

**FOREIGN ENTRY STRATEGIES BY FINA BANK IN KENYA  
TO ENTER INTO EAST AFRICA REGION**

**BY**

**NYANGO, EUNICE CHEROP**

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## DECLARATION

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

Signed..... Date.....

**NYANGO, EUNICE CHEROP**

**D61/78947/2009**

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

Signed..... Date.....

**DR. JOHN YABS**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS**

**UNIVERSITY OF NAIROBI**

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## **DEDICATION**

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## **ABSTRACT**

There are various forms of entering into foreign markets. Companies can either establish stand-alone businesses or acquire existing ones in the other countries. The objective of the current study was to determine the entry strategies used by Fina Bank to enter into East Africa Region.

From literature review, the banking sector in Kenya is very competitive leading many of the banks to look for customers beyond the borders of the country. There has been a rapid growth in the banking sector in Kenya; the industry continues to dominate the East African economies as the dominant driver in economic growth and wealth creation. There are currently over forty registered Banks in Kenya and these are still growing.

Fina bank has extended its operations to Rwanda and Uganda. The bank has now shifted from being a small respected financial institution to a preferred regional Small and Medium Enterprise (SME) and Business bank with a strong developmental emphasis especially in the rural areas. It aims to serve the entire region in the SME and Business sectors.

The study adopted a case study research design. The study sought to determine the strategies that are used by Fina Bank in Kenya to enter into East Africa Region. Data was collected from a broad number of the bank's senior management about the foreign markets that the bank is operating in different countries of East Africa. The researcher relied on both primary and secondary data. Secondary data was obtained from various documents including the annual reports, strategic plan and end term evaluations to

supplement primary data. Data was analyzed using content analysis techniques and the findings presented in chapter four.

It was established that Fina bank pursues policies and strategies aimed at entrenching its presence in the East African region. In doing this, the Bank benchmarks itself with best practice as per statute, prudential requirements and world class practices. This study has primarily provided a contemporary analysis of realized foreign entry strategies of banks in the East African region with specific reference to Fina bank. Possible implications for internationalization of banks in the near future were considered such as the future of internationalization developments, and the consequences this might have for shareholders and the effects of regional integration on the internationalization of banks.

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## **Abbreviations and Acronyms**

BACAR - Banque Continentale Africaine in Rwanda

CBK - Central Bank of Kenya

EAC – East Africa Community

EADB – East African Development Bank

FDI - Foreign Direct Investment

PwC – PriceWaterhouseCoopers

SME – Small and Medium Enterprises

# **CHAPTER ONE: INTRODUCTION**

## **1.1 Background of the Study**

All organizations operate within an environment. In different countries business operations are influenced by environmental factors. Commercial banks operate within the national economies of various countries. They are influenced by environmental factors that can include political, economic, social and cultural as well as technological factors. Other factors include competition within that sector. International business has played a key role in the economy growth of countries. International business is where by a firm engages in commercial activities between countries, the banking sector plays an important role in international business.

In today's fast-changing competitive environment, firms' competitive positions are constantly challenged by the emergence of new technologies, products, markets and competitors. Therefore, flexibility and adaptability have become key management concepts to develop a sustainable competitive advantage for these firms. The expansion of Kenyan banks into the East Africa region is one of the most important elements of bank internationalization in recent years. The internationalization of banking is a wide phenomenon which, in turn, forms part of a broader process of business globalization. The introduction of new technologies are reducing the segmentation of domestic markets and magnifying the advantages of economies of scale, fostering the creation of bigger companies with a presence in various countries.

The banking industry in Kenya in the last ten years has witnessed intense competition both from the banks incorporated locally and new banks that have set a foothold in a market that until a few years ago was only dominated by few players (PwC, 2011). With this high level of competition in the banking sector, sustenance of individual banks becomes a huge challenge. As Johnson and Scholes (2002) observed, organizations are open systems operating in a turbulent environment and as such, organizations must respond appropriately to the changes and challenges in their operating environment in order to survive and to achieve their strategic objectives.

### **1.1.1 Concept of International Business**

International business is any commercial transaction that crosses the borders of two countries. It comprises a large and growing portion of the world's total business. The future of international business is vital in international relations, it assist nations in establishing international contacts, it facilitates transfer of goods and services between countries, and it improves the standard of living of people by bringing in required goods and services ((Nyakundi, 2010). Most firms today organize their operations based on the region, the service they are rendering or a combination of the two. Due to the changing trends of the international firms banks have therefore align themselves to better serve their clients and to take on opportunity present in the regional market.

There is need for foreign business to determine the mode of foreign entry that best suit its objectives and strategic fit in the foreign business environment. Huge amounts of funds are involved in international business and the choice of a particular entry mode is very

significant on the business across borders. It can also be defined as the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future, and establish and conduct transactions with other countries. The current interest by business firms in international markets can be attributed in part to shifts in demand and supply characteristics in markets throughout the world as well as the ever changing competitive environment. The process of finding new markets therefore has prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home countries. Selection of foreign markets and entry modes therefore lies at the heart of any business or any organization that aspires to operate internationally (Sarkar and Carusgul, 1996).

According to Cavusgil et al (2008) firms may pursue internationalization due to a variety of reasons. Some of the motives may be proactive while others could be reactive. A good example of a reactive motive is the need to serve a key customer who has expanded abroad. On the other hand proactive motive would be to tap foreign market opportunities or acquire new knowledge.

Most firms enter regional markets sequentially beginning in markets with which they are more familiar. They also introduce their largest and strongest lines of business into these markets first, followed by their other lines of business once the first lines are successful. They also usually invest in the same area as their original location (Huskisson, 2007).

