A SURVEY OF CHALLENGES FACED BY KENYA COMMERCIAL BANK LTD WHEN ENTERING INTERNATIONAL MARKET

BY

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DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.

Signed .... Date ...06. 11. 2009...............

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D61/70128/2007

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

Signed .... Date ...6/11/2009...............

DR. JOHN YABS

DEDICATION

To my parents who have ensured I have excelled in life. May the Lord bless you. To my siblings who have braved my carping and assisted when they could.

ACKNOWLEDGEMENTS

To the almighty God for being the pillar in my life and for the strength He has given me. I also appreciate my parents' efforts to support me through school.

To Dr Yabs, my supervisor, for his valuable guidance, support and dedication throughout the period of study.

To my respondents for taking time off their busy schedules to fill my questionnaires and answering my telephone calls.

To my friends for their moral support. Special thanks to Patrick and Terry for their undying support in this project.

ABSTRACT

Today, banks are operating internationally in order to reach out to more customers and increase their profitability. In their quest to venture into the international markets, the banks face different challenges that could be similar to other banks or that are special to the particular bank. This study sought to find out which challenges were faced by Kenya Commercial Bank as it expanded its horizons to the international markets. The bank's major challenges revolved around the macro environment factors which the bank sought to resolve before entry into these markets. The main challenges included culture, language, political climate and stability, economic growth of the country, inflation rate, consumer and investor confidence, population size and distribution, age distribution, education levels, income levels, efficiency of infrastructure and industrial productivity. The study used primary data collected from senior managers of the bank by way of a questionnaire. This was the most appropriate method of collecting data as it involved the key people who make decisions regarding the banks expansion programs.

The study found out that the macro environmental factors were really important in the banks decision of entering the international markets. The politics of the country determined the nature of the business environment. Its stability thus determined how safe the bank felt its operations would be. The tax regime in these countries determined how much the bank would be taxed and how this reflected on the business. The bank also had to foresee growth in these regions so as to do business there. Inflation rate also determined how stable the market would be and so does the exchange rate.

Social cultural elements created a major challenge for the bank as it sought to enter these markets. Population size and distribution affected the location of the branches. Age distribution affected the decision of which products to promote as some are focused on some age brackets. Religious affiliations also affected entry especially in Muslim affiliated countries as they do not have conventional banking. Income levels are a challenge as the bank is targets this money for deposits. . Education levels created a challenge as it affected the income levels of the banking population. Technological elements were a key factor. Efficiency of infrastructure determined how seamlessly the bank operations would flow. The industrial productivity determined if there was a likely hood of competition and how lucrative the business was. New products and services of competitors determined how much customers the bank got and their volumes in relation to the products offered. In conclusion, the project hopes to help assist other local banks who would wish to do international business on how to minimize the macro economic challenges that they may encounter. The study also aims to assist the management of the bank to deal with past problems while moving to other countries

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CHAPTER ONE: INTRODUCTION

1.1 Background

An international business is an entity which engages in between multiple countries. The banking section plays an important role in international business. Today almost all major banks have offices in major cities around the world. Many banks have formed collaborations with banks in other countries to better serve their international business community. Banks form a bond of trust between buying and selling transactions in international market. Individual banks offer services like foreign exchange, traveler's check and electronics transfers. Banks play a role of trusty agents by offering services like 'Documentary Collection' and 'Letter of Credit'. With the help of financial devices, commercial banks are able to form a bond of trust between international buyers and sellers. In commercial methods like 'Commercial Collection' and 'Letter of Credit' banks act as agents to handle payments as well as relevant documents. Letter of Credit is the most widely acceptable and used method of doing international transactions. Some banks and government agencies offer export credit insurance to businesses. In some cases, exporter has to forgo a letter of credit, in such cases banks offer export credit insurance.

