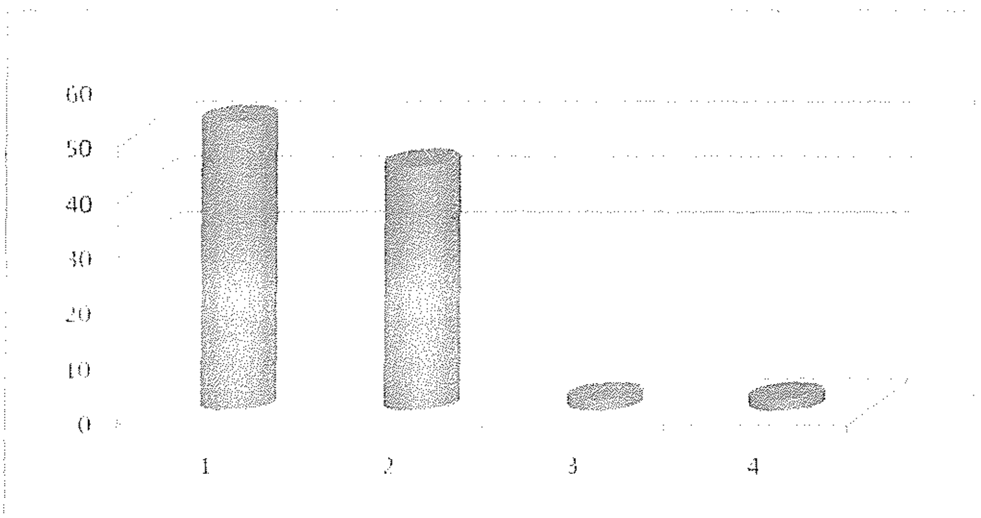
Asked the extent to which respondents agreed with the statements majority 36 employees to a less extent agreed that their organization had merged or acquired other financial institution outside Uganda. On the other hand a total of 43 agreed to great and very great extent that their organization had formed strategic alliance with international financial services. Most of respondents 29 in total agreed to a great extent that their organization had forged joint ventures with international strategic partners however, more than half agreed to great and very great extent. Notably, 36 of respondents agreed to some extent, great and very great extent that in accommodating the globalization banks had undertaken restructuring. Nonetheless, 48 respondents to some extent agreed that in order to measure up with increasing global business competition banks had undertaken turn around measures.

Majority of 43 employees agreed to a less extent that the bank outsources its noncore business activities in order to concentrate with core business in order to gain competitive edge. Finally a large majority of 48 employees agreed to a very great extent that banks had anti fraud and money laundering investigation sections.

Effectiveness of adopted strategies

Respondents were asked on effectiveness of these strategies adopted. Results were as follows in figure 5.

Figure 5: Strategy effectiveness



The result showed that, 52% of the respondents stated that the strategies adopted by the institutions were highly effective, 44% of them reported that the strategies were moderately effective, 2% of them reported that the strategies were somewhat effective and 2% of the stated that the strategies were less effective. It can be concluded that 96 percent of respondents noted that strategies were either highly or moderately effective.

Challenges to implementation of global business strategy

This question sought to determine the challenges faced in the implementation of global business strategies by the local commercial banks. The results are presented in Table 3.

Table 7: Challenges to strategy implementation

Challenges	Mean =
High competition	2.433
Fraud	2.354
Technical challenges	2.132
Strict regulation	2.022
Skilled manpower	1.59

Source: Field data 2013

Results in Table 7 indicated that high competition with a mean of 2.433 was the most cited challenge by the respondents; this was followed by fraud (2.354), technical challenges (2.132) and strict regulation (2.022). A few of respondents cited skilled man power as challenge to strategy implementation.

CHAPTER FIVE

SUMMARY OF THE FINDINGS, CONCLUSION, AND RECOMMENDATION

Introduction

This chapter presents a summary of findings, gathered from analysis of the data in chapter four in line with the literature review on globalization and recommendations. The purpose of this study was to determine the strategic responses to globalization by local commercial banks. The study was further guided by the following specific objectives.

- To determine the strategies adopted by local commercial banks in response to globalization.
- To establish the effectiveness of strategies operating in the local commercial banking sector as a result of globalization.
- To establish the challenges of strategy implementation for globalization among local commercial banks.

Summary of findings

The study findings were as follows:

As observed in the study, 78% of the respondents were male whereas 22% of the respondents were female. 63% of them had experience of 6-10 years in the current institution, 19% had 0-5 years, 11% had 11-15 years while 7% of respondents had over 16 years within the institution. Notably, 59% of the respondents had experience of 3-5 years in their current position and 30% had 0-2 years in current position. It can be concluded that more than 50% of respondents in the study had enough experience leading to quality information the study.

Most of local commercial banks had branches outside the country as confirmed by majority (93%) of respondents. 7% of the respondent stated that their institution never had branches outside the country. On the other hand 84% of the respondents acknowledged presence of products for international customers. Some products mentioned include; western union money transfers, money gram, wire money, travelers cheque visa electron and MasterCard

As the study results showed, respondents agreed with the statements, the majority (22) employees to a less extent agreed that their organization had merged or acquired other financial institution outside Uganda. On the other hand a total of 23 employees agreed to a great and very great extent that their organization had formed strategic alliance with international financial services. Most of respondents 16 in total agreed to a great extent that their organization had forged joint ventures with international strategic partners however, more than half agreed to great and very great extent. Notably, 22 of respondents agreed to great and very great extent that in accommodating the globalization banks had undertaken restructuring. Nonetheless, 20 respondents to some extent agreed that in order to measure up with increasing global business competition banks had undertaken turn around measures.

