CHALLENGES FACED BY THE KENYA COMMERCIAL BANK IN ITS REGIONAL GROWTH STRATEGY

By

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DECLARATION

This Management Research Project is my own original work and has not been presented for a Degree Qualification in this or any other University or Institution of learning.

SIGNED .... DATE **16th October 2008**

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This Management Research Project has been submitted for Examination with my approval as The University Supervisor.

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DEDICATION

I dedicate this work to my wife Rose Ndula, my son Shawn Luyali for the honour he facilitated us and daughter Joy Vugatsu for making our joy complete.

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ABSTRACT

Banking sector plays a significant role in the growth of economies all over the world. The objective of this study is to determine the challenges that KCB is facing in selecting international markets and the modes of entry into International markets. The study is a case based and utilizes both primary and secondary data collected from the Bank's staff and documents respectively. The study targeted all the managers in the Finance and Strategy Division of KCB, Head of Subsidiaries and all the managers in the various regional markets to undertake feasibility studies. The primary data was collected using a structured questionnaire that was mailed/faxed to the target respondent.

The data was analyzed using statistical package on social sciences with the help of descriptive statistics and content analysis. In selecting International markets, this study found that the greatest challenge KCB had to contend with was access to government restriction, profitability, general risk and yield of the potential market.

Major findings show the strategy being pursued by the bank is market development and the preferred mode of entry is registration of fully owned subsidiaries which KCB management refers to Greenfield (or fresh start up). The reason for KCB's regional growth strategies are attractive regional market, desire to follow competition and customers, grow market size, inducement by host governments, reduction of operational costs, desire to boost corporate image, answer needs, namely reconstruction of formerly devastated infrastructure and meet that demand for banking services, take advantage of harmonized tax regime, tap new opportunities, leverage on the regional integration and free trade frontiers, to stay ahead of competition and grow shareholder value.

Despite the fact that the banking industry is liberalized very fast, banking is still bound by many regulatory tendencies that hinder banks from venturing into International markets at a faster rate. Assessing the general risk of an entry mode and contribution of an entry mode to give the bank a competitive edge in terms of increasing market share were the greatest challenges that KCB faced in choosing a mode of entry. The researcher recommends that banks conducts thorough evaluation of their long term strategic orientation that would lead to design and development of meaningful strategic alliances for that is the only way they could overcome these challenges. The study found out that factors that have affected the regional growth strategy are tough expatriate workers policies, low labour quality, legal complexity, delay in processing of licences, fragility of legal and regulatory framework, poor infrastructure, inferior brand perception , high cost of doing business, high staff turnover, uncertainty in peace agreements, political risks and suspicions.

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ACCRONYMS AND ABBREVIATIONS

ATM	-	Automatic Teller Machines
CBA	-	Commercial Bank of Africa
CFC	-	Credit Finance Corporation Bank
CPA	-	Country Portfolio Analysis
DTB	-	Diamond Trust Bank
EFT	-	Electronic Funds Transfer
KCB	-	Kenya Commercial Bank
MNC	-	Multi National Companies
NBK	-	National Bank of Kenya
NIC	-	National Industrial Credit Bank
NSE	-	Nairobi Stock Exchange
VSAT	-	Very Small Aperture Terminals

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

The last decade of the 1990's saw the introduction of both political and economic reforms here in Kenya. The introduction of multiparty politics in Kenya brought with it greater political freedom. These political reforms were primarily aimed at instilling greater accountability on the part of the government. In 1993 the government of Kenya embraced economic reforms aimed at spurring economic growth these reforms according to Kenya Investors Guide 2001 include

- Abolishing export and import licensing except for a few items listed in the imports, exports and essential supplies Act (Cap 502)
- Removing all current account restrictions
- Allowing residents and non-residents to open foreign currency accounts with domestic banks.
- Allowing residents to borrow without limitations from abroad.
- Repealing the exchange control Act.

These economic reforms bought with them increased international competition in the domestic market consequently eroding the profitability levels for some companies. Same Kenya firms faced with this competitive threat have responded by pursuing foreign market opportunities through the internationalization strategy. In the pursuit of this strategy some Kenyan firms have now located subsidiaries in the neighbouring countries such as Tanzania, Uganda and Seychelles [Daily Nation: 20th March 2001 and 4th May 2001].

Global trade has undergone varied transformation since the advert of mercantilism. International trade has recently assumed new competitive levels with more liberalization and calls for free and fair trade. As a result many countries have subsequently realized that they need to seriously strategize themselves for the resultant competition in the international arena (Suranovic, 1988). This compels nations to co-ordinate their economic policies across boundaries because co-ordination is assumed to generate benefits that are not possible otherwise.

1.1.1 Regional Growth Strategy

According to Ball and McCulloch (1993), managers are always under pressure to increase the sales and profits of their firms, and when they face a mature, saturated market at home, they begin to search for new markets outside their home country. One of the enticing and plausible options is the venture into the regional market.

The concept of regional growth strategy refers to expansion of a company's business to other countries within close proximity of the country in which a company was established and domiciled. According to Rowe (1994), competing in other markets requires a different perspective than competing in domestic markets. Some of the pertinent issues to consider when venturing into international business are how to enter foreign market, how best to interact with customers, how to manage foreign joint ventures or subsidiaries effectively, and how to determine vulnerability and risks.

Regional growth is a key strategic issue which according to Grosse and Kajuwa (1995), requires top management decisions, large amounts of the firm's resources, affects the firm's long term prosperity, is future oriented, has multifunctional and multi-business consequences and require considering the firm's external environment. From the foregoing, it is clear that venturing into a new market constitutes a major strategic decision that must be well considered and appraised.

Kenya Commercial Bank, a Kenyan indigenous bank stated a regional growth strategy in 1997 when it opened its first foreign subsidiary in Tanzania. The strategy has picked momentum in the last two years with the opening of branches in southern Sudan and in Uganda and the announcement that it would be opening branches in Rwanda before the end of year 2008.

1.1.2 The Banking Industry in Kenya

During the last 20 years there have been major changes in the commercial banking sector globally. The globalization of financial markets has led to stiffer competition of the local banks for market share, from foreign owned banks. Competition squeezed profits while the interest rate volatility has led to an unstable investment environment, which has resulted in irregular returns and consequently higher risk. The recent decline in Treasury bill rates has meant that banks have again had to start learning how to lend to customers rather than the Government (Muturi 2005).

There are 46 commercial banks and 15 Micro-finance Institutions with a total asset of Kshs. 510.6 billion, (Central Bank of Kenya, 2008). Most of the banks are small to medium sized and 35 are locally around. A few large banks are foreign owned though some are partially locally owned. Eight of the major banks are listed in the Nairobi Stock Exchange (NSE). The banking sector is poised for significant new product and market development that should result in further consolidation of the banking sector as market forces and competition takes root. The Central Bank has on a few occasions put certain commercial banks under statutory management and some have resulted in closure.

Some of the smaller banks have started to merge in a bid for survival as they are faced with an increase in commercial banks minimum paid up capital and high operational costs due to cut-throat competition from the bigger players (Banking survey 2002). Financial reforms and a free market should spur the adoption of innovation that improve efficiency and provide a healthy balance between lending and deposit rates. However this was hampered due to a highly volatile macro economic environment that occurred after liberalization of interest rates of innovations that improve efficiency and provide a healthy balance between lending and deposit rates. However, this was hampered due to a highly volatile macro economic environment that occurred after liberalization of interest rates causing closure of some institutions.

A comprehensive financial sector adjustment program was launched in Kenya in early 1989 with the main objective of improving the mobilization and allocation of domestic resources (Kiptugen 2003). The reforms were meant to restore public confidence in the financial sector and to upgrade the skills required to supervise and regulate financial institutions. They involved reducing the budget deficits and government reliance on domestic borrowing, developing more flexible monetary policy instruments, liberalizing interest rates and improving efficiency of financial intermediation by removing distortions in financial resources mobilization and allocation (World Bank, 1992).

Interest rate liberalization was accompanied by other reforms including the floating of the exchange rate and trade liberalization. The Central Bank amendment act of 27th October 1995 enhanced the ability of the bank to monitor the industry more efficiently protect small depositors and foster financial prudence and discipline in the banking institutions. The amendments allowed locally incorporated financial institutions to expand branch networks outside Kenya, reduced credit to a single borrower to 25% of capital and institution from 10%, harmonized the calendar year for all financial years of the various institutions, reduced the period within which to publish audited accounts from 6 months to 3 months, granted CBK power to approve external auditors, raised membership of deposit protection fund from 5 to seven and established disclosure requirements for institutions covered by the fund.

According to Central Bank survey of 2002 the existing large banks have responded to the changing macro environment by aggressively marketing through heavy increased share of voice through heavy above the line advertising. Through product – service innovation, banks are attempting to achieve a finer degree of control over financial risks. For example, all major banks like Kenya Commercial Bank, Barclays Bank, Cooperative Bank of Kenya, Equity bank have introduced "Check off" unsecured personal loans, which are lent directly to employees of large institutions with loan deductions coming directly from the employer. Some banks have introduced a cheaper deposit account with single tariff. Through adoption of new technology like Electronic Funds Transfer, (EFT), Banks have radically altered the face of the banking environment. New IT products have changed the way banks do business by reducing the banking processes and increasing transparency, on the contrary new technology have weakened the traditional relationship between clients and their banks. This is because the branch network system ensures that one is not restricted to transacting at the branch where the customer opened an account.