Foreign exchange market is another area where international commercial banks play vital role. Foreign exchange market serves two main functions; converts the currency of one country into the currency of another and provides some insurance against foreign exchange risk. Multinational corporations constantly need various currencies for their operations and to hedge against foreign exchange risk. International banks provide foreign exchange services to their commercial business clients to complete their business transactions. These banks act as a broker between commercial customers and foreign exchanges around the world. International businesses receive payments in foreign currencies for their export; the income it receives from foreign investments and income received from licensing agreements with foreign firms. International businesses use foreign exchange market to pay foreign firms for its products and services and when it makes direct investment in foreign country. International banks play major roles in these transactions. Many commercial banks offer short as well as long term loan financing to international businesses. Many countries have form banks backed by government funding to provide funding for exporters and importers. Banking sector plays vital role of catalysts in international market. Due to technology advances in banking sector, communication gap and delays in international business have really narrowed down.

International business has been going through the most fundamental and far reaching process of change of the post war period. The implications of this change pose a significant challenge both to the industry and government through out the world and promise to alter not only the nature and structure of competition but also the balance of economic power (Gilligan, 1989). Prominent amongst the causes of this change are shifting demographic profiles, political intervention in the market mechanism and an increasingly and malevolent market environment in which only the fast moving and proactive organization is likely to prosper. (Gilligan, 1989). These changes in balance of economic power, the growth of new market opportunities and the development of new technologies face business people with a dire choice; either to respond to challenges posed by this new environment, or recognize and accept the long term consequences of failing to do so. (Gilligan, 1989)

Increase in globalization has also contributed to companies re-examining the manner in which they do business internationally forcing companies to adopt global strategies for survival. Thus there is a rapid growth of strategic alliances between firms in various parts of the world in a desperate attempt to gain the economies of scale in production, distribution and marketing. The current interest by business firms in international markets can be attributed in large part to shifts in demand and supply characteristics in markets through out the world as well as the ever changing competitive environment. Supply in domestic markets (productive capacity) is exceeding demand thus the urge to go international. (Albaum et al 1998)

Companies have had to respond by increasing penetration in the current markets by getting extra market share from existing consumer market base; develop new products for the existing markets, extend markets by finding new users for the existing basic offering; or widening activities through finding new markers around core activities. All these are in response to changes in the environment. The process of finding new markets therefore has prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home countries. Selection of foreign markets and entry modes therefore lies at the heart of any business for any organization that aspires to operate internationally (Sarkar and Carusgul, 1996). It is therefore necessary that an organization that is venturing into international markets carefully selects which markets to enter and entry modes to ensure they remain competitive.

1.1.1 Concepts of challenges when entering new international market

All companies operate within the environment. This includes macro environmental scanning which involves the PESTEL factors. Political factors refer to government policies such as the degree of intervention in the economy. Political decisions can impact on many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and the rail. The major political factors include the political climate, political stability and risk, government debt, budget deficit or surplus, corporate and personal tax rates, import tariffs and quotas, export restrictions and restrictions on international financial flows.

There are political factors that affect the firm in the home country. The government may reduce trade barriers or increase bilateral and multilateral negotiations. The government may impose sanctions and embargoes which distort the free flow of trade in goods and services or ideas for decidedly adversarial and political rather than economic purposes. The government may also impose export control systems by denying or delaying the acquisition of strategically important goods by adversaries. The government also enforces import control systems. All imports or imports of a particular product are controlled through tariff and non tariff mechanisms. Tariffs place a tax on imports and raise prices of the commodity. There are also voluntary restraints agreements which are self imposed restrictions and cut backs aimed at avoiding punitive trade actions from the host. Quota systems also reduce the volume of imports accepted by a country.

There are also political factors that affect the firm in the host country. There is the political action and potential political risk. Firms prefer conducting business in a country with a stable and friendly government. There is a potential risk of loss when investing in a given country caused by changes in a country's political structure or policies for example tax laws, tariffs, expropriation of assets or restrictions in repatriation of profits. There is also the ownership risk which exposes property and life. There is also an operating risk which interferes with the on goings of a firm. The transfer risk is encountered when attempts are made to shift funds between countries. Legal differences and restraints also occur. Countries differ in their laws as well as implementation of these laws. In some countries, there is a litigious society in which individuals and institutions are quick to take a case to court. Thus court battles are often protracted and costly reducing marketing opportunities.