### **1.1.2 Foreign Entry Strategies**

An appropriate foreign entry strategy will be an important source of competitive advantage for firms. There are various ways in which firms can use to enter and operate in foreign market. Before moving into new market careful selection of the foreign markets is important for success a good market is one which matches the firm. Many firms do not follow incremental stage approach but is often reported that they start their international activities from their birth: they enter different country at once, approaching new markets for both exporting and sourcing (Baronchelli and Cassia, 2008). The mode of entry affects the operations of a bank and therefore banks have to carefully consider what their strategy and future goals are while entering a new market. The mode of entry depends on the firm's resources, risks which include economic financial and political risks. A corporate strategy for world wide activities requires high control entry modes (Nyakundi, 2010).

Organizations and small exporters go through distinct stages in the development of their international business. They begin perhaps with unsolicited foreign order, proceed sometimes through exporting and the development of an international division and occasionally advance to the establishment of a fully integrated, global enterprise. This staged development of firm can also be described as an incremental (Aaker, 2004; Baronchelli and Cassia, 2008).

The modes of entry into a foreign market are many and varied. The mode of entry affects the operations of a bank abroad and therefore, banks have to carefully consider what their strategy and future goals for entering a new market. Because of different performance and technology level of domestic and foreign banks in less developed markets, an important choice to be made between either investing or acquiring a domestic banks. The various modes of entry that a bank may choose to adopt include representative offices, branches, and licensing, strategic alliances, franchising and wholly owned subsidiaries (Uiboupin, 2005). The proposed study adopted selected foreign entry modes to assess how Fina Bank from Kenya entered the East Africa Region.

### **1.1.3 Banking Sector in the East African Region**

The Eastern Africa region comprised about 26% of Africa's population, 16% of the combined GDP of Africa in 2009 prevailing prices, and 22% of the continental landmass. The region thus represents an important market which potentially offers opportunities for trade expansion, growth and poverty reduction in member countries, if well integrated (EADB, 2010). Financial markets integration in Eastern Africa is uneven. While in the EAC, some of the countries in the Horn and in the island countries, liberal access to foreign banks and cross-border ownership of banks are allowed in most of the countries in Eastern Africa.

Kenyan banks have opened subsidiaries in Tanzania, Rwanda, South Sudan and Uganda. The past decade has also seen the appearance of emerging Pan-African banks in the

region. Several regional commercial banks in the region have adopted a market development model combining the setting up of subsidiaries at country level with an attempt to develop regional linkages between their clients and their undertakings. This regionalization of the financial sector is arising in the context of higher capital requirements and consolidation at the global and national level, which allows relatively stronger banks and financial institutions to take advantage of increasing levels of liberalization and opening of domestic markets.

The vision of regional economic integration and development is to achieve a strengthened regional market, create wealth in the region, and enhance international competitiveness. This vision can only be realized through improved business environment, institutional and human capacity building leading to increased trade and investment, and production and productivity of private sector firms in the region.

#### **1.1.4 Banking Sector in Kenya**

According to PwC Kenya (2011), the Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Ministry of Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system.

During the period ended June 30th, 2011, the sector comprised of 43 commercial banks, 1 mortgage finance company, 6 deposit taking microfinance institutions, 2 credit reference bureaus, 3 representative offices and 124 foreign exchange bureaus. The sector was expected to continue with its growth momentum into the second half of 2011. The momentum was to be sustained by opportunities in regional markets and enhanced outreach through innovations in delivery channels (CBK, 2011).

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interests. The KBA serves a forum to address issues affecting members over the last few years; the Banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by an industry wide branch network expansion strategy both in Kenya and in the East African community region and automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products.

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.

The banking industry facilitates economic growth, world trade and international investment through its connection with the other banks globally. Dynamic technological challenges and opportunities, diverse economic conditions, regulatory demands by the central bank of Kenya are some of the environmental challenges that have had their level



impact in the banking industry and the Fina Bank of Kenya has not been exempted from this. Burnes (2000) argues that change is an ever-present feature of organizational life and its pace and magnitude has increased significantly over recent years. Fina Bank of Kenya is therefore not immune to environmental turbulence.

### **1.1.5 Fina Bank in Kenya**

Fina Bank was incorporated in 1986 as “Finance International Limited”, a non-bank financial institution. Later the name changed to the Finance Institution of Africa. On 15th August 1991, Mr Dhanu Hansraj Chandaria (a successful entrepreneur in the manufacturing sector) together with a group of professional shareholders, took control of The Finance Institution of Africa and put it on a new growth path. Since the Company was already known as “FINA”, the new owners changed its registered trading name to Fina (Fina bank website, 2011).

Following the liberation of the Kenya banking industry in 1995, all Non-Bank Finance Institutions (NFBIs) were required to either convert into fully fledged commercial banks or close down. Fina was among the first institutions to seize the opportunity of converting into a commercial bank. As a result, Fina bank was established on 14 February 1996. It immediately started providing full banking services. The bank offers a broad range of retail and business banking services aimed at predominantly at small and medium enterprises and their employees.

As part of the banks strategic aim of becoming a regional bank, in August 2004 Fina acquired a majority stake in Banque Continentale Africaine (BACAR) in Rwanda. Subsequently, Fina's individual shareholders acquired an additional stake in the entity, raising their joint stake in BACAR to 80%. Following the restructuring of the former government owned bank, BACAR was renamed "Fina Bank Rwanda" in 2005. In 2007, with a further injection of capital, Fina's stake was raised to 54.55%, which was further increased to 55.78% in November 2008 when Kshs 6.5m was injected. Fina Bank Rwanda operates through 5 branches spread across the main trading routes. In 2008, Fina established an operation in Uganda in partnership with its existing shareholders. Fina holds a direct 30% stake in Fina Bank (Uganda) limited with the shareholders owning the remainder. Operations commenced in October, 2008 and the bank reported the equivalent of a Kshs 5.8m. Fina Bank therefore has a presence in Kenya, Uganda and Rwanda. Fina bank has plans to commence operations in other East Africa countries. The Bank has a good track record of financial rigour and customer service.