As banks continually rationalize their branches in order to reduce overhead costs, the number of Automatic Teller Machines (ATMs) in use has risen to about 580. The improved uptime of the ATMs has been realized due to the access of some of these banks to Very Small Aperture Terminals (VSAT's) which have made them less dependent on the unreliable services of the main telecommunications service provider (market intelligence 2002). Other banks like CBA and cooperative bank have introduced internet banking and mobile banking respectively.

Banks have also responded to the changing micro-environment through organizations and mergers. For example, universal banks merged with Paramount Bank to form Paramount Universal bank. Bullion Bank also merged with Southern Credit Bank to form Southern Credit Banking Corporations. According to The Financial Standard (December 2007) the year 2007 saw Standard Bank of South Africa take control of 60% of CFC for a whooping Kshs. 19 billion. In addition it was revealed that the International Bank of China had acquired 20% of Standard Bank, Stanbic's mother company. This resulted in the Chinese controlling 12% of CFC bank. The net effect of all this wheeling and dealing is the creation of Kenya's fourth largest bank.

Helios capital recently entered into a deal with Equity bank that saw it take about 25% stake in the bank for a total of Kshs. 11 billion. This has made Equity bank the most capitalized bank in the local market overtaking Barclays Bank. National Bank is flexing its new found muscles, FINA bank is going regional, CBA has stamped its presence in Tanzania, Barclays Bank is back in the rural areas, DTB is regional [The standard: December 18,2007].

In addition some banks have also repositioned themselves in the market eg NIC Bank, through its "Move" slogan has sort to reposition itself as a retail Bank away from its earlier position as a corporate bank. The bank has successively won over the young working class in urban centers like Nairobi and Mombasa. Other banks like NBK, Barclays Bank and Standard Chartered Bank have also embarked on various changes aimed at repositioning themselves as modern. This has involved changing the corporate colors and logos. Government of Kenya (2002) highlights the emergence and recognition of micro-finance institutions as alternative sources of funds for loans, hence as sources of increasing competition in the banking industry. These micro-finance institutions some of which have been converted from being non-governmental organization as in the case of K-Rep bank, and have been steadily increasing in numbers (market intelligence 2002).

The above changes have contributed immensely to the increasing competition in banking industry especially with regard to the number of financial products available in the market that is comprised of an increasingly more sophisticated clientele. Kenyan Banks are therefore expected to develop strategic responses to address the changing competitive environment in which they operate.

1.1.3 Kenya Commercial Bank Limited

According to the Central Bank of Kenya Website (2008), there are currently 46 commercial banks operating in Kenya with paid up capital of Kshs. 50.2 billion. They are regulated by the Central Bank of Kenya through the banking Act, Prudential guidelines and other applicable Acts and Regulations. Among the leading players in the banking industry, Kenya Commercial Bank (KCB) ranks in top three positions. KCB is the largest indigenous bank in Kenya in terms of asset base and branch network.

The history of Kenya Commercial Bank according to the KCB Rights Issue (June 2008), dates back to 1896 when its predecessor the National Bank of India opened a small branch in the coastal town of Mombasa. In 1958 Grindlays Bank of Britain merged with the National Bank of India to form the National and Grindlays Bank. In 1970, the

Government of Kenya acquired 60% shareholding in National and Grindlays Bank and renamed it the Kenya Commercial Bank. In 1976, the Government of Kenya acquired 100% of the shares in the Bank, taking full control of the largest commercial bank in Kenya.

The Government of Kenya progressively started reducing its shareholding in KCB to 80% in 1999, 70% in 1990, 60% in 1996 and 35% in 1998; in June 2004 it offloaded a further 9% holding by renouncing its rights in a rights issue. The Government of Kenya has in June 2008 announced that it will not take up its Rights during the 2008 KCB Rights Issue and in effect offloading a further 4.73%. The Government of Kenya however continues to remain a single major shareholder controlling 21.47% stake in the Bank (Business Daily 2008).

Savings and Loan Kenya Limited ("S & L") is the oldest mortgage finance company in Kenya, established in 1949 as a branch of Savings and Loan Society, a private company registered in Tanzania. Savings and Loan Society converted to a limited company in 1962 and was acquired by KCB in 1972 to serve as the housing finance arm of the Bank, providing mortgage finance.

KCB (Tanzania) Limited ("KCB Tanzania") was incorporated in April 1997 to provide a wide range of financial products to the emerging regional economies and facilitate cross-border trading following the revival of East African Co-operation. KCB Sudan Limited ("KCB Sudan") was incorporated in pursuance of the vision "to be the Best Bank in the Region". KCB Sudan was launched in May 2006 and immediately commenced operations in Southern Sudan. Operations commenced with two branches – Juba and Rumbek – where impressive progress had already been made to command a grater share of government and NGO business. KCB Uganda Limited ("KCB Uganda") started business late November 2007. It is expected to help leverage on existing business in Sudan as Uganda is a key transit and trading partner with Sudan.

Since incorporation, KCB has achieved tremendous growth to emerge as a leader in Kenya's banking and financial sector. In 1970 the bank had 32 full-time branches of which 25 were located in rural areas, five in Nairobi and two in Mombasa (KCB 1996). Currently, the KCB Group has the widest network in outlets in the country, comprising of 134 full-time branches all of which represent over 55% of the total banking outlets in Kenya. Of the total outlets 80% are located in the rural areas, with representation in all Kenya's administrative districts. Within the region KCB branch network is comprised of 153 branches with Kenya having 134 branches, Uganda 3 branches, Tanzania 5 branches, Sudan 2 branches and S&L 8 branches. KCB has ATM network of 159 machines across the region and has partnered with 110 Pesa Point channels, giving it 269 ATM at the disposal of its customers.

1.2 Statement of the Problem

According to the market intelligence (2006), KCB opened a subsidiary in Tanzania in April 1997 and followed it with another one in Southern Sudan in December 2005. The aggressive regional growth strategy was given top executive management backing. This was evident by the creation of a position of deputy Chief Executive Officer in 2005, whose task was to be in charge of strategy and subsidiaries. It is notworthy that the regional growth came into being in the wake of the creation of East African Union and the subsequent signing of peace accords in Sudan and Somalia. It is likely that these events can partly explain the reasons for the banks strategy. The implementation of the strategy however has not been all smooth sailing.

Several studies have been done in the area of Banking. For instance, the study by Kamanda (2006) focused on the factors influencing the regional growth strategy of the Kenya Commercial Bank Ltd, while by Kimata (2003) concentrated on the process of market selection and entry modes focusing on the factors that are considered by Kenyan firms in entering the Uganda and Tanzania. Further, the study by Kiptugen (2003) concentrated on the strategic responses to a changing competitive environment taken by

Kenya Commercial Bank. None of these studies focused on the challenges encountered in the regional expansion program which is the main focus of the current study.

According to KCB Group Website [2006], the Bank made remarkable recovery in Tanzania market following the reorganization of its operations in the market to enable it remain competitive in the region. It is apparent that the Tanzania operations were slow in picking up as earlier envisioned possibly the micro and macro-economical factors were not favourable enough as anticipated. This study therefore sought to consider the challenges the Bank is encountering in its new growth strategy within the region and how the factors have affected the strategy.

1.3 Research Objectives

The main objective of the research was to analyze the challenges faced by Kenya Commercial Bank in its regional growth strategy.

1.4 Importance Of The Study

The study will benefit the following:

(i) Management of KCB who will benefit from an independent analysis of the bank's regional growth strategies

(ii) Managers of banking and financial institutions who may be interested in pursuing a similar regional growth strategy.

(iii) Scholars who may be interested in studying why business pursue regional growth strategy and the challenges thereof.

(iv) Relevant Departments of the government of Kenya that are tasked to provide relevant investment information to interested investors.

(v) Stakeholders in the society who may seek to know what factors investors consider prior of committing their funds across the national borders.

CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

This Chapter focuses on the review of literature related to this research. This was done with a view to collecting views, perspectives and opinions on international business selection and entry. The review depended on theoretical literature that was books, research papers, magazines and information from Internet.

2.1 Meaning and Importance of International Business

International business has been going through the most fundamental and far reaching process of change of the post war period. It is a change which to greater or lesser extent will ultimately affect companies of all sizes in virtually all markets (Gilligan, 1989), Jeannet et al (1993) has also observed that the increase in globalization has also contributed to re-examining the manner in which they do business internationally. They argue that clear globalization trends are evidenced at three levels: customers, markets, industry and competition. This therefore has forced companies to adopt global strategies for survival.

According to Albaum (1998), companies have had to respond by increasing penetration in the current markets i.e., get extra market share from existing consumer market base, develop new products for existing markets, extend markets i.e. find new users for existing basic offerings or widen activities i.e. find new markets around core activities. This therefore leads to businesses venturing into markets outside their home markets in a process called internationalization.

International market is the practice of all the marketing activities (market intelligence, product development, pricing, distribution and promotion) at home, plus the effort to export product to foreign countries (Terpestra, 1990). International marketing management includes the management of marketing activities that cross the political boundaries of sovereign states. It also includes marketing activities of firms that produce and sell within given foreign nation if the firm is a part of an organization or enterprise that operates in other countries, there is some degree of influence, guidance, direction, or control of such marketing activities from outside the country in which the international firm produces and sells the product (Albaum, 1998).

