

Level of Advertisement by Commercial Banks on Utilisation of International Trade Finance Products by Business Customers in Kenya.

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Abstract

The aim of this study was to assess the role played by commercial banks in offering international trade finance products to businesses including Small and Medium Enterprises (SMEs) in Kenya. The objective was to determine the level of Advertisement by Commercial Banks on utilisation of International Trade finance products by business customers in Kenya to serve the SMEs. A sample of 12 commercial banks was targeted and picked through a stratified random sampling method. A survey was done and data collected through questionnaires delivered through email which achieved a 100% response rate. The respondents were the branch managers, the business bankers and customer service staff in the respective selected branches of the 12 commercial banks. The study findings indicated that a significant proportion (86%) of the respondents are not aware of advertisements done by their banks to encourage usage of international trade finance products and recommended further research on the key success factors that Kenyan Banks should adopt to increase utilization of international trade finance products to businesses especially among the Kenyan SMEs.

Keywords: Advertisement, Commercial Banks, International Trade Finance

1. Introduction

From the operational standpoint, most African countries lack information on international market access requirements, mainly because those who require them for purposes of implementing them, that is, the small and medium size enterprises do not get the opportunity to get them and know more about them. Some of the requirements such as rules and regulations on international trade that can help them adjust and turn around their businesses to the changing trade opportunities and market environment are not easily available or accessible. Moreover, many African small and medium size firms do not understand the international business environment including the opportunities which are available through their respective local commercial banks that can easily help to enable them adjust to market expectations and the demands of conducting business across African borders and across the world (African Export-Import Bank journal, 2009).

Small and medium size enterprises in Kenya lack adequate support from commercials banks through the use of trade finance products even though SMEs have a huge potential to transform the economy of this country and help the government in relation to job creation through their business activities. These enterprises have the ideas, what is lacking for them to realize their goals is the opportunity to get financing related to import and export of goods and services. (Njogu, 2010) analyzed how SMEs were impacted by the 2008-2009 financial crunch; he gave recommendations but did not highlight innovations of banks to mitigate such risky situations through international trade finance products which is a better way of providing short term financing to SMEs with minimal requirements.

Organizations operate in an environment where international trade is inevitable since the world is today considered as a global market. People travel a lot and improvements in technology and basic infrastructures that connect countries have basically provided an enabling atmosphere where people across countries are left with no options than to trade. The environment is quite dynamic and comparative advantage theory can come into play where an organization chooses to operate in areas where they will use their synergies to make profit, expand their business as well as create more employment opportunities to the masses and in so doing help improve the economies of all countries. Therefore organizations that do not engage in international trade will stifle their growth in terms of profit, expansion and employment creation apart from contributing to the general growth of their countries. Organizations therefore, need to look beyond the domestic market by sourcing for their products and services outside the domestic market so as to remain competitive, provide goods and services which are not locally available and be in pace with the changing economies of the world (African Export-Import Bank journal, 2009).

Literature Review

International Trade

Domestic trade done locally within a unified border has the following characteristics which apply to both parties which include a common language and culture, the same laws, absence of customs formalities, relatively simple documentation and a single currency. International trade is much complex in that, generally speaking, it has the opposite characteristics to domestic trade. Even within Africa alone, there are varied types of cultures, languages, customs formalities and many others. It even becomes more complex when trade is done from one continent to another. Despite all these differences, international trade is inevitable and people must therefore trade with each other irrespective of the country or continent (Watson, 1997).

Completing a sale of goods contract overseas can be much more costly and difficult than a domestic sale contract in terms of marketing efforts, coping with customs formalities, dealing with different legal requirements, documentation, and organising relatively complex transport arrangements apart from ensuring that there is the required foreign currency necessary to facilitate the trade contract and complete the sale. Further risk is involved if settlement is in a rare foreign currency since there is no guarantee of the value in domestic currency terms at the time settlement and conversion are effected. In addition to the risk of default, which can be more acute with an unknown buyer from overseas, there can be default caused by the overseas government's actions or by deliberate action by the overseas buyer. One of the best-known examples of a change of government causing problems for exporters was that of Iran in 1979 which was further made worse later as a result of international sanctions which made trading with Iran difficult. Internal instabilities as recently experienced in countries such as Libya and Syria also makes conducting international trade with such countries more complex.