The bank's products and services offering is determined by the unique needs of each market, but nevertheless, the group shares innovative ideas emanating from its respective members. The major market segment of the bank is the business community. The bank has focused a lot on netting more customers so as to boost its transaction income as well as the deposit book. The bank has now shifted from being a small respected financial institution to a preferred regional SME and Business bank with a strong developmental emphasis especially in the rural areas. It aims to serve the entire region in the SME and Business sectors (Fina Bank Annual Report, 2008).

## 1.2 Research Problem

Foreign market entry strategies have been considered as plans for organizations to position itself positively from its competitor(s) and configure its value adding activities on a global scale. The banking industry in Kenya has become so competitive that in order for banks to gain competitive advantage over their competitors, they have opened subsidiaries in the neighboring countries.

The entry of these banks have been necessitated by lack of banks in a country like Southern Sudan and low banking facilities being offered in the other countries like Rwanda, Uganda and Tanzania. Some of the forces of change that have greatly influenced the banking industry include intense competition regulation and technological advancement. Strategic expansion in the banking industry demand that companies should have effective systems in place to counter unpredictable events that can sustain their operations and minimize risks involved through expansion strategies. Organizations working in environments are influenced by factors within that environment; many organizations have found ways including Fina bank have suggested ways of addressing this problem. Fina Bank has grown from small organization to a big. It has also been affected by environmental factors and has continuously tried to find ways of solving problems in their expansion programs

Many studies have been carried out on the banks and they include: Kieti (2006) carried out a study that looked at the determinants of foreign entry strategies by Kenyan firms

venturing into Southern Sudan: Mugendi (2010) conducted a study on Equity Bank's foreign market entry strategies into Southern Sudan and Uganda; Nyakundi (2010) assessed the strategies adopted by Kenya commercial Bank when entering international markets. On the other hand, Wachari (2010) carried out a study on determinants of foreign entry strategies adopted by Kenyan firms in selecting and entering international markets but did not focus on the indigenous banks. However, no study has been done on Fina bank's entry into East Africa region. The proposed study fills this knowledge gap by answering the question: Which entry strategies are used by Fina Bank in entering into East Africa region? This study therefore will focus on the foreign entry strategies used by Fina Bank while entering into East Africa region. The retail banking industry is chosen as the research setting because the level of development of banking in a certain country closely matches national economic development. Furthermore, this is an important topic as in the last decade we saw a significant increase in internationalization of banks from developing countries.

### **1.3 Research objective**

The objective of the study was to determine the entry strategies used by Fina Bank to enter into East Africa Region.

### **1.4 Value of the Study**

This study will contribute towards policy formulation and can be used by government in particular the Ministry of Finance. Findings of this research will be useful to Fina Bank which will use the findings of the study to determine the strategies to use to enter the

competitive foreign markets. The findings of this study may also be useful to any other institution(s) offering banking services in the region.

The findings of this study will be of importance to Central Bank of Kenya (CBK) which needs to know how their regulatory role works and take appropriate action. CBK will be interested in knowing how better to support Kenya's indigenous banks to enter the East African market with a larger population. The findings of this study will also add to the body of knowledge relating to the banking sector use by scholars and future students.

Other commercial banks that are interested in entering into the East African region will also find this research valuable.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter discusses literature on theory of international strategies as well as empirical findings by scholars in the banking sector in other parts of the world as well as Kenya. It focuses on strategic management and market entry strategies in management literature.

### **2.2 International Business**

International business is any commercial transaction that crosses the border of two or more countries. International business comprises a large and growing portion of the world's total business. Today, global events and competition affects almost all companies, large and small, regardless of industry. This is the result of selling output to and security supplies and resources from foreign countries, as well as competing against products and services from abroad. Thus most manager need to approach their operating strategies from international stand point, companies operating internationally have more diverse and complex operating environments than those that conduct business at home (Griffin and Pustay, 2005).

International business has been going through the most fundamental and far reaching process of change of the post war period. The implication of this change pose a significant challenge both to the industry and the government throughout the world and promise to alter not only the nature and structure of competition but also the balance of economic power, Hill (2005). Increase in globalization has also contributed to companies re-examining the manner in which they do business internationally forcing companies to

adopt global strategies for survival. Thus, there is a rapid growth of strategic alliance between firms in various parts of the world in a desperate attempt to gain the economies of scale in production, distribution and marketing (Nyakundi, 2010).

### **2.3 Foreign Entry Modes**

According to Pearce and Robinson (2007) Strategy is a large scale, future oriented plan for interacting with competitive environment to achieve company's objectives. The main goal with any strategy is survival, growth and improved competitive position in the future. Strategy is a plan of action that channels organizations resources so that it can differentiate itself from competitors and accomplish unique and viable goals.