Gilligan (1989) explains domestic marketing in terms of a company manipulating a series of controllable variables such as price, advertising, distribution, and product in a largely uncontrollable external environment made up of competitors, cultural values, a legal infrastructure and so on. Gilligan (1989) continues to assert that the unique dimension of international marketing is that in many cases not only do the controllable variables differ significantly between one market and another, but the controllable factors in the form of cost and price structures area also likely to differ significantly between markets. It is these differences that leads to complexities in international marketing. Albaum (1998) differentiates international marketing from the perspectives of changes in important ways in the nature of marketing management, the solution of marketing problems, and the formulation of marketing policies and implementation of such policies.

In a broad sense, Ball (1993) notes that the existence of uncontrollable forces in the external environment is responsible for firms seeking foreign markets. These forces relate mainly to competition, distribution, economy, socio-economic, finance, legal, physical, politics, socio-cultural, labour and technology. Gilligan (1989) has pointed that firms go international because of various reasons that mainly relate to the need to seek for opportunities abroad, increased international, government incentives among others.

It is important to note that international marketing has become so important for many firms in recent years such that its impact upon domestic marketing programmes is becoming increasingly significant. For instance, companies are adopting product development programmes so that the final product can be marketed in as many countries as possible with few, if any, modifications. Both Ford and General Motors, for example, have in recent years pursued the development of "world cars" which are targeted at an identifiable world market segment and modified approach has also been adopted by Toyota with the Corolla, and Caterpillar with a range of construction and earth moving equipment. The ultimate objective of many companies pursuing such a strategy is the

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development of a truly global brand, one that is acceptable throughout the world. Terpesta (1990) summarizes global marketing as coordinating marketing activities in multiple markets. Ball (1993) on the other hand simply observes that global marketing attempts to standardize operations worldwide in all the marketing functional areas of product, promotion, and distribution among others.

Gilligan (1989) asserts that international marketing is conducted from two levels. At its simplest level, it involves a firm making one or more marketing-mix decision across national boundaries. On the other hand i.e. the complex level, it involves the firm establishing manufacturing facilities overseas and making what are perhaps the very different mix decisions in a variety of markets. Albaum (1998) adds that international marketing also includes dimensions of the market selection and market entry made strategy.

A further dimension to international marketing is that of the larger and more complex international operation that is multinational marketing management, in other words, how a company effectively coordinates, integrates and controls whole series of national marketing programmes into a worthwhile multinational marketing effort. A primary objective of international marketing effort is to achieve a degree of synergy in the overall operation so that by taking advantage of different exchange rates, tax rates, labour rates, skill levels and market opportunities, the organization as a whole will be greater than the sum of its parts. (Gilligan, 1989).

These sorts of production and sales arrangements have a number of significant managerial implications and call for managers who are capable of operating as international managers, a challenging task which is far broader than that of operating either in a specific foreign country or in a domestic market. According to Terpestra (1990), "the international marketing manager has a three fold responsibility International marketing (marketing across national boundaries); foreign marketing (marketing within foreign countries) and multinational marketing management (coordinating marketing in multiple markets)".

Gilligan et all (1989) have pointed to a wide variety of reasons why firms enter international markets. Among the reasons, cited included the saturation of the domestic market whilst opportunities for further growth still exists overseas, foreign competition in the domestic markets which leads firms either to seek other less competitive markets or take on the competition in its home markets, the emergence of new markets, particularly in the developing world; government incentives to export, tax incentive offered by foreign governments to establish manufacturing plants in their countries in order to create jobs the availability of cheaper or more skilled labour, an attempt to minimize the risks or a recession or political instability in one country and a desire to achieve the greater economies of scale which were only possible by moving into foreign markets.

Albaum (1989) on the other hand categorizes the forces that move firms into international markets into global, international, domestic and company specific forces. Firm factors mainly include company specific advantages, global factors include an enabling environment, home country factors, include smallness, openness, location and domestic push and host country factors entail largeness, openness and the international pull itself.

Jeannet (1993) and Ball (1993) note that firms seek international markets for mainly opportunistic development, following customers abroad, geographic diversification, extension for incremental profit, take advantage of different growth rates of economies, exploiting product life cycle differences, existence potential abroad, defensive reasons (protecting markets, profits and sales), to leverage key success factors abroad.

The various forces analyzed above therefore, force companies to seek international markets in a process called internationalization. Albaum et al (1998) defines internationalization as a step-by-step process of international business development whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets.

2.2 Marketing Selection and Entry

The design and outcomes of each market selection and entry mode selection depends greatly on the external and internal environment circumstances. Apparent logic of the process, or its absence, selection, criteria, process dynamics amounts and kinds of information used, environmental perceptions, employee participation levels are just a few examples of factors that could and would influence the market and market entry mode choices. Not all the market and entry mode selection practice could be regarded as found reliable or efficient. Take for example, selecting overseas markets without considering the feasibility and sales potential impact of various markets entry alternatives:

Figure 1 – shows stages of the market selection process as advocated by various authors mainly Cavusgil (1985); Johanson (1997); Kumar (1994) and Root (1994)

Table 2.1 – stages of market selection

	Stage 1	Stage 2	Stage 3	Stage 4
Cavusgil (1985)	Screening	Identification	Selection	
Johansson (1997)	Country identification	Preliminary screening	In-depth screening	Final selection
Kumar (1994)	Screening	Identification	Selection	
Root (1994)	Preliminary screening	In-depth screening	Final selection	

Source: Koch Adam (2001). Selecting overseas markets, MCB University press

Every International market expansion and entry mode selection process begins with the recognition of the need to expand internationally. This recognition is based on an analysis of company objectives. The circumstances in which the need to expand may be recognized differ from case to case, for example in terms of the particular motive of the international market expansion of the source of the international stimulus. This is usually the first stage that might not be included inmost models (Koch 2001)

The main purpose of the preliminary screening of markets is to bring about an efficient reduction in the number of countries in need of an in-depth examination (Johansson, 1997; Root, 1994). This is achieved through eliminating all those that cannot be accessed by the company, or do not constitute commercially viable options. On the other hand, the in depth screening of markets has the ranking of the remaining markets against a number of accepted decision criteria as its prime purpose. Albaum (1998) notes that the screening is important so as to avoid moving into international markets in a piecemeal and unplanned manner.

Another often-neglected aspect of the market and entry mode selection is the decision criteria used in this selection. In some situations their determination and applications are results of a formal decision process undertaken by the company. In others it will be the discretion of an individual or a small informal group that will decide their selection and implementation. In both cases, choice of selection criteria will be influenced by the corporate culture, existing management systems and the collective and individual experience (Koch 2001).

Koch (2001) continues to explain that the next stage, country identification has to do with the examination of the available alternatives. Depending on the amount of information available, market dynamics, urgency of the move for the company and the formalization of the process, this stage may take anything between a few weeks and several years (Koch 2001).

2.3 Market Entry Modes

Selecting an institutional arrangement - a mode for entering or expanding in a foreign market - is one of the most crucial strategic decisions that an international firm has to make (Root 1994). A well-chosen mode can enable a firm to gain competitive advantage. However inappropriate modal decisions are difficult to change when long-term contracts and / or large resource commitments are made. Poor modal choices can lead to "sinking the boat" or "missing the boat" (Dickson and Giglierano, 1986). At the same time, some contractual modes of entry can prevent a company from taking full advantage of large market growth. A careful assessment of these trade-offs is essential in today's global economy. Root (1994) identified four major alternatives of entering foreign markets. These are exporting, licensing, joint venture, and wholly – owned subsidiaries.

Exporting differs from other modes in that a country's final or intermediate product is manufactured outside the target country and subsequently transferred to it. Indirect exporting uses intermediaries who are located in the company's home country and who take responsibility to shop and market the products. With direct exporting the producer firm does not use home country middlemen, although it may utilize target country intermediaries. Airbus is one of the largest direct exporters of the world, manufacturing most of its aircrafts in Europe, but selling the majority of its planes in other nations.

Target market factors, particularly competitive issues, are the most important factors that lead to the use of this mode of entry. Costs and prices may be lowest if production is done in only few locations around the world and the efficiently produced goods are exported to most markets as in the pharmaceutical industry (Gregory, Taylor and Zon 2001).

Licensing is non-equity, contractual mode with one or more local partner firms. A company transfers to a foreign organization the right to use some or all of the following property patents, trademarks, and company name, technology and / or business methods. The licensee pays an initial fee and/or percentage of sales to the licensor. Licensing is a quick and easy way for firms to expand into other nations when they lack the resources to do it alone.

Factors/conditions under which licensing is used include the fact that the requirement by a host government to put pressure on the international firm to easily find alternative companies to do business with. The danger with this method however is the loss of technology unwillingly. This situation occurs when a firm wants to expand into a country but lacks the capital do so. A low political risk also is another factor that usually leads to the preference of licensing as a mode of entry (Gilligan et al, 1998).

Joint ventures involve two or more organizations that share the ownership management, risks, and rewards of the newly formed entity. Each partner contributes equity that may take the form of money, plant and equipment, and/or technology. For example, Matsushita established a joint venture with Philips in Belgium to produce batteries (Albaum, 1998).