Economic change can have a major impact on a firm's behavior for example higher interest rates may deter investment because it costs more to borrow, or a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency. Inflation may provoke higher wage demands from employees and raise costs or higher national income growth may boost demand for a firm's products. The major economic factors include the GDP per capita, economic growth, unemployment rate, inflation rate, consumer and investor confidence, inventory levels, currency exchange rates, merchandise trade balance, financial and political health of trading partners, balance of payments and future trends.

The number of people in a particular market provides one of the most basic indicators of market size and is in itself indicative of the potential demand for a certain staple items that have universal appeal and generally affordable. Depending on the marketer's interest, population figures can be classified to show specific characteristics of their respective markets. Age distribution and life expectancy correlate heavily with the level of development of the market. Income indicates the purchasing power. Income is useful in the initial screening of the market. Availability and quality of an infrastructure is critically important in evaluating marketing operations abroad. Each international marketer will rely heavily on services provided by the local market for transportation, communication and energy as well as on organizations participating in the facilitating functions of marketing (communication, distribution, information and financing). Eliminating barriers between member markets and erecting new ones vis ã vis non members will call for adjustments in past strategies to fully exploit the new situations.

Culture is one of the most challenging elements of the international market place. This system of learned behavior patterns characteristics of the members of a given society is constantly shaped by a set of dynamic variables; language, religion, values and attitudes, manners and customs, aesthetics, technology, education and social institutions. An international manager, to cope with this system, needs both factual and interpretive knowledge of culture. The factual can be learned, interpretation comes through experience. There are two schools of thought to deal with cultural diversity. Business to business the world around, globalization is fact of life; however, cultural differences are still far from converging. Companies must tailor business approaches to individual cultures.

Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work. For example a population that is ageing increases costs for firms who are committed to pension payments for their employees because their staff is living longer. They also increase demand for sheltered accommodation. Major economic factors include demographic factors like population size and distribution, age, education levels, income levels, and religious affiliations or cultural structures like housing conditions or attitudes towards things like consumerisms or environmentalism.

New technologies create new products and new processes. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organizations providing the products. Major technological factors include efficiency of infrastructure, industrial productivity, new manufacturing processes, new products and services of competitors, new products and services of supply chain partners.

Environmental factors include the weather and climate change. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries. The general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities. Major environmental factors include ecological concerns that affect the firms production processes, customers' buying habits and those that affect customers' perception of the company or product.

These are related to the legal environment in which firms operate. Legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the good or using the service). Different categories of law include consumer laws, competition laws, employment laws and health and safety legislation.

1.1.2 Kenya Commercial Bank Ltd

The banks vision is to be the preferred financial solutions provider in Africa with global reach by 2013. Its mission is to grow its existing business whilst building the platform to be the preferred financial solutions provider in Africa with global reach by 2013. The KCB Ltd group is the largest financial services group in EAST Africa, with an asset base estimated at over US$2.5 billion. As of march 2009, KCB group has the widest network of banking outlets comprising of over 170branches in Kenya, Rwanda, Southern Sudan and Tanzania backed by over 276 automated teller machine outlets. The bank has a wide network of correspondent relationships totaling to over 200 banks across the globe for a seamless facilitation of their international trade requirements. The history of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa eight years later in 1904, the bank extended its operations to Nairobi, which had become the head quarters of expanding railway line to Uganda. The next major change in the bank's history came in 1958. Grindlays Bank merged with the national bank of India to form the National and Grindlays Bank. Upon independence in 1963, the government of Kenya acquired 60% shareholding in National and Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the government of Kenya acquired 100% ownership of the bank's share to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. The government has reduced its shareholding in KCB to 23% as of December 2008. In 1972, Savings & Loan (Kenya) limited was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross border trading.