According to Thompson and Strickland (2003), the strategies are concerned with the purpose and objectives of the organization. They are the things that businesses do, the paths they follow and the decisions they take in order to reach certain points or levels of success. In choosing a strategy, it is very important to think of the growth of the firm, the relative positioning and the impact the firm will create to the environment

A strategy is the direction and scope of an organization over the long term. It ideally matches its resources to its changing environment and in particular its markets, customers or clients so as to meet stakeholder expectations (Johnson and Scholes, 2002). What can be deduced from the above definitions is that strategic management is a process, directed by top management to determine the fundamental aims or goals of the organization, and ensure a range of decisions which will allow for the achievement of those aims or goals

in the long-term, while providing for adaptive responses in the short-term. According to Gole (2005), the strategy process will follow three major steps: strategy analysis, strategy development and strategy implementation

A company's strategy is management's game plan for growing the business, staking out a market position, attracting and pleasing customers, competing successfully, conducting operations and achieving targeted objectives. Markets are diverse enough to give companies a wider degree of strategic freedom in choosing the how's of strategy. At companies intent on gaining sales and market share at the expense of competitors, managers lean towards mostly offensive strategies, frequently launching fresh initiatives of one kind or another to make companies product offering more distinctive and appealing to customers. Conservative risk avoiding companies prefer a sound defense to an aggressive offense; their strategies emphasize gradual gains in the market place, fortifying the company's market position and defending against the latest maneuvering of rivals and other developments that threatens the company's well-being (Strickland et al, 2007).

The capacity to anticipate change and manage adoption to it in a timely and acceptable way is one of the key success factors for competitiveness and wealth creation of organizations and economies as a whole. Ross et al (1996) argue that organizations have to learn, adopt and reorient themselves to the changing environment. This process has to be deliberate and coordinated leading to the gradual or radical systematic realignments between environment and the firms' strategic orientation that results in improvement in



performance and effectiveness. Aosa (1992) observes that a mismatch between the environment and the organization brought about by failure to respond to changes in the environment creates a strategic problem.

There are various entry modes or strategies that can be used by a firm; the competitive advantage model is useful in cases where the firm's main aim is to enter those foreign markets that represent a market opportunity to the firm that they will certainly enjoy advantage over their competitors (Nyakundi, 2010). Expanding a firm to a foreign market will increase its scale of operations providing it with a large revenue and asset base. It enables a firm to optimize the physical location for every activity in its value chain. Some of the entry mode used by firms to enter into a foreign market will include; licensing, strategic alliances& joint ventures franchising and wholly owned subsidiaries

Licensing is a contractual arrangement in which a company receives a royalty or a fee in exchange for the right to use its trade mark, patent, trade secret or other valuable intellectual property. The firm granting the license incurs little risk, since it does not have to invest significant resources into the country itself. In turn, the licensee gain access to the trademark, patent and is able to potentially create competitive advantage ( Dress et al, 2008) licensing is also a way to expand returns based on previous innovations.

Strategic alliance and joint ventures these are relationships between two or more firms. Alliances may be either informal or formal involving a written contract. Strategic alliances may be used to build jointly on the technological expertise of two or more

companies in order to develop products technologically beyond the capability of the companies acting independently. Alliances are also favorable in face of high uncertainty and where cooperation is needed to share knowledge between partners and where strategic flexibility is important, such as small and medium sized firms. Typically, partners in a joint venture own equal percentages and contribute equally to its operations. An equity strategic alliance is an alliance in which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage. A non-equity strategic alliance is an alliance in which two or more firms develop a contractual relationship to share some of their unique resources and capabilities to create a competitive advantage (Petro, 2007).

Management contract is an agreement whereby one firm provides managerial assistance, technological expertise, or specialized services to a second firm for some agreed-upon time in return for monetary compensation. For its services the first firm may receive either a flat fee or a percentage of sales. The management contract may also specify performance bonuses based on profitability, sales growth, or quality measures. A management contract allows firms to earn additional revenues without incurring any investment risks or obligations (Sarkar & Carusgul, 1996).

Wholly owned subsidiary is a business in which a multinational company owns 100% of the stock. Two ways in which a firm can establish a wholly owned subsidiary are; acquire an existing company in the home country or develop a totally new operation. Establishing a wholly owned subsidiary is the most expensive and risky of the various entry modes.

However, it can also yield the highest returns in addition it provides the multinational company with the greatest degree of control of all the activities including manufacturing, marketing, distribution and technology development. Wholly owned subsidiaries are most appropriate where a firm already has the appropriate knowledge and capability that can leverage rather easily through multiple locations in many countries. In establishing wholly owned subsidiaries knowledge can be further leveraged by the hiring of managers and professionals from the firms home grown country, often through hiring talent from competitor.

Turnkey project is an export of technology, management expertise and some cases capital equipment. The contractor agrees to design and erect a plant, supply the process technology, provide the necessary supplies of raw materials other production inputs and train the operating personnel. The exporter of a turnkey project may be a contractor that specializes in designing and erecting plants (Yabs, 2007).

A representative office this is a legal unit that can give financial advice and may be the intermediary between the mother bank and the local customers to intensify the communication between the local firms and the mother bank. It's not entitled to offer classical retail banking services, such as collecting deposits and lending. The advantage of this model is that they enable the presence at host country at very low investment, the disadvantage being that representative offices have no legal right to offer the full range of services (Petro, 2007).

A branch is an integral part of the parent. Branches are entitled to offer a full range of services. Foreign branches follow their home countries laws and banking regulations. As branches operate on the basis of their parent's capital base, they can give much bigger loans than any subsidiary of the same size. That is the reason why branches are often used for wholesale and corporate banking. One advantage of a branch is that it shares the credit rating of its parent, which gives it a comparative advantage over local banks at borrowing, deposit collecting and trading (Tschoegl, 2003). Branches are also comparatively easier to establish, because they follow their home country regulations and are fully controlled by their parent's financial policy.

## **2.4 Internationalization Strategies**

There are four main strategies that are used by firms while entering a foreign market.