Host government policies and preferences are an important factor when choosing joint venture entry strategy. USA Federal and State governments encourage Japanese direct investment rather than exporting, but they have not developed policies that encourage the use of joint ventures. Many other nations have encouraged the use of joint ventures as a means for local companies to acquire technology. It is well known that the largest nations of Asia, China and India, have pressured Multi National Companies (MNC) to develop joint ventures with local firms, rather than to set up wholly owned subsidiaries (Anand and Delios, 1996). Strategic factors are also associated with the use of joint ventures. This is especially in a case where a multi national company may want to enhance its competitive advantage. The fact also that technology is disseminated from one partner to another in a joint venture is a motivation for a firm in a developing nation to establish a joint venture with a developed nation firm, and a reason for an experienced MNC not to use this mode of entry (Woodcock et al, 1994)

Wholly owned operations are subsidiaries in another nation in which the parent company has full ownership and sole responsibility for the management of the operation. Japanese automobile manufacturers are well known for their use of wholly owned subsidiaries in the USA in the late 1980s and 1990s (Sohn, 1994). Wholly owned subsidiaries offer firms the highest levels of control and also the lowest technology risk but they require highest resource commitments.

2.4 Challenges in Entering International Markets

A challenge can generally be defined to mean an issue that confronts, poses a hinderance, a limitation, or problem that needs to be overcome. On the other hand a factor can generally be defined as a consideration, aspect, a reason or feature that needs to be taken into account when undertaking something. For the purposes and scope of this study, some of the factors that firms consider when entering into international markets and selecting mode of entry can also be an hinderance. These factors become a hindrance when they pose a limitation to the firm when it enters into international markets or selects mode of entry and hence posing a challenge.

Galligan (1989) and Albaum et al (1998) note that international marketing management is faced with three basic decisions. The first is whether to engage in international marketing activities at all. Second, if a company decides that it wants to do business in international markets then a decision has to be made. concerning what specific individual markets are to be served. Finally the company must determine how it is going to serve these markets i.e. what method or system should be used to get product(s) into the hands of consumers in foreign countries.

Gilligan (1989) observes that the question of how best to enter foreign markets is the first and in many ways the most fundamental to be faced by the marketer, since it is this choice that subsequently influences and shapes the whole of the international marketing program. If for example the company opts for a distributor or a licensee, its ability to influence pricing and promotion is likely to be limited. In essence however, the market entry decision involves a balancing of costs, control and risks. In choosing a method of market entry, Albaum et al (1998) and Gilligan (1989) note that this has the obvious and significant implication for marketing strategy. At one level, this can be seen in terms of the degree of freedom that the company has in choosing its target markets and in the ways in which it subsequently goes about the process of matching market demand.

At a rather deeper level, however, the choice of a method of entry has direct consequences for the firm's ability to develop an international image and reap benefits of the economies of large scale and standardize production and marketing program. The benefits of a standardized approach across all or most of the world's markets have long been recognized in a general way, although it is only in recent years that any more than a handful of companies such as Coca-Cola, Caterpillar, BIC and IBM have actually pursued it.

Barker (1985) has indicated that many of the difficulties that companies typically experience in International markets are as a result of the fact that many companies do not have the resources to develop a sophisticated marketing process. That most companies seek a market for an existing product with which they had considered domestic experience i.e. the company is seeking to match needs with their products rather than develop a product to satisfy identified but unfulfilled needs. Another reason is that few companies have natural feel for a foreign market. As a result, their experience will be limited and takes time to develop. Baker (1985) also argues that few companies process the wealth of published data available in domestic markets making the quantification and prediction of export markets more difficult.

In selecting a foreign market and the mode of entering the market, firms are faced by a number of challenges. Overall, in deciding between these alternatives, several issues need to be taken into account. These include the company's objectives and expectations of the volume of business to be generated, the size of the company and its financial resources, patterns of involvement in other foreign markets, the managerial culture and levels of international marketing expertise within the company; the nature and degree of competition within the market, the nature of the product and whether it has any distinct competitive advantages either in terms of its technology, patent protection or trade marks, the market's political infrastructures and whether any tariff or non-tariff barrier exists or area likely to be introduced. (Gilligan, 1989, Albaum 1998, Ball 1993). However it is important to note the challenges in selecting a market and /or an entry mode may be similar at all.

Global expansion or international business is affected by cost and risks resulted from barriers created by distance. According to Pankj (2001) distance may be geographical but also has cultural, administrative or political and economic dimensions that can make foreign markets considerably more or less attractive. Historical and political associations shared by countries greatly affect trade between them for example, Britain continue ties with the former colonies in commonwealth.

Pankj (2001) further indicate that geographical distance affects the conduct business in a country. But geographic distance is not simply a matter of how far away the country is in miles or kilometers. Other attributes that must be considered include the physical size of a country, average within-country distances to borders, access to water ways and the ocean, and topography. Interestingly, companies that find geography a barrier to trade are often expected to switch to direct investment as an alternative way to access target markets.

The wealth or income of consumers is the most important economic attributes that creates distance between countries, and it has a marked effect on the levels of trade and types of partners a country trades with. According to Pankj (2001), Companies that rely on economies of experience, scale, and standardization should focus more on countries that have similar economic profiles. That is because they have to replicate their existing business model to exploit their competitive advantage, which is hard to pull off in a country where customer incomes -not to mention the cost and quality of resources- are very different

2.4.1 Challenges in selecting International markets

According to Pankj (2001) Companies that pursue global expansion routinely overestimate the attractiveness of foreign markets. They become so dazzled by the shear size of untapped markets that they lose sight of the vast difficulties of pioneering new, often very different territories. The problem is rooted in the very analytic tools that managers rely on in making judgements about international investments, tools that consistently underestimate the costs of doing business internationally. The most prominent of these is Country Portfolio Analysis (CPA), the hoary but still widely used technique for deciding where a company should compete. By focusing on national GDP, levels of consumer wealth, and people's propensity to consume, CPA places all the emphasis on potential sales. However, it ignores the costs and risks of doing business in a new market.

Challenges faced by organizations in selecting International markets include the non-existence of a clear company strategic direction and objectives, previous international experience, stage in which the firm is, application of appropriate methods in determining the viability and potential of the market, resource capability, similarity/proximity of the overseas market, market portfolio congruity, how to anticipate the overseas market risks among others.

Companies develop strategic orientation, which reflect their individual and group experience values and attitudes of their employees (those currently employed and their predecessors), changes in their business environment and strategic objectives established for the company i.e. some degree of stretch required to achieve these, (Hamel and Prahalad, 1994). Some of these may aim to establish/reinforce perception of the company as a market leader, have reduce strategic risks associated with company survival or growth, etc. Strategic orientation may predispose companies to more or less, collaboration with their competitors; it is also likely to strongly influence the process of business internationalization. Unclear company strategic orientation especially in the values and attitudes of their employees towards international business poses a challenge to organizations doing international business.

Important too and related to the strategic orientation is the strategic planning horizon of an organization. Johnson and Scholes (1997) propose that the longer the time horizon in company strategic plans, the more likely it is for the company to prefer countries that show greater long-term prospects over those where only the immediate market prospects appear comparatively favaourable. This would imply that companies with a relatively short planning horizon would in most instances deny themselves most chances to enhance the firm's competencies, capabilities and skills through global market participation and thus pose some challenges in the selection of the market to enter.

Evaluation of company international business experience involves examining its intensity, relevance, character (positive vs. negative) etc. Experience is a major factor shaping strategic directions, company corporate culture and collective knowledge or common wisdom. Without sufficient, relevant experience and knowledge, there tends to be a stronger sense of risk and uncertainty involved in the global marketing decisions, which in turn constraints at least the subjective, if not the objective, freedom of choice of market servicing modes. According to Pankj (2001) a country's cultural attributes determine how people interact with one another and with companies and institutions. Differences in religious beliefs, race, social norms and language are all capable of creating distance between two countries. Indeed, they can have huge impact on trade. All other things being equal, trade between countries that share a language, for example, will be three times greater than between countries without a common language.

Methods used in evaluating the viability of alternative markets pose a challenge too. First are the methods based on the cost logic versus methods based in degree of marketing control? (Porter, 1980; Root, 1994). The relative popularity of these alternatives in the relevant business practice depends on the industry, and company, tradition, which in turn is correlated with availability of information, legislation and the general characteristics of the country's business infrastructure. Country market potential is a common criterion used in market selection (Roots 1994, Johanson, 1997).

Yet the role of judgment and the potential for political contamination of the relevant product statistics on country rankings are often underestimate. Reliability of the relevant information, and of the methods used in obtaining it, has attracted considerable attention (Cavusgil, 1985). Products markets specific variables used in market potential estimation need further intensification in various industries.

Companies that have more of their own resources, and/or have secured better access to resources of other companies through various forms of alliances, are less restricted other things being equal in their international market selection. In larger multidivisional companies with many products categories, multiple perspectives may need to be adopted to cater for the different strategy requirements of each individual product/product line. The underlying analysis may be conducted on largely static or alternatively a dynamic platform. The strategic options of various forms of strategic alliances or the more temporary measure of piggy backing are of increasing popularity as markets become more global, competitiveness becomes more intense and the response time to market must continue to decrease.

Through networking measures such as participating in International trade fairs, exhibitions, sharing the same suppliers, buyers, through strategic alliances, joint ventures and ad hoc consortia (tendering process), companies develop their networks and increase their internationalization (Johanson, and Mattson, 1988) certain ethnic groups (e.g. Chinese) have been found more likely to develop their business networks on the basis of shared ethnicity. Contemporary requirements of globalization in particular implications of the rapid growth of electronic commerce, may affect these tendencies and forms they take.