In May 2006, KCB extended its operations to Southern Sudan following licensing by the Bank of Southern Sudan. In November 2007, the first branch of KCB Uganda limited opened in Kampala, Uganda following licensing by the Bank of Uganda. In 2008, KCB expanded to Rwanda, where the first branch opened in Kigali in December 2008. A subsidiary is expected to be opened in Burundi during 2009. KCB has more than 150branches thought Kenya, making it the largest banking network in the region. It has the largest number of own branded ATM's in Kenya. Since 2004, all of the branches in Kenya have been rebranded as part of a wider corporate branding exercise. KCB has partnered with Pesa Point to increase the number of ATM points customers can access their funds. The bank's vision is to be the preferred financial solutions provider in Africa with a global reach by 2013. Its mission is to grow its existing business whilst building the platform to be the preferred financial solutions provider in Africa with global reach of 2013. (KCB booklet, 2009)

Owing to its popularity in the market and unique position as the regional bank, KCB has experienced immense growth in both infrastructure and business volumes in the recent past. The bank serves close to one million customers spread across the region and boasts the largest balance sheet of any indigenous commercial bank in the region (over USD 2.5 billion). The bank provides a wide range of banking services; from corporate banking and trade finance products through propositions for small to medium enterprises and individual clients, to mortgage finance and credit card facilities. The bank is planning to increase further its regional footprint to ensure increased reach and convenience for its customers. It plans to open 50 new branches across East Africa and also install a commensurate number of ATMs. It also reviews its products and services to tailor them to specific customer needs and add variety to their offering. As the regional bank, it is committed to working with other stake holders to boost the region's capacity to conduct trade among members. This will be by providing an improved information technology platform that facilitates online real-time one-branch banking, fast transmission of payments and easy access to funds wherever their customers may be in the region. The banks' ultimate dream is to a Pan- African bank, supporting growth and development for a majority of people in Africa into the foreseeable future.

1.2 Statement of Problem

The problem of this study is to find out challenges faced by Kenya Commercial Bank Ltd while entering international market. The chairperson of the bank, Peter Muthoka, observed that the business profitability and growth are on an enviable trajectory and subsidiaries are beginning to turn in good results. The bank has prospects of branching out into the rest of Africa from 2010 in view of the new vision, but it has to consolidate what is already in place; ensuring the bank has adequate reach in the East African Markets, the products and services are of the right quality and appeal to diverse markets, the procedures and processes are efficient and effective and the IT system can handle the anticipated business volumes. Thorough feasibility markets are conducted before entering any new market. (Annual Report & Financial Statements, 2008)

In her study (A survey of internal service delivery systems in KCB) in 2006, Mugambi Dorcas observed that the bank should address various challenges facing it so as to improve on quality of service. They include change management, organizational factors to encourage employee initiative, standardize procedures, and empower staff and conflict resolution. She however did not include facing challenges while internationalizing its services. Kiptugen E.J (2003) observed that KCB had addressed its changing competitive situation by formulating and implementing strategic responses that include restructuring, marketing, information technology, and culture change. These responses had generally improved the banks competitiveness. However there still was the need for more strategic actions that need to be undertaken by KCB in order to enable the bank to fully match the environment in which it operates. He also noted that the bank should be more proactive rather than reactive in managing its changing competitive situation. This would have been achieved by formulating and implementing strategic initiatives that would pre-empt any anticipated adverse changes in its dynamic environment. With the wide network of outlets, Kiptugen observed that KCB should maximize on its competitive strength by developing strategies on the basis of this already existing advantage. This study will thus highlight the challenges that the bank might have faced in maximizing its competitive advantage.

In her study of "the role of executive development in corporate strategy implementation, a comparative study of KCB and National Bank of Kenya", Muguiyi Lucy W Njuguna (2007), observes that both banks realize that well equipped executive confer competitive advantage to their companies. They have invested in executive development in the belief that highly qualified managers will contribute to improving their competitive capabilities to achieve strategic goals. She however, did not highlight any challenges that either of the banks' managers might face while carrying out their managerial duties and growing the banks' balance sheet. This study will therefore seek to find out what these challenges are and especially in an international market set up.

These challenges may include the fact that the bank chose to retain its abbreviation as the trade name and this does not augur well with some cultures. Some customers feel that the bank should have changed the name in these markets so that it can represent not a Kenyan bank, but rather an international bank. The customers thus opt to bank in their indigenous banks as they feel that these banks do represent them and they are more loyal to these banks than to KCB. Another challenge is staff incompetence. It is an inherent rule in these countries that their locals should have majority of the jobs and expatriates should only be employed if the organization requires expertise that locals can not give. This limits the bank because most of the local have only minimal education thus the bank can only afford to limit service provision because employees are less. The employees also require training but training is costly because the employees leave the organization after the experience gained and free training to look for better paying jobs.