The customer-following strategy is a competitive advantage that a bank may achieve if it follows its existing clients. This approach is also known as the defensive expansion approach (William, 2002). The customer following strategy is one way to explain why a foreign bank chooses a particular host-country for entry. The customer-following strategy motivation can also be seen as a pull factor of the host country, if proportionally large share of a bank's business customers enter a particular foreign market, then it may be profitable for that bank to enter the same market. Banks respond to defend their client bank relationship. If the banks do not accompany their client abroad, the client will establish a banking relationship that could expand to supplant any domestic banking relationship.

Leading - the - customer strategy (William, 2002). Often a bank can act as an agent of its existing clients from the home country through new developed contacts abroad. Especially small- and medium-size enterprises, which are the clients of large International banks, set a high value on expansion of the banks abroad because they have information and consulting needs about the foreign markets. This fact gives a possibility to internationally operating banks not only to improve and enlarge their scope of products and services and to strengthen their client ties, but also to acquire new clients and to fix their market position.

Medium-size clients are particularly interested in establishing trade relations and in collecting data about the existing political and economic situation as well as in institutional and cultural realities of the corresponding country. These enterprises are often not able to acquire the adequate detailed information themselves. Clients make decisions about the taking-over of trade relations with enterprises of corresponding country due to the information obtained from the bank.

The market-seeking strategy implies that a bank finds it useful to enter new markets for some reasons. A bank seeks for new attractive markets to enlarge. Market seeking has been a major strategy for foreign banks in many transition countries. The transition countries are attractive because of comparatively higher returns, less developed local bank and high growth potential (Majnon et al, 2003). It is supposed that purely 'market-seeking' strategy is associated with larger risks and uncertainty than, for example, the follow the customer strategy. Mainly experienced and strong international banks follow this strategy because market seeking strategy is tied to larger risks. Such banks, aiming to

achieve a geographically wide service network, should be multicultural, synergistic and whole. Only a few banks are large enough to penetrate through home-country loyalties to attract other customers.

The follow-the leader strategy banking markets often have an oligopolistic structure. Therefore foreign entry decision is sometimes a reaction to one's competitor's activities. A bank decides to enter a foreign market if its competitor has entered it just before. The reason for following the leader is that the bank does not want to lose its competitive position and market share. The banks following each other are usually comparable by size and market share. According to Li and Guisinger (1992) customer following strategy is more important in the early stages of internationalization, whereas afterwards its importance may decline. The strategy that a bank can use depends on the internationalization of its customers. The most common reason for internationalization is following the customer. Growing globalization makes more and more enterprises act on international markets. Banks try to keep their main big customers by following them onto international markets. By such internationalization banks are unlikely to lose their customers as they know their demands better than the foreign banks. At the same time they may gain new customers abroad and their risks are lower as they already have some big clients abroad (Uiboupin, 2005).

## **2.5 Internationalization Theory**

Internationalization of a firm is an incremental process. Firms expand internationally once they believe that they have accumulated sufficient knowledge to successfully

operate in a host country. As a result the prediction will first enter psychically close markets. Gradually, they will enter more distant markets as they gather more information about them.

The Uppsala model is a theory that explains how firms gradually intensify their activities in foreign markets, and it was being introduced by Jan-Johansson and Jan-Erik Ahlen (1977). In this model emphasized the gradual and incremental character of international expansion. Organizations could best reduce their risk level by adopting this approach. Incremental growth also suggests that companies begin internationalization process in markets that have less psychic distance. Psychic distance can be defined as the individual's perceived differences between the home and the foreign country. This is followed by firms during internationalization based on the Uppsala model. The theory states that the firms with no exporting activity will start by exporting via an agent. Firms may also use other entry modes such as joint venture, licensing or franchising and it depends on the nature of the firm. Gradually, firms will gain more market knowledge and use more intensive and demanding operation modes such as sales subsidiaries and followed by wholly owned subsidiaries.

The Network Approach to internationalization highlights the importance of relationships with suppliers, customers and market that can stimulate or help a firm to go abroad. Networking is seen as a source of market information and knowledge that will bridge the gap between the involved parties' customers, suppliers, the industry, distributors, regulatory and public agencies as well as other market actors. Development in technology especially in information and communication sector help firms achieve a faster

internationalization through the experience and resources of network partners. The establishment of financial, technological and commercial relations with the other actors of the network makes it possible to the firms to extend their connections and to gradually widen their activities apart from their own territory until becoming international (Petro, 2007)..

These relations involve the firm in deliberated but not planned international relations. For small and medium size firms, the network approach is seen as a feasible route towards internationalization as their membership to the network will help firms positioned itself in a foreign country. Born Global firms are business organizations that seek for resources and selling products for gaining competitive advantages from Multinational markets ever since the beginning. Ronnie (1993), classify born global firms as those which beginning exports on average within two years of the firm's establishment. On the other hand, Knight and Cavusgil (1996) argue that firms must reached foreign sales of at least twenty five percent within three years of establishment.

Since the 1980s, many of the largest banks in the world have increased their foreign activities dramatically. Currently, international capital and banking markets are more intertwined than ever, making a correct assessment of the costs and benefits of internationalization a serious matter for bank management, regulators as well as shareholders (Slager, 2004). This study contributes to a better understanding of the internationalization of banks.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter presents the research methodology used in the study. This includes design, data collection and data analysis. This chapter will look at the data analysis techniques

### **3.2 Research Design**

This study adopted a case study research design. The study sought to determine the strategies that are used by Fina Bank in Kenya to enter into East Africa Region. According to Kothari (1990) a case study is a form of qualitative analysis that involves a careful and complete observation of a social unit which may be a person, family or institution. A case study is more focused and it gives valuable insights to the phenomena that may otherwise be vaguely known or understood. Case studies are widely used in organizational studies and across the social sciences, and there is some suggestion that the case study method is increasingly being used and with a growing confidence in the case study as a rigorous research strategy in its own right (Hartley, 2004).