Small and Medium Enterprises in Kenya

For many years now, large corporates has dominated the area of international trade due to the fact that large corporates had people with skills and knowledge of international trade more than the small and medium enterprises. At the same time, the large corporates especially the multinationals enjoyed support from their parent companies who provided the knowledge, exposure and expertise in international trade. For a long time therefore, small and medium enterprises did not get the opportunity to trade internationally and in most areas heavily dependent on the large corporates to secure goods and services which were not readily available locally. The large corporates took advantage and maximized on this opportunity for a very long time. However, today both large and small enterprises are busy engaging in international trade business. This may be attributed to various factors including availability of internet connectivity, easy information flow, and more important, those initially working for the large corporates after acquiring the knowledge left and starting their own small and medium enterprises to compete with the large corporates who for a long time dominated the international trade market (Small medium enterprises today, 2008).

Commercial Banks in Kenya

Kenya has 43 commercial banks according to (CBK, 2009); 30 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government and State Corporations, 27 commercial banks and one mortgage finance institution, Housing Finance. The Government has reformed banking to make it internationally competitive. In 2007, the Ministry of Finance proposed to raise bank capital from Kenya shillings 250 million to Kenya shillings 1 billion by 2010. Foreign banks (Nigerian, South African and others) are investing in low-capital institutions. After the profit growth of the first five years of the Kibaki administration, bank expansion has since crossed borders to Tanzania, Rwanda, Southern Sudan, Mauritius and Uganda. Local banks such as Equity, KCB, Diamond Trust, I&M, ABC and Cooperative are presently in the region (Central Bank of Kenya, 2009).

Objective of the study

The following objective guided the study:-

- i. To establish the level of advertisement engaged by commercial banks in utilization of international trade finance products by business customers

Research Question

- i. What is the level of advertisement engaged by commercial banks in utilization of international trade finance

products by business customers

Methodology

The study employed a survey research design. A sample of 12 commercial banks was targeted and picked through a stratified random sampling method. A survey was done and data collected through questionnaires delivered through email which achieved a 100% response rate. The respondents were the branch managers, the business bankers and customer service staff in the respective selected branches of the 12 commercial banks. The researcher picked 36 respondents working in the international trade finance department, 3 from each of the 12 commercial banks sampled. A structured questionnaire was used to collect data from the respondents. Data collected was analyzed using the aid of Statistical Package for Social Science (SPSS) version 17.

Results and Discussion

Advertisement by Commercial Banks on International Trade Finance Products

The study sought to establish how much advertisement commercial banks do on their international trade finance products. The respondents were asked whether their banks advertise international trade finance products. Figure 1 shows the findings of the study.

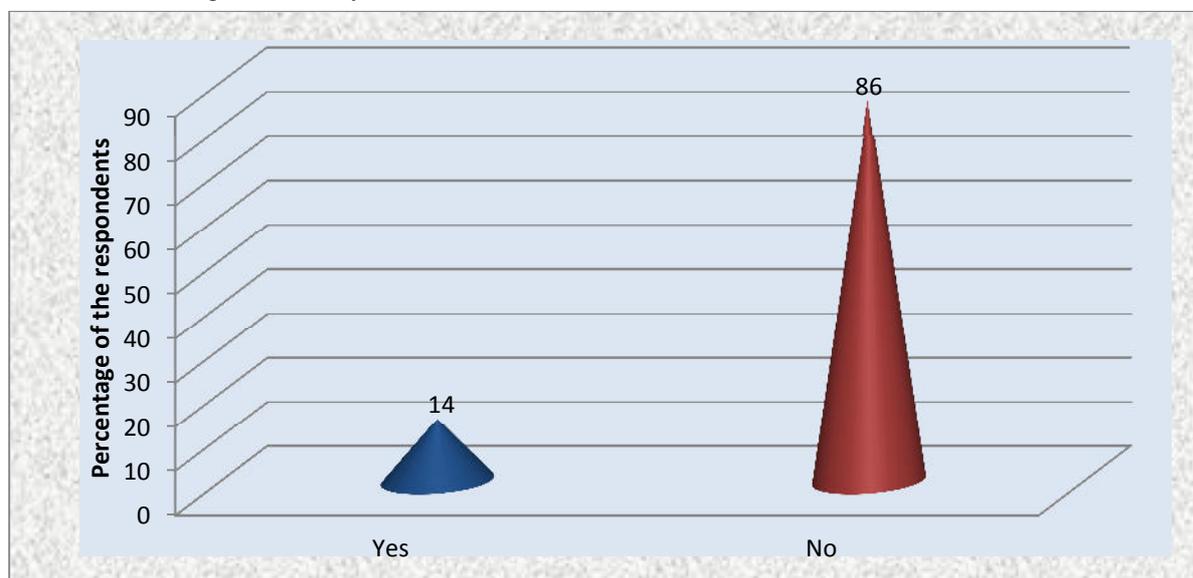


Figure 1: Whether commercial banks advertise international trade finance products

Majority (86%) of the respondents said that their banks do not advertise international trade finance products (Figure 1). The findings indicate that most banks do not invest in advertisement as a tool in promoting awareness on international trade finance products.