1.3 Objectives of the Study

The broad objective of the study is to establish challenges facing the Kenya Commercial Bank while expanding to international markets.

1.4 Importance of the Study

The research will investigate challenges faced by the bank while entering international market. The findings will assist other local banks who would wish to do international business on how to mitigate the challenges. It will also help the management deal with past problems while extending its international market. It will also be of importance to future researchers and academicians who would wish to conduct further research on the issue.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The research has drawn materials from several sources which are closely related to the theme and the objectives of the study. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base.

2.2 Challenge of International Management

An international business is an entity which engages in between multiple countries. Whatever the size or nature of a firm, it is clear that an increasing number of managers are going to deal with international business in future and workforce diversity. International management demands a contingency approach to complex and dynamic environments each of which has its own unique requirements (Deresky, 1997). Within the larger context of global trends and competition, the rules of the game for the international manager are set by a country; its political agenda, its technological status and level of development, its regulatory environment, its comparative and competitive advantages and its cultural norms.

The astute international manager will analyze the new environment, anticipate how it may affect the future of the home company and then develop appropriate strategies and operating styles (Deresky, 1997). Countries and companies must take a host of steps to meet modern international business challenges. One is to maintain economic competitiveness. This is done by creating the necessary factor conditions; having strong local demand for the goods and services that are being produced; having related and supporting industries that are internationally competitive and having a suitable strategy and structure and domestic rivalry that encourages continued innovation (Allan & Richard, 1995). Secondly, they must have knowledge of the government rules and regulations that affect international operations. Thirdly, they must develop an international perspective (Allan & Richard, 1995).

Stanley (1993) observes that the case of the multinational is frequently stated in strong terms both for and against it. Some accusations against it include that the multinational interferes politically in the affairs of the host nation and destroys local jobs. By exporting its knowhow and national technology, multinationals destroy its homes country's technical leadership and also destroys local culture.

Stanley in his book "International Marketing" (1993) notes that international business destroys technology, jobs, competition and complementary activity, management, foreign exchange and politics. There is inappropriate technology brought. Research and design also remains in the home country. There is key sector domination by the multinational and though there is transfer of knowledge and skills, it is not on a large scale. The wrong types of the jobs are provided for the multinational. The multinational creates economic and social inequalities. Jobs are also destroyed as the local competition is killed. Local competition is eliminated as oligopolistic industrial structure is promoted. Inappropriate management techniques are introduced and there is destruction of local culture. Foreign exchange is usually lost through transfer pricing and other means. The multinational usually interferes with the host nations' politics.

2.3 Challenges in Macro Environment

2.3.1 Political Risk

Deresky (1995) observes that managers of an international firm need to investigate the political risks to which they expose their company in certain countries and the implications of these risks for economic success of the firms. Allan & Richard (1993) suggest different ways of dealing with political risk. One is forecasting this risk by examining the political system and evaluating the overall risk. They can also examine the impact of this risk on company products and operations and determine the risk vulnerability. Michael & Ilkka (2007) observe that a manager in making decisions about his or her firm's international marketing activities needs to concentrate on the political and legal circumstances of the home country ; those of the host country; the bilateral and multilateral agreements, treaties and laws governing the relations between host and home countries.

2.3.2 Economic Risk

The assessment of a foreign market environment should start with the evaluation of economic variables relating to size and nature of the market (Michael and Ilkka 2007). The economic variables relating to the various market characteristics include population, income, consumption patterns, infrastructure, geography and attitudes towards foreign involvement in the economy. A country's level of economic development generally determines its economic stability and therefore its relative risk to a foreign firm. A country's ability or intention to meet its financial obligations determines its economic risks. (Deresky, 1995). The capacity to invest in plants and facilities either in domestic or foreign markets is an economic vitality to the firm. (Philip, 