Data was collected from a broad number of the bank's senior management about the foreign markets that the bank is operating in different countries of East Africa. The researcher relied on both primary and secondary data. Secondary data was obtained from various documents including the annual reports, strategic plan and end term evaluations

to supplement primary data. Primary data was obtained through self-administered interviews. Interview guide was used to collect data from the respondents.

### **3.3 Data Collection**

The study relied on primary data collected by use of interview guide. The target group were the senior managers of Fina Bank who make strategic decisions on the international business programmes and strategy heads in different division.

According to Kombo and Tromp (2006), Primary data is information gathered directly from respondents. This is through questionnaires, interviews, focused group discussions, observation and experimental studies. Secondary data will also be collected from various documents including Banking Survey and Economic Reviews from Central Bank Supervision annual reports and Fina Bank annual reports.

### **3.4 Data Analysis**

The data collected was analyzed using content analysis. Content analysis consist of analyzing the contents of documentary materials like books magazines, newspapers and the contents of all other verbal materials which can be either spoken or printed (Kothari 1990). It is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate to trends.

Content analysis examines the intensity with which certain words have been used. Content analysis systematically describes the form or content and or spoken material (Kombo and Tromp, 2006). The information was analyzed and evaluated to determine their usefulness, consistency, credibility and adequacy.

In summary, the study applied qualitative content analysis as a (text) interpretation method in case study research. First, case study research as a research strategy within qualitative social research is briefly presented. Then, a basic introduction to (qualitative) content analysis as an interpretation method for qualitative interviews and other data material is given. Finally the use of qualitative content analysis for developing case studies was examined and evaluated. The researcher argued in favour of both case study research as a research strategy and qualitative content analysis as a method of examination of data material and sought to encourage the integration of qualitative content analysis into the data analysis in case study research.

## **CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION**

### **4.0 Introduction**

Senior managers provided the necessary information regarding to the strategies used when entering into East Africa region markets. Their responses were written down and used for data analysis. Secondary data was also used in the analysis. This was obtained from Fina Bank financial and annual reports from the bank's website. Secondary data was necessary to compliment the primary data collected.

### **4.1 Foreign Entry Strategies**

It was found out that Fina Bank had adopted the 'waterfall' strategy where each market had been entered on a step by step basis, with bank commencing its operations in Rwanda in 2004 and Uganda in 2008. This strategy was considered beneficial as it presented lower cost of resources, lower risks and interdependencies between the different country markets. As such the Bank had continued to position itself as the leading business bank in these markets while pursuing the following strategic imperatives: In-depth knowledge of the Bank's customers, creating a confident and capable work force, taking banking to the client through technology, providing flexible and customized financial solutions, being effective, efficient, consistent and stable. The liberalization and deregulation of the banking industry across the region thereby reducing the strict regulatory barriers of entry into these markets prompted companies like Fina bank to enter into the East African region.

Acquisition of an existing Bank with a network of branches was adopted as the entry strategy into the Rwandan market. Start-up entry strategy was used when the Bank was introducing its services into the Ugandan market.

#### **4.1.1 Foreign Entry Strategy Into Rwanda**

The managers interviewed indicated that the bank moved to Rwanda in line with one of its critical success factors of execution of strategically planned expansion. It was noted that Rwanda was a 'virgin' market and such, more returns were expected. It was further observed that the Rwandan subsidiary was performing well financially. Fina bank moved into Rwanda through acquisition of an existing bank. The bank started by establishing a single branch. This strategy had the effect of reduced the costs associated with expansion.

Fina bank entered into East Africa for many reasons chief among them was in order to support trade and development of businesses across the region. The Bank needed to position itself as a business bank and thereby move away from the community Bank philosophy that it adopted over the years. Other reasons included the need to open new profit opportunities and openness to competitive pressure from domestic and foreign banks in the East African region. The need to conquer and increase the Bank's market share in the SME and business segments of the market that was previously unbanked in spite of its enormous potential in these emerging economies.

### **4.1.2 Foreign Entry Strategy Into Uganda**

According to Fina bank manager based in Uganda who was interviewed, Fina Bank (Uganda) was the third and latest foray into the East Africa region, having setup operations in Rwanda in 2004. It was part of an expansion strategy that sought to ensure that Fina became the regional SME Bank of choice.

Fina Bank launched its operations in Uganda in October 2008 marking the continued growth and expansion of the Group. The bank initially started operations in the capital, Kampala, with two branches: the Buganda Road branch and the Nakivubo branch. Its focus in 2009 was to open up a further three branches thereby increasing its branch presence to five branches countrywide.

The SME market in Uganda had grown significantly over the past few years necessitating the need for a bank geared primarily towards SME banking. It was this along with the bank's goal of expanding its network in East Africa that facilitated the emergence of a bank with award winning banking standards in Uganda.

Other major reasons that led Fina Bank to move to Uganda included: the need to support trade and development of businesses across East Africa; Fina Bank's need to position itself as a business bank and thereby move away from the community Bank philosophy that it adopted over the years ; the opening of new profit opportunities and openness to competitive pressure from domestic and foreign banks in the East African region and the need to conquer and increase the Bank's market share in the SME and business segments of the market that was previously unbanked in spite of its enormous potential in these emerging economies.

Some of the benefits derived by Fina bank by entering into the East African region were as follows: Growth in the Bank's financial performance; improved balance sheet position and stability as the well performing subsidiary cushions the new and under-performing subsidiary. Other benefits have been growth in the Bank's customer portfolio particularly those with a regional presence; low cost of capital; career growth and development opportunities for the Bank's employees; growth of the bank's asset base; improved customer service; improved bank's stability, operational efficiency and effectiveness and diverse team with different skills, culture and behavior has enhanced the work environment and productivity

#### **4.2 Challenges Facing Fina Bank in the East Africa Region**

Rapid growth in the banking sector continues to dominate the East African economies as the dominant driver in economic growth and wealth creation. For example there are currently 43 registered Banks in Kenya and these are still growing. Some of these banks have started doing business across the borders.