Similarity/proximity of overseas market is another challenge. Psychic distance has been found to often influence overseas market selection. Length and strength of cultural and business links between one's own and some foreign countries stereotypes or dominant perceptions of these countries, company employees familiarity with these countries and individual perceptions of decision makers or influencers exercise a considerable influence or the choice of markets and on the order in which they get selected. The role of relevant experience and that of expatriates in forming perceptions of foreign markets are difficult to underestimate in this respect.

The extent to which a firm can optimize from the market selected is a challenge. Many companies expand globally in a cascade manner, starting from either markets considered least demanding and then entering more and more challenging foreign markets, as their experience, competencies, capabilities and skills grow, or markets where demand for some new products has already reached the level which makes an entry a commercially viable proposition for them, and then moving to markets that follow the pioneers. Selecting a market that will establish the best sequence of market expansion to be sought for the company to use its resources efficiently and sustain its global growth is a great challenge (Koch, 2001).

Related to this is establishing if the market selected contributes to the importance of lead markets as cues used in assessing company current performance and predicting its changes leading (or lead) markets (usually large strong at the high-end of the product line, free from government regulation and protective measures, with strong competitors and demanding customers) are of considerable strategic significance in global marketing (Elliot and Cameron, 1994). Managing to get into these markets and staying there provide the company with an excellent opportunity to bring up its capabilities and skills to the highest levels required globally.

2.4.2 Challenges in selecting mode of entry

After identifying and selecting the market to enter, the next challenge is to determine which mode of entry to use in entering the identified market. Some of the challenges that the firms face entail the size of resources the firm owns and it wants to devote, the extent of control that the company wants to exercise in the market, the company's past experience in the use of the mode of entry, the attitude of management towards risk, the market share and profit targets that the company is seeking, competencies, skills required to the mode of entry, characteristics of the overseas country business environment including market barriers, feasibility/viability of the entry mode, popularity of the individual market entry method in the overseas market.

Smaller companies normally have fewer market servicing options (Benito and Welch, 994), as their very limited own resources may simply not allow or discourage from, some market entry modes. For example, establishing a fully owned subsidiary often involves very substantial investment and correspondingly high risk levels. Similarly, small companies may not have sufficient management potential and special skills to enter foreign markets through establishing fully owned foreign-based subsidiaries or international joint ventures. The influence of company size on its freedom of choice in selecting market entry mode and their relevant preferences depends on industry specific resource demands for individual market entry modes. In the chemical industry, for instance, this relationship will be much stronger than in the computer software industry.

Experience in using market entry mode is another challenge. How many times, how recently, in what circumstances (similar enough, dissimilar) the company (or its competitors) has used any particular market entry mode their relevant success rates and degrees – all these factors obviously influence both market entry selection process and the choices themselves (Paliwoda and Thomas, 1998; Root, 1994). Companies that have gathered a considerable knowledge of a region prefer to invest resources into business ventures in that region rather than seek contractual modes there.

Various market entry modes produce different levels of profit and market share; equally importantly the dynamics of profit generation of various mode (take for example indirect export and investment in a new manufacturing and marketing overseas operation) are very dissimilar. The former will show some profits almost immediately and then may soon level off, the latter may mean no profit for three or four years (construction cycle time needed to establish all necessary market contracts, acquire/ build all necessary outlets, train the sales force as required, develop customer base etc). A long decision horizon may prefer the latter on short one will prefer the former. The suitability of the method used in estimating and comparing anticipated profits between various entry mode and reliability of inputs are two other important concerns. Johanson (1997) suggests that the lower the target rates of return, the more likely it is for the company to select countries that show greater long-term prospects and promise to enhance the firm's capabilities and hence choose entry methods that will guarantee the same.

Characteristics of the overseas country business environment also pose a challenge to companies in the selection of an entry mode. While the general characteristics of overseas country business environments are usually very easy to obtain these days, industry and company–specific information is usually more difficult to acquire. Whilst the former category of information is not always free from bias, complete and up-to-date, the latter is considered quite sensitive and usually not provided free of charge; indeed, it may be quite costly to obtain a concern for small beginners in general business regulation/practices, business infrastructure and supporting industries levels of developments, forms, scope and intensity of competition, customer sophistication and customer protection legislation are amongst those characteristics which would normally attract the attention of potential entrants into a foreign market (Cavusgil, 1985).

Market barrier can make access to foreign markets more difficult. The following categories are considered of major importance as indicated by Cavusgil, (1985) Johanson (1997). They are tariff barriers, governmental regulations, and distribution access, natural barriers (market success and customer allegiance); advanced versus developing countries, and exit and barriers.

Some entry modes (fully owned foreign subsidiary, international joint ventures) have been excluded by law in some countries, some of these exclusions may relate to selected industries considered to be of strategic significance for the state. Some entry modes (licensing) may involve excessive know-how dissemination risk, particularly if the foreign country is not a signatory to the appropriate international conventions. Other hindrances (e.g. restrictive labour regulation and practices, cost of labour, insufficient level of skill) may discourage from establishing a subsidiary, or a joint venture operation in a foreign market.

Investing in a foreign subsidiary may secure a favourable taxation treatment (for instance, tax holidays) and save the company a lot of money on avoiding paying custom duties. Owing to specific risks and costs involved in individual market entry modes, and varying associated sales potentials over a period of time, some market entry modes may turn out less viable than others in a given situation context. Some country markets may show a high popularity level for some modes of market entry with the industry in question. (Seabright, 1996). Selection of entry mode by new potential entrants will be influenced by the experience, degree of success of the former entrants and the anticipated product market situation.

Figure 2 – Summary of challenges faced in selecting international markets and modes of entry.

Selecting international / Regional markets	Selecting mode of entry
<u>Market related challenges</u> - Assessing the potential of the market - Method to be used for viability assessment - Assessing extent to which the market will contribute to organization objectives - Proximity/distance psychic distance - Risk assessment of the market	<u>Entry mode related challenges</u> -Determining the amount of resources to be deployed in the market - Assessing the feasibility of the entry mode - Method used to assess the feasibility of the mode - Determining the control to be exercised in the market
<u>Competition</u> - Assessing the level of intensity of competition -Assessing anticipated product innovations/changes in the target market	<u>Competition related challenges</u> - Mode used by competition
<u>Organization related challenges</u> - Extent to which organization strategic orientation (values and attitudes) supports entry into foreign markets - Past bad/good experience	<u>Organization related challenges</u> - Assessing extent to which the entry mode contributes to organizational image - Past experience in using an entry mode
<u>Regulation related challenges</u> - Assessing the level of regulation in the potential market -Accommodating host government interests - Existence of tariff/barriers	<u>Resource related challenges</u> - Availability or non-availability of skills and competencies required <u>Regulation related challenges</u> - Existence of government regulation - Existence of tariff barriers - Existence of regional trade barriers - Existence of exit barriers
<u>Product Related challenges</u> - Assessing the product to be offered in the target market <u>Customer related issues</u> -Assessing the level of customer sophistication in the potential market	<u>Product distribution related challenges</u> -Existence of distribution access barriers -Availability of the right type or equipment to be used.

2.5 Summary

International business has been going through the most fundamental and far-reaching process of change of the post war period. Some of these changes include shifting demographic profiles, political intervention in the market mechanism, increased competition, changes in the economic power and growth of new market opportunities. These pressures in the external market are so great that the opportunity to survive with a broadly reactive strategy no longer exists hence leading to organizations to pursue many strategic responses in an attempt to gain economies of scale in production, distribution, marketing etc. In a nutshell, marketing activity has extended beyond domestic frontiers in a process called internationalization, (Gilligan, 1989, Albaum, 1998), a process started in the 1980s but increased during the 1990s. The banking industry generally is composed of the international banks, multi-national banks and domestic or local banks. Globalization and liberalization effects have had an effort in the banking industry too with most affected being the domestic banks. The trend is that the richer and technologically superior banks are posing challenges to the local banks- resulting in the local banks adopting various strategies to survive.

Banks play a key role in the growth of any economy. However in Kenya banking has been dominated by the big five banks. The remaining majority who are small banks struggle to keep up with the trends dictated by the big five. Majority have not ventured into international markets. The selection and entry into international markets has its own challenges that need to be well handled. This is because the design and outcomes of each market selection and entry mode selection depend greatly on the external and internal environment circumstances.

Studies by Koch (2001), Kimata (2003) Thiga (2003) Kamanda (2006) concentrated on the process of market selection on the process of market selection and entry modes. They also focused on factors to consider in entering foreign markets and also strategic responses taken by firms given a change in the external business environment. They did not bring out the challenges that companies face in entering international markets and even in selecting the mode of entry. Besides this, the study by Koch (2001) concentrated on markets outside

Africa. The finding therefore might not be fully relevant to the African markets because of the different business environments operating in these markets. It is therefore necessary to conduct a study to determine the challenges that KCB banking industry will faces in selecting and entering international markets. By understanding these challenges firms in the be able to design strategies that will grow and expand the banking industry in Africa given its contribution to economic growth. In selecting international markets and entry modes, firms face a number of challenges. Broadly the challenges can be market, competition, organization, regulatory, product and customer related.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes research design, sampling procedure and data collection instruments, which were used in the study.