The respondents were further requested to rate the extent to which commercial banks promote international trade finance products through advertisement. The response was rated on five point scale on which 1 represented no extent at all, 2= little extent, 3=moderately extent, 4= great extent, and 5= very great extent. Table 6 shows the study findings.

Table 1: The extent to which commercial banks promotes international trade finance products through advertisement

To which commercial banks promotes international trade finance products through advertisement?	Frequency	Percent
Little extent	7	58.3
No extent at all	5	41.7
N	12	100
Mean (x)	2.2048	
Std. Deviation (S.D.)	0.5973	

From the study findings in table 6, majority of the respondents indicate that commercial banks use advertisement to a little extent in promoting international trade finance products. The findings clearly denoted that commercial banks hardly advertise international trade finance products which render businesses and SMEs not aware of the products.

**Utilization of International Trade Finance Products to Provide Solutions to Trade Related Transactions
 Encouragement of SMEs Customers to Use Trade Finance Products**

The respondents were asked whether their banks should encourage SMEs customers to use trade finance products as opposed to traditional loans. Figure 2 shows the finding of the study.

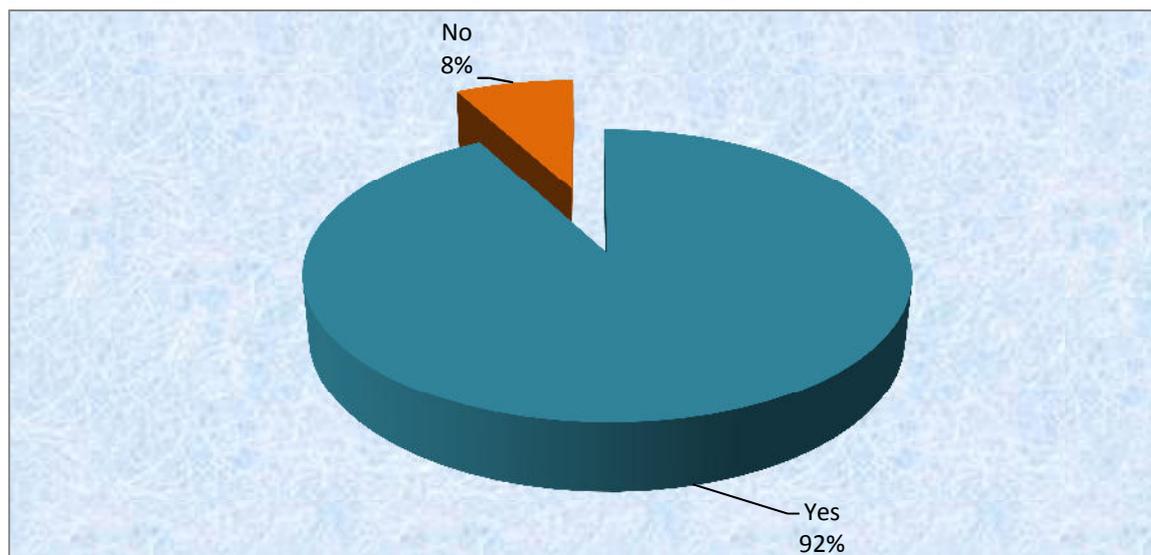


Figure 2: Whether banks encourage SMEs customers to use trade finance products

Majority (92.0%) of the respondents said that their banks should encourage their SMEs customers to use trade finance products as opposed to traditional loan while 8.0% said that their banks do not encourage their SMEs customers to use trade finance products as opposed to traditional loan. The study findings reveal that majority of the respondents appreciate the importance of trade finance trade and are of the opinion that banks should strongly promote their utilization among Kenyan SMEs.

5. Conclusion

The study draws conclusion that low levels of advertisement of international trade finance products exist in the banks. Advertisement is the key link between the products and the market. The attention of businesses and SMEs in Kenya has not been drawn to the available international trade finance products through advertisement. Banks are therefore called upon to incorporate international trade finance products in their local advertisement in order to reach out for SMEs who would greatly benefit from the products. The study comes to a conclusion that international trade finance products provide trade solutions to problems in business and SME trade. 100% of the respondents agreed that international trade financing is an important factor in providing trade solutions to international trade challenges encountered by local businesses and SMEs. The provision of international trade

finance products to businesses and SMEs by Kenyan banks facilitates ease of trade by businesses especially SMEs and its adoption should be enhanced

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