It was observed that Fina bank was facing a lot of competition in both the Ugandan and Rwandan markets. The managers interviewed noted that it was difficult to replicate the exactly Fina bank financial model into the two markets. This was attributed to environmental factors such as culture such as language barrier in Rwanda, political stability and generally the economy of the foreign market.

With the signing of East Africa Commission (EAC) in 2010, it meant being part of the trading block imposes many challenges. Instead of having an inclusive playground, the competition was opened up leading to fight for space and resources. With free movement of labour, capital, goods and services competition had become more intense. This therefore meant that the cost of doing business had gone up significantly. It was, therefore, a challenge for Fina bank to be more and cost effective to be able to compete favorably.

It was revealed that Uganda's banking industry had undergone consolidation following the Central Bank's key regulatory reforms that were contained in revisions to the Financial Institutions Act (FIA) 2004. Uganda had over 22 commercial banks following the Central Bank's lifting of the moratorium against licensing new banks in 2005. This had impacted in increase in capital requirements for banks in Uganda. The increment was in tandem with the regional trend, as Uganda's capital requirement had fallen below minimum statutory levels imposed by her East African Community (EAC) neighbours. The capital requirement was adversely affecting small banks such as Fina in Uganda as it was likely to put pressure on the financial requirements of the bank.

Furthermore, such Multi-National Banks as Stanbic, Barclays and Standard Chartered Bank had captured a substantive market share in the East African banking sector. It was established that Fina bank had adopted a unique model of targeting the bottom of the pyramid and it was only a matter of time before the statistics changed in favor of Fina Bank Uganda through SME banking mode.



The banking sector in Uganda had experienced higher inflation rates compared to 2009 mainly due to the fuel crises that had hit the country, the banking interest rates had remained stable and were more likely to drop to the entry of new banks. This had affected the profitability of Fina Bank and others as well.

Furthermore, a banking system which is heavily engaged in proprietary trading may be more vulnerable to systemic risk, because of the pro-cyclical impact of marking securities to market and because of the heightened liquidity risks created by proprietary trading. Credit risk was another challenge, as it was established that not all clients that banks lent money paid back in time or at all. This increased the cost of loans to the clients. As such, uptake and disbursements of loans were slow hence the increase in interest income was gradual. On this, he noted that the coming into force of the Credit Reference Bureau (CRB) would result in reduced risk.

It was also established that the cost of operation had risen given the difficulties brought about by technology and infrastructure costs incurred in delivery of banking products to its customers in Uganda. The bank had therefore encouraged the continuous and innovative ways of minimizing these costs such as by the use of technology such as mobile banking. The bank, it was noted, was also committed to having a competent work force. This would be achieved through constant training and capacity building to keep its staff abreast with the dynamics in the new trends in industry.

The new developments are also seen as a challenge for indigenous banks to position themselves to play in the big league as well as consider innovative ways of raising capital.

All the strategies used by Fina Bank to enter the East African market are in consonance with those proposed by previous scholars such as Griffin and Pustay (2005) as well as Pearce and Robinson (2007). The scholars indicated that firms operating internationally, face not only different but also complex environment that requires different foreign entry strategies.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter discusses the findings of the research and draws conclusions from the major findings. The study was a case study of Fina bank. The main objective of the research was to determine the strategies used by Fina Bank to enter into East Africa region. This chapter finally seeks to bring out the main findings of the research and offer recommendations based on the results of the study.

### **5.2 Summary**

This study sought to find out strategies used by the bank as it entered into East Africa region. It targeted the senior managers who were in a position to tell these strategies. It used primary data which was collected using interview guide.

The study found out that Fina bank used acquisition of an existing Bank with a network of branches as a foreign entry strategy into Rwandan market and start-up entry strategy was used when the bank was introducing its services into the Ugandan market.

### **5.3 Conclusion**

This section gives a summary of the key conclusions made from the findings of the study as discussed in chapter four. From the case study, the bank considered the new markets

and the strategy as it made its decisions to move to other countries. The entry mode strategies were vital considerations for the bank to consider as they entered international markets. Of most importance were competitors. The focus of Fina bank has been the SME banking. The state of expansion of the banking industry affects to a great extent the bank's decision in response to competition.

From the analysis it was found that indirect entry strategies of foreign entry like mergers and acquisitions was the most popular successful strategies that were used most extensively by Fina Bank to internationalize. The least popular strategy was found to be strategic alliances, franchising and licensing marketing strategies. Furthermore, another strategy that was commonly used was direct entry strategies and it was found that companies that used this strategy had the highest rate of success. This contrasts to companies that used indirect entry strategies which had the highest rate of failure in their internationalization efforts.

Furthermore, the firms have been using various approaches in entering their target Markets. Some prefer to consolidate their position at home and concentrated their efforts on exporting, while others took aggressive steps and invested directly in the foreign market. Thus, the study examined the entry strategy of Fina bank, the reasons that influence the choice and the challenges they face. This was aimed to gain deeper insight on how firms enter the target market.

The different markets affected the decisions of entry modes strategies into the international markets. The management believed that the expansion strategies had increased the bank's image, reputation, understanding of international market, employees with more international experience these has given the bank a competitive edge on the competition. The operation strategies have been marred with the stringent regulations that have been set by the different countries that the bank operates. Logistics of operation and expansion on the basis of this has forced the management to ensure success. Ugandans and the Rwandese have been beneficiaries training on skills for their local staff.