Majority of 18 employees agreed to a less extent that the bank outsources its noncore business activities in order to concentrate with core business in order to gain competitive edge. Finally a large majority of 20 employees agreed to a very great extent that banks had anti fraud and money laundering investigation sections.

Majority 52 percent of the respondents acknowledged that strategies adopted were highly effective this was followed by 44 percent who acknowledged that strategies were moderately effective.

Challenges faced in the implementation of the strategies to global business by the local commercial indicated, high competition with a highest mean score of 2.433 was the most cited challenge by the respondents; this was followed by fraud with the mean score of 2.354, technical challenges with mean score of 2.132 and strict regulation 2.022. A few of respondents cited skilled man power as challenge to strategy implementation.

Conclusion

The following conclusion can be drawn from the study findings;

It can be concluded that most of local banks have responded to global business on low scales as observed in the study. This was confirmed by the small number of banks with branches outside the country.

Banks had responded to global business through adoption of international products tailor made for international customers.

Banks had mostly adopted strategies to global business these strategies include; forming strategic alliance with international financial services, forging joint ventures with international strategic partners, undertaking restructuring, establishing anti fraud and money laundering investigation, outsourcing none core business activities to concentrate with core business as well as undertaking turn around measures.

Strategies adopted have been effective in adapting to global business by most local commercial banks.

High competition, fraud, technical challenges and strict regulation and lack of skilled man power were major challenges encountered in strategy implementation among the organization.

Recommendation

Local commercial Banks should continue with the strategic responses that they had put in place to cope with globalization and its effects Competition; Information Technology; Fraud.

The dynamic external environment dictates that customers' needs and expectations continue to increase. Therefore, on the basis of the suggestions by the respondents, the bank should continue diversifying its products and services so as to keep up with the competition and the customers' ever increasing expectations.

Globalization is a phenomenon whose effects will continue to be all over across the world (global village). The bank should continue to equip its management with current information

globalization so as to enable them formulate strategies that will give the business a competitive advantage.

Suggestions for Further research

A similar research should be carried out in other commercial banks so as to determine the extent to which globalization has affected them and how they are responding to it. There is also a need to carry out a research on the institutions that work closely with banks such as Bank of Uganda and other government institutions to also determine effects of globalization on them.

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APPENDIXES

Appendix I: ESTIMATED BUDGET FOR THE RESEARCH

PARTICULARS	QUANTITY	UNIT COST	AMOUNT
Stationery			
Pens	2	200/=	400/=
A flash Disk	1	20,000/=	20,000/=
Rim of Papers	1	10,000/=	10,000/=
Travel and Communication			
Air time cards	-	-	30,000/=
Travels	-	-	50,000/=
Data Collection			
Library	10 days	5,000/=	50,000/=
Internet	12 hours	1,500/=	18,000/=
Typing and Printing			
Proposals	1 copy	20,000/=	20,000/=
Research Report	3copies	20,000/=	60,000/=
Consultations			
Editing	1 copy	4,500/=	4,5000/=
Miscellaneous	-	25,000/=	25,000/=
GRAND TOTAL			**308,400/=**

Yes [ ] No [ ]

If yes which ones name them?

....

....

7. To what extent would you say your organization has adopted the following in response to globalization trends? **(1 very great extent, 2- great extent, 3- less extent)**

Statement	**1**	**2**	**3**
My bank have merged or acquired other financial institution outside Uganda			
My bank has formed strategic alliance with international financial services and money transfers institutions e.g. western union, money gram etc			
My bank has forged joint ventures with international strategic partners			
To accommodate the globalization my bank has undertaken restructuring .e.g. infrastructure development and improvement			
To measure up with increasing global business competition my bank has undertaken turn round measures like retrenchment, rebranding of products etc			
My bank outsources non core business activities in order to concentrate with core business activity in order to gain a competitive edge.			
My bank has anti fraud and money laundering investigation section to curb these business ills			

8. What else has your organization done to respond to global business?

....
....
....

9. How would you rate the effectiveness of the adopted measures to globalization by your organization?

High effective [ ] moderately effective [ ] somewhat effective [ ] Less effective [ ]

Not effective [ ]

10. What challenges can you attribute to implementation of global business strategies in your organization?

High competition	Yes [ ] No [ ]
Technical challenges	Yes [ ] No [ ]
Fraud	Yes [ ] No [ ]
Strict regulations	Yes [ ] No [ ]

Others specify ....

....
....

Thank you for your contribution and time.

Appendix III: TIME SCHEDULE

PARTICULARS	**DURATION**
Selecting and Approval of Topic	May
Doing Library Research	June –Julyl
Writing of Proposal	July
Doing Field Research	August
Compiling the Data Collected	August
Editing the Work	September
Handing in of the Final Work	September