3.2 Research design

These adopted the case study design. This is a case study on KCB aimed at identifying and documenting the challenges in regional expansion. A case study involves a careful and complete observation of a social unit – a person, institution, family, cultural group, or an entire community – and emphasizes depth rather than the breadth of a study (Kothari, 1990).

This research design was chosen rather than for instance, the cross-sectional survey, because the objectives of the study required an in-depth understanding of the challenges facing KCB, and the specific responses it has made in the context of its regional expansion program.

3.3 Population of Study

Target respondents were the 3 managers in Finance and strategic Division of KCB, who included Divisional Director, Business Analyst and other managers who have been involved in the designing and implementation of the regional growth strategy. 32 teams of managers, drawn from different business units who have been to the various regional markets for feasibility study of the markets were targeted as respondents.

3.4 Data Collection

Primary data was collected by use of a structural questionnaire (see appendix 2). The data was collected through questionnaire and face-to-face interviews. The questionnaire was divided into two parts. Part A aimed at establishing the challenges faced in selecting a mode of entry into the international markets. Part B also aimed to establish the modes the bank has used in entering international markets. Both closed and opened questionnaires were used.

3.5 Data Analysis

Data was analyzed using descriptive statistics. Challenges which the bank faces in selecting international markets was analyzed using central tendency (mean scores, standard deviation) while the challenges encountered in choosing a mode of entry to operate in the international market to be selected was analyzed using measures of central Tendency. The findings were presented in tables and pie charts.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the findings together with their possible interpretation. The Chapter has been divided into two sections. The data was analyzed using Statistical Package for Social Scientist and presented in table and pie chart forms. A total of 35 questionnaires were distributed, 30 were satisfactorily filled and returned, giving 86% response rate which was considered adequate for analysis. All the respondents to the questionnaires were managers from different subsidiaries of KCB and the head office.

The researcher sought to find out the extent to which the regional economic integration and peace agreement in Sudan motivated KCB to pursue regional growth strategies. 85% of the respondents said the regional economic integration has motivated to high extent, while 15% said to moderate extent. While 77% of the respondents agreed that the signing of peace agreement in Sudan motivated KCB to pursue regional growth strategies and 23% disagreed.

4.2 What kept KCB from early entry into Uganda and Rwanda markets

The researcher sought to find out why KCB delayed in entering the Ugandan and Rwandan markets. The reasons from the respondents are summarized in the table below

Table 4.1 Reasons that delayed KCB from entering the markets

	Ugandan Market	Rwandan Market	Valid Percent	Cumulative Percent
Government restriction	77%	8%	76.9	76.9
Regulatory Policy	15%	8%	15.4	92.3
Lack of market knowledge	8%	39%	7.7	100
Lac of Capital	0%	30%		
Any Other	0%	15%		

Of the reasons that delayed KCB in entering Ugandan market, 77% of the respondents cited government restriction, 15% said it was because of regulatory policy while 8% were of the opinion that KCB did not have market knowledge. For reasons that delayed KCB in entering the Rwandan market, 39% of the respondents cited lack of market knowledge, 30% said lack of capital, 8% chose government restriction and regulatory policy while 15% chose other factors which they specified as prioritization of Uganda and Sudan over Rwanda, the focus was for East African market of which Rwanda was not a party to, the bank needed gradual roll out.

4.3 Challenges encountered by the Bank in pursuit of regional strategy

The researcher sought to find out the challenges encountered by the Bank in pursuit of regional Strategy, the respondents gave the following as the most important challenges: Lack of Capital, Regulatory policies and labour laws, Country specific risks, Lack of quality human resources, Cultural factors Socio-economic, Lack of market knowledge, Government restriction, Marketing penetration strategy.

On addition, the following challenges we enumerated but to least importance: Banks prudential requirements, acceptability of KCB in the regional market particularly in the Tanzanian Market, minimum returns on huge capital outlay, poor infrastructure in Sudan, different regulatory policy, poor information technology platform, Internal resistance to regional agenda and weak legal environment.

4.3.1 The extent to which the challenges affected the implementation of the Strategies

Majority of the respondents said the challenges caused delays in opening regional branches, followed by negative impartment on growth of business, high labour turnover, high operational cost, slow business growth in Tanzania and lastly it delayed the implementation

4.4 Evaluation of financial implication in opening foreign subsidiaries

69% of the respondents said the financial implication to KCB of opening a foreign subsidiary is high while 31% said it's moderate. Majority of the responds, 54% disagreed with the opinion that KCB can fund all its operations without raising more funds from the shareholders while 39% agreed that it can

4.5 Products, Entry mode and Regional growth

When sought to find out if the bank intends to continue marketing its existing products in the local markets or if its focus to the new regional markets, 62% agreed while 23% disagreed. When the researcher sought to find out if KCB will offer the same products to the new markets. 62% of the respondents said the bank will continue to offer the same product it has to the new markets while 23% said it will launch new products that are specifically designed for the new markets

When asked whether KCB plans to use alternative entry modes other than fully owned subsidiary. Majority of the respondents, 77% said no, while 23% said it will use an alternative entry mode. On the scale of importance, the respondents were asked to rank the reasons that inspire regional growth strategy. The findings are summarized in the table below.

Table 4.2 Reasons inspiring regional growth strategy

	Very Important	Important	Less Important
Attractive regional market	85%	15%	0%
Follow competition	8%	15%	77%
Follow customer	62%	31%	8%
Grow market size	100%	0%	0%
Inducement by host government	0%	17%	83%
Reduced operational cost	8%	17%	75%
Boost corporate image	46%	31%	23%
Cheap labour	0%	8%	92%
Keep potential competitors busy	15%	38%	46%
Promise of higher profit	77%	8%	15%
Protection from trade recession	15%	31%	54%
Risk diversification	38%	46%	15%
Unfavourable home market	8%	23%	69%
Management enthusiasm	31%	38%	31%
Saturated home markets	23%	38%	38%

Among reasons that inspire regional growth, growth of market size, attractive regional market and promise for higher profit were found to be the most important factors while follow competition, inducement by host government, reduced operational cost, cheap labour, protection from trade recession and unfavourable home market were cited as the less important factors as shown in table 4.2 above.

4.6 Challenges faced by the bank in selecting markets to enter

The researcher further sought to find out the extent to which the various challenges affected the selection of markets to be ventured by the bank. Table 4.3 below summarizes the findings

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Table 4.3 **Challenges faced by the bank in selecting markets to enter**

	Large Extent	Small Extent	Not at all
Assessing how profitable the market is	69%	31%	0%
Choosing an appropriate method to use in assessing the markets viability and potentiality.	46%	54%	0%
Assessing how the market will contribute towards meeting the company's objective of profit.	62%	38%	0%
Assessing the amount of yields from the market.	46%	54%	0%
Market proximity in terms of culture, distance, value orientations	54%	31%	15%
General risk assessment level (economic, political and business) of the market.	62%	38%	0%
Assessing the possibility of the market in attracting competitors.	46%	46%	8%
Market competitiveness in terms of availability of substitute in MFI.	31%	69%	0%
Market competitiveness in terms of introducing new products.	38%	62%	0%
Organization value and attitudes support entry into foreign markets.	23%	69%	8%
Human Resources constraints to drive business in the target market.	46%	38%	15%
Past experience general from entering other foreign markets in the past being a referral point.	46%	46%	8%
Existence of tariffs/market barriers.	33%	67%	0%
Home government influence in choice of the markets that you will want to enter.	31%	23%	46%
Existence of regulatory tendencies by governments, central banks.	62%	31%	8%
Determining the appropriate product to be offered in the market.	54%	46%	0%
Assessing the level of customer sophistication in the target market.	54%	38%	8%

As shown in table 4.3 the researcher sought to find out the extent to which the following posed as challenges in selecting the latest market, 54% said to large extent to assessing of customer sophistication in the target market, 62% said to large extent for existence of regulatory tendencies by government, central banks, 67% said to small extent for existence of tariffs/market barriers, 69% said to small extent to organization value and attitudes support entry into foreign markets. When sought to find out the methods used by KCB in venturing into the regional markets, majority of the respondents, 54% said KCB used direct operations while 46% said KCB used establishing a subsidiary as a mode of entry.

Table 4.4 Challenges faced in selecting method of servicing regional Markets

	Large extent	Small Extent	Not at all
Determining the resources that the firms want to devote to the entry mode.	46%	46%	8%
Determining the market share and profit targets that the bank wants control in the target market.	69%	31%	0%
Assessing the risk factors involved in the entry mode.	85%	15%	0%
Assessing how the entry mode will contribute towards high profits.	50%	50%	0%
Assessing how the entry mode will contribute in attracting large number of customers.	46%	54%	0%
General risk level (economic, political and business) of the entry mode.	54%	46%	0%
Assessing how an entry mode will contribute towards making the bank more competitive in the market place.	38%	62%	0%
Assessing how using an entry mode affects image of the bank.	31%	62%	8%
Experience gained from using the entry mode in other foreign markets being a referral point.	54%	46%	0%
The competencies and skills required for the mode of entry.	58%	42%	0%
Host government regulation in the entry modes to be used.	58%	33%	8%
The nature of exit barriers in the target market.	50%	33%	17%

4.7 Challenges faced in selecting methods of servicing regional markets

The respondents were asked to the challenges faced by KCB in selecting methods of servicing regional markets. The finding is shown in table 4.4 aboce

As shown in the table 4.4 above, 85% said assessing the risk factors involved in the entry mode was considered to large extent as a method of servicing international markets, 69% said to large extent the determining of the market share and profit targets that the bank wants control in the target market,62% said to small extent assessing how the entry mode will contribute towards making the bank more competitive in the market place and assessing how using an entry mode affects image of the bank while 17% of the respondents felt that the nature of exit barriers in the target market do not at all pose a challenge I selecting which method to use in servicing regional markets.