This study has primarily provided a contemporary analysis of realized foreign entry strategies of banks in the East African region with specific reference to Fina bank. Possible implications for internationalization of banks in the near future were considered such as the future of internationalization developments, and the consequences this might have for shareholders and the effects of regional integration on the internationalization of banks.

#### **5.4 Limitations of the Study**

Foreign entry strategies of a firm is a broad topic and a complex phenomenon; it is difficult to identify the internationalization processes from different types of firms, so in order to come up with good analysis and clear understanding the researcher limited the study to one case study.

Given the nature of banks operations, bank managers were not quite comfortable with revealing all information during the interview. The issue of confidentiality of information was one of the challenges that had to be overcome.

Another most important factor was time. The given time frame made the researcher to limit the study to one company, instead of several companies to be able to compare differently how the processes have been. It also was difficult to get appointments with the managers of the bank given their tight schedules. Some respondents kept on re-scheduling their interviews. It was also difficult to collect all data given the short time that these managers set for the interviews.

## **5.5 Recommendations**

The bank is advised to move to other African countries so as to exploit new opportunities in the emerging and virgin markets within the COMESA and East African Community such as Southern Sudan, Burundi, and the Democratic Republic of Congo among others. Such move will underpin the success of the Bank's strategy in entry of regional markets. The bank can do this through tried and tested methods of entry from the experience gathered from the two countries.

It is quite apparent from the research findings that the process of internationalization is a very beneficial process and hence it is very important for companies to select the proper strategy for entry into foreign markets and to use proper criteria to make the selection.

Anything short would mean the company achieving little or no successes at all in the internationalization process. It also seems that the indirect entry strategies for internationalization are the most effective and beneficial to most companies but at the same time it must be made sure that the company is financially stable and capable of using this strategy.

### **5.5.1 Suggestions for further research**

The research focused on a single business entity, Fina bank, a domestic bank and specifically its entry strategies into East Africa market. However, there are areas which need to be researched further. A more comprehensive research is needed that will involve more types of enterprise. There is need to carry out research on entry strategies adopted by other companies which are not in the banking industry or which are non-financial institutions. This should include firms in the media industry; membership based professional organizations; manufacturing industry and the hospitality industry.

There is also need to conduct more research on the impact of the East African Commission on all the banks in the region especially the challenges facing the banks. This will enable a comparison of the effects and the opportunities which exist for the expanded market.

The scope of the study was limited to foreign entry strategies used by a single company, Fina bank and the reasons that influence the choice. However, it is recommended that further research should be carried out to fortify existing knowledge on the subject matter: A more comprehensive research is needed that will involve more sample space. The research was by the fact that only one sample firms were studied. Similar research should be carried out in other countries to identify the firm's entry strategy, trends and patterns of internationalization. This is to identify the similarity and difference which may lead to new insights in the international business management and strategies.

A comprehensive study of firm strategies in international market is highly recommended. An in-depth study of entry strategy approach of firm in service industry is highly recommended. It is our submission that, study of bank internationalization should be less focused on entry strategy. The role of resources and capacities in building competitive advantage as strengths for firm operating in international market should be given further priority.

More research on modes of foreign entry need to be conducted to explain issues of internationalization in different countries. The countries are in various stages of development and they are in the process of entering into the economic integration and political federation.

Finally, there is need to study how banks with Small and Medium Enterprises (SMEs) divisions fare in the East African Region. This is because the SME sector employs many people and therefore requires a lot of financial support.



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## APPENDICES

### APPENDIX I: Cover Letter

Dear Respondent,

I am a postgraduate Student in the School of Business at the University of Nairobi. I am currently collecting data to enable me write a Master of Business Administration research project entitled *The Entry Strategies by Fina Bank to Enter the East African Region*.

This is to kindly request you to assist in filling the attached questionnaire to the best of your knowledge as it applies to your institution. The information that you give will be treated in strict confidence and your name will not be mentioned anywhere in the report.

Your co-operation in this exercise will be highly appreciated.

Thanking you in advance.

Yours Sincerely,

**EUNICE CHEROP NYANGO (MBA STUDENT)**

E-mail: [nyeunice@yahoo.com](mailto:nyeunice@yahoo.com)

Tel. no: 0723947822

Supervisor:

**DR. JOHN K. YABS**

**DEPARTMENT OF BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS**

**UNIVERSITY OF NAIROBI**

**P.O.BOX 30197 – 00100**

**NAIROBI**

## **Appendix II: Interview Guide**

1. What is your position in Fina Bank?.....
  
2. What does your position in the bank entail?.....  
.....  
.....
  
3. Which countries outside Kenya does Fina Bank operate?.....  
.....  
.....
  
4. What are the major reasons that led Fina Bank to move to other East African Countries?.....  
.....  
.....
  
5. To what extent have the internationalization strategies been successful Explain?  
.....  
.....  
.....  
.....
  
6. Would you advise the bank to move to other African countries and why?  
.....  
.....
  
7. Which internationalization strategies have been used by the bank?

8 a) Apart from financial performance, what other advantages have been gained by the bank from the adoption and implementation of internationalization?

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

b) Has the implementation of the foreign strategies improved bank's financial standing?

If yes above, by what percentage?

.....  
.....

9 How do you rate the state of expansion in the banking industry?

10 Are there any entry strategies that have adversely affected the bank's performance?

If yes, above what corrective measures were pursued to correct the situation and prevent other occurrences in the future?

.....  
.....

11 Are there any other strategies that are being used while entering these markets?

.....  
.....

12 which entry strategies have been used while entering new international markets?

.....  
.....

**Thank You for Your Co-operation**