4.8 Issues in selecting and entering regional markets by KCB

When the respondents were asked to name any issues they had regarding selecting and entering regional markets by the Bank, they mentioned how politically stable the country is will determine the entry mode, Language barriers especially in Sudan where the main language is Arabic, Poor infrastructure for technology and premises, Lack of good work ethics from locals, General dislike of Kenyans as aggressive and tricksters and lastly the timing of entry into foreign markets is very critical as it can contribute into fast growth as slow the growth.

4.9 Likely challenges to be faced by KCB in its Rwandan strategy

The researcher listed various likely challenges to be faced by KCB in its Rwanda strategy and the respondents had to indicate the extent of effects the challenges could pose on the basis of economic factors, physical factors, political factors, legal factors, social-cultural factors, labour factors and lastly other factors that could not be grouped in the above categories. The table below summarizes the findings.

Table 4.5 Economic challenges

	No adverse effect	Little adverse effect	Great adverse effect
Economic			
Lack of credit	23%	46%	31%
Low level of disposable income	17%	42%	42%
Low pace of economic development	21%	43%	36%
Population size/growth rate	17%	25%	58%
Instability of exchange rates	0%	36%	64%
Instability of interest rates	0%	77%	23%
Poor infrastructure development	0%	46%	54%

As shown in table 4.5, 77% of the respondents felt instability of interest rates will have little adverse effect, 46% felt lack of credit will have little adverse effect, 64% felt instability of exchange rates will have great adverse effect, 58% felt population size/growth rate will have great adverse effect while 54% felt poor infrastructure development will pose great adverse effect as shown in table 4.5 above

Table 4.6 Physical challenges

Physical	No adverse effect	Little adverse effect	Great adverse effect
Poor political relationship with neighbours	8%	38%	54%
Poor economic relationship with neighbours.	15%	46%	38%
Unfriendly service features/topography	31%	46%	23%
No natural resources	23%	62%	15%
Harsh climatic conditions	31%	38%	31%

As shown in table 4.6 under the physical factors 62% of the respondents felt lack of natural resources will pose little adverse effect, 46% felt unfriendly service features and poor economic relationship with neighbours will pose little adverse effect, for great adverse effects, 54% chose poor political relationship with neighbours, 38% said poor economic relationship with neighbours and 31% said harsh climatic conditions. 31% felt harsh climatic conditions and unfriendly service features/topography will have no adverse effect

Table 4.7 Political challenges

Political	No adverse effect	Little adverse effect	Great adverse effect
Government ownership of business	31%	31%	38%
Strong nationalism	15%	31%	54%
Insecurity	0%	46%	54%
Instability of government	0%	23%	77%
Instability of government policy	8%	31%	62%
Hostilities between ethnic groups	0%	46%	54%

As shown in table 4.7, 77% of the respondents chose instability of government, 54% hostilities between ethnic groups, 54% insecurity and strong nationalism will pose great adverse effect. For little adverse effect 46% chose hostilities between ethnic groups, 31% chose instability of government policy, 23% chose instability of government, 46% chose insecurity, 31% chose strong nationalism while 31% chose government ownership of business. For lack of adverse effect, 8% chose instability of government policy, 15% chose strong nationalism while 31% chose government ownership of business.

Table 4.8 Legal challenges

Legal	No adverse effect	Little adverse effect	Great adverse effect
Legal complexity	15%	31%	54%
Tough tax laws	15%	54%	31%
High risk of confiscation, nationalism or expropriation.	23%	23%	54%
Wage, price or currency control	8%	46%	46%
Lack of industry / business regulation.	0%	38%	62%

As shown in table4.8 above under legal factors, for lack of adverse effect 8% chose wage, price or currency control, 23% chose high risk of confiscation, nationalism or expropriation, 15% chose tough tax laws and legal complexity respectively. For great adverse effect, 62% chose lack of industry/business regulation, 46% chose wage, price or currency control, 54% chose high risk of confiscation, nationalism or expropriation, 31% chose tough tax laws while 54% chose legal complexity

4.9 Socio-Cultural Challenges

	No adverse effect	**Little adverse effect**	**Great adverse effect**
Socio – cultural			
Unfamiliar local language(s)	23%	46%	31%
Local peoples inability to learn a new language	0%	38%	62%
Low education / literacy levels	23%	62%	15%

As shown in table 4.9, 62% felt low education/literacy level will have little adverse effect, 62% felt local peoples instability to learn a new language will have great adverse effect while 23% felt low education/literacy levels and unfamiliar local languages respectively will have no adverse effect as shown in table 4.9

4.10 Labour challenges

Labour	**No adverse effect**	**Little adverse effect**	**Great adverse effect**
Low labour quality	0%	54%	46%
Low labour quantity	8%	62%	31%
Touch expatriate worker's policies	8%	46%	46%
Strong labour movements	15%	8%	77%

As shown in table 4.10, 77% of the respondents felt strong labour movements will have great adverse effect, 46% felt touch expatriate workers policies and low labour quality. 46% felt touch expatriate workers policies will have little adverse effect, 62% felt low labour quantity while 54% felt low labour quantity. For lack of adverse effect, 15% of the respondents chose strong labour movements, 8% chose touch expatriate workers policies and low labour quality respectively as shown in table 4.10 above

Table 4.11 Other challenges

Other factors	No adverse effect	Little adverse effect	Great adverse effect
Tough foreign investment controls.	23%	46%	31%
KCB's financial capacity	15%	46%	38%
Capability of KCB's management team	15%	46%	38%
Erosion of KCB's revenue in the short term	23%	38%	38%

As shown in table 4.11, 38% of the respondents chose erosion of KCBs revenue in the short term, capability of KCBs management team and KCBs financial capacity respectively as having great adverse effect. 38% chose erosion of KCBs revenue to have little adverse effect. 46% chose Capability of KCBs management team, KCBs financial capacity and tough foreign investment controls respectively as having little adverse effect

Summary

The chapter has discussed what kept KCB from early entry in Uganda and Rwanda, challenges encountered by KCB in its strategies, evaluation of financial implication in opening subsidiaries, marketing of products, reasons for inspiring regional growth strategy and challenges faced by KCB. It was found that Political factors posed the greatest challenge t followed by labour factors and that KCB is not planning to introduce new products in the new markets

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMENDATIONS

5.1 Introduction

This chapter discusses the findings gathered from the analysis of the data, as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the questionnaires. Findings have been summarized alongside the objectives of study, conclusions have been drawn from the study and the recommendations for actions are given.

5.1 Summary of findings

All the respondents to this research were managers, majority from the finance department, who were of the opinion that regional economic integration motivated KCB to pursue growth strategies. Majority of the respondents agreed that the signing of peace agreement in Sudan motivated KCB to pursue regional growth strategies and that KCB couldn't pursue Ugandan markets at the time when the Kenyan companies were venturing in because of government restriction and that they lacked market knowledge to enter the Rwanda market.

The respondents cited lack of capital, regulatory policies and labour laws, banks prudential requirements, country specific risks, lack of quality human resource, government restriction and different regulatory policy as some of the challenges encountered by the Bank in pursuit of regional Strategy

The extent to which the challenges affected the implementation of the strategies The challenges faced by KCB has led to delays in opening regional branches, lack of market knowledge has imparted negatively on growth of business, high labour turnover, high operational cost, slow business growth in Tanzania and delay in the implementation

Majority of the respondents said the financial implication to KCB of opening a foreign subsidiary is high and disagreed with the opinion that KCB can fund all its operations without raising more funds from the shareholders. They further said that the bank intends to continue marketing its existing products in the local markets and that it will continue to offer the same product it has to the new markets. Majority of the respondents said that KCB doesn't have any plans to use other entry modes other than fully owned subsidiaries

Among reasons that inspire regional growth, growth of market size, attractive regional market and promise for higher profit were found to be the most important factors while follow competition, inducement by host government, reduced operational cost, cheap labour, protection from trade recession and unfavourable home market were cited as the less important factors. Majority of the respondents said KCB used direct operations in entering the regional markets.

Language barriers especially in Sudan where the main language is Arabic Poor infrastructure for technology and premises, lock of good work ethics from locals general dislike of Kenyans as aggressive and tricksters, and timing of entry into foreign markets is very critical as it can contribute into fast growth as slow the growth are some of the issues faced by KCB in selecting and entering regional markets.

The markets have more or less been pre-defined by the KCB vision of being the best in the region. The region is known and what's important really is determining the market potential as entry mode. Political factors were found to have the greatest effect on KCB in its strategy to venture into Rwanda, followed by labour factors, while physical factors had the least effect followed by socio-cultural factors.

5.2 Conclusions

The main objective of the research was to find out the challenges faced by Kenya Commercial Bank in its regional growth strategy. The findings of the research indicated that stability and knowledge of the regional countries posed a big challenge in its endeavour to venture in those markets. Also language barriers especially in Sudan, Poor infrastructure for technology and premises and lack of good work ethics from locals are among the challenges faced by Kenya Commercial Bank. The local human resource availability and qualification, political stability and legal regulations adversely affect Kenya Commercial Bank in its bit to go regional

5.3 Recommendations

The findings have established that the changes in the business environment have compelled KCB to pursue the regional growth strategy. These changes include the formation of East African Union (EAU), Common Market of East and Southern Africa (COMESA) and increased local competition that justify such a strategy. Some markets that were perceived as subsistent have since proved to be lucrative, such as Sudan and Rwanda whose government is very pro foreign investment, especially from East Africa.

This study therefore recommends that the Bank has a long term view of the markets; however there is a likelihood that once the bank does the ground work in the markets the competition will descend into the same market and take away the clients. Reports that Equity Bank is soon opening branches in Sudan should prompt KCB to build customer loyalty that shall lock in their customers. This will give the Bank competitive advantage even when other payers venture into the markets.

Secondly the bank should also concern capacity building which should include introduction of staff exchange program where it sends some of its staff from the Kenyan market to work in the regional markets in exchange of staff from its subsidiaries within the regional markets. This has the benefits of exempting the Kenyan staff from tough expatriate workers policies and offering practical training to the staff of the new markets which has been a common feature with the Tanzanian market.

Finally the Bank can lobby the Government of Kenya to use its goodwill to prevail upon the members of the East African Union and Comesa to remove punitive restrictions that hinder the Foreign Direct Investments targeting the Kenyan companies in their pursuit of regional expansion. These EAU governments should be encouraged to regard Kenyan companies just like other multi-national companies and accord them better treatment.
As a suggestion for further research to establish the challenges faced by other industries other than the banks in their regional expansion strategies

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APPENDICES

APPENDIX I - LETTER OF INTRODUCTION

26th August 2008
Kennedy Mbaya
University of Nairobi
School of Business
Department of Business Administration
P.O.Box 30197
NAIROBI

Dear Respondent

RE: COLLECTION OF SURVEY DATA

I am a student undertaking a degree in Master of Business Administration at the University of Nairobi. In order to fulfill the degree requirement, I am carrying out a research project on the following topic.

"Challenges faced by Kenya Commercial Bank in its regional expansion."

This is to kindly request you to assist me collect the data by filling out the attached questionnaire. The information you give will be used purely and solely for academic purposes and will be treated with utmost confidentiality.

Your cooperation will be highly appreciated.

Yours faithfully,

Kennedy Mbaya

Dr. Justus M. Munyoki
Research Supervisor

APPENDIX II

QUESTIONNAIRE

SECTION A

Title of Respondent

(i) Supervisor ( ) (ii) Manager ( ) (iii) Director ( )

1. To what extent has the regional economic integration motivated KCB to pursue growth strategies? High ( ) Moderate ( ) Low ( )

2. Did the signing of comprehensive Peace Agreement in Sudan motivated KCB to pursue regional growth strategies?
   Yes ( ) No ( )
   Give reasons ______________________________

3. What kept off KCB from entering the Ugandan market early when the Ugandan market had been attracting Kenyan companies?
   - Government restriction ( )
   - Regulatory Policy ( )
   - Lack of market knowledge ( )
   - Lack of capital ( )
   - Labour laws ( )
   - Any other. ....

4. The Rwanda market has been attracting Kenya companies, what delayed KCB from entering that market?
   - Government restriction ( )
   - Regulatory Policy ( )
   - Lack of market knowledge ( )
   - Lack of capital ( )
   - Labour laws ( )
   - Any other. ....

5. Could you enumerate the challenges you have encountered in the pursuit of the regional growth strategy. To what extent have the challenges affected the implementation of the strategies? ______________________________

   ____

6. How would you evaluate the financial implications to KCB of opening a foreign subsidiary: High ( ) Moderate ( ) Low ( )

   Is the Bank in a position to fund all the operations without raising more funds from the shareholders? Yes ( ) No ( )

7. Does the bank intend to continue marketing its existing products in the local markets or will its focus shift to the new regional markets?
   Yes ( ) No ( )

8. Will the bank offer the same product it has to the new markets or will it launch new products that are specifically designed for the new markets?
   Yes ( ) No ( )

9. KCB has so far ventured into new markets by incorporating fully owned subsidiaries. Are there plans to use any other entry made.
   Yes ( ) No ( ) If yes, which one(s)? ______________________________

10. KCB management has pursued with enthusiasm the bank's regional growth strategy. The following are the reasons that may inspire regional growth strategy. Please indicate by ticking in the appropriate box how important each of the following factors were in the bank's decision to invest in Tanzania, Sudan, Uganda and Rwanda by entering: 3 = Very important; 2 = Important; 1 = Less important

Factors affecting growth	Very Important	Important	Less Important
Attractive regional market			
Follow competition			
Follow customer			
Grow market size			
Inducement by host government			
Reduced operational cost			
Boost corporate image			
Cheap labour			
Keep potential competitors busy			
Promise of higher profit			
Protection from trade recession			
Risk diversification			
Unfavourable home market			
Management enthusiasm			
Saturated home markets			
Others (name) ______________			

SECTION B

11. Below are a number of challenges that banks face in selecting which international

market to enter. To what extent has the following posed as a challenge to your bank in selecting the latest market.

Use X in the appropriate box

Challenges	5 very large extent	4 large extent	3 moderate extent	2 small extent	1 not at all
i) Assessing how profitable the market is					
ii) Choosing an appropriate method to use in assessing the markets viability and potentiality.					
iii) Assessing how the market will contribute towards meeting the company's objective of profit.					
iv) Assessing the amount of yields from the market.					
v) Market proximity in terms of culture, distance, value orientations					
vi) General risk assessment level (economic, political and business) of the market.					
vii) Assessing the possibility of the market in attracting competitors.					
viii) Market competitiveness in terms of availability of substitute in MFI.					
ix) Market competitiveness in terms of introducing new products.					
x) Organization value and attitudes support entry into foreign markets.					
xi) Human Resources constraints to drive business in the target market.					
xii) Past experience general from entering other foreign markets					

in the past being a referral point.					
xiii) Existence of tariffs/market barriers.					
xiv) Home government influence in choice of the markets that you will want to enter.					
xv) Existence of regulatory tendencies by governments, central banks.					
xvi) Determining the appropriate product to be offered in the market.					
xvii) Assessing the level of customer sophistication in the target market.					

SECTION C

12. Banks access international markets using different modes/methods which methods have KCB used in entering the regional markets? Please tick the one (s) that may be applicable

i) Direct operations (entry) ( )
ii) Partnership/Strategic alliance with a domestic bank in the market ( )
iii) Partnership/strategic alliance with a international bank in the market ( )
iv) Establishing a subsidiary in that market. ( )

13. Below are a number of challenges that banks face in selecting which method they use in servicing international (regional) markets. To what extent have the following posed a challenge to the Bank in selecting the method of entering international markets.

Challenges	5 very large extent	4 large extent	3 moderate extent	2 small extent	1 not at all
i) Determining the resources that the firms want to devote to the entry mode.					
ii) Determining the market share and profit targets that the bank wants control in the target market.					
iii) Assessing the risk factors					

involved in the entry mode.					
iv) Assessing how the entry mode will contribute towards high profits.					
v) Assessing how the entry mode will contribute in attracting large number of customers.					
vi) General risk level (economic, political and business) of the entry mode.					
vii) Assessing how an entry mode will contribute towards making the bank more competitive in the market place.					
viii) Assessing how using an entry mode affects image of the bank.					
ix) Experience gained from using the entry mode in other foreign markets being a referral point.					
x) The competencies and skills required for the mode of entry.					
xi) Host government regulation in the entry modes to be used.					
xii) The nature of exit barriers in the target market.					

14. Please share any other issues that you may have regarding selecting and entering regional markets by the Bank.

____

____

____

Thank you for taking your time to complete this questionnaire.

APPENDIX III

On a scale of 1 to 5 where 1 represent no adverse effect, 2 little adverse effect, 3 moderate adverse effect, 4 great adverse effect, and 5 greatest adverse effect, how would you rate the following challenge KCB's is likely to face in its strategy in Rwanda? (*Questionnaire also applicable for Tanzania, Southern Sudan and Uganda separately*) Please tick as appropriate.

	1	2	3	4	5
a) Economic					
1. Lack of credit					
2. Low level of disposable income					
3. Low pace of economic development					
4. Population size/growth rate					
5. Instability of exchange rates					
6. Instability of interest rates					
7. Poor infrastructure development					
b) Physical					
8. Poor political relationship with neighbours					
9. Poor economic relationship with neighbours.					
10. Unfriendly service features/topography					
11. No natural resources					
12. Harsh climatic conditions					
c) Political					
13. Government ownership of business					
14. Strong nationalism					
15. Insecurity					
16. Instability of government					
17. Instability of government policy					
18. Hostilities between ethnic groups					
d) Legal					
19. Legal complexity					
20. Tough tax laws					
21. High risk of confiscation, nationalism or expropriation.					
22. Wage, price or currency control					
23. Lack of industry / business regulation.					
e) Socio – cultural					
24. Unfamiliar local language(s)					
25. Local peoples inability to learn a new					

language					
26. Low education / literacy levels					
f) Labour					
27. Low labour quality					
28. Low labour quantity					
29. Touch expatriate worker's policies					
30. Strong labour movements					
g) Other factors					
31. Tough foreign investment controls.					
32. KCB's financial capacity					
33. Capability of KCB's management team					
34. Erosion of KCB's revenue in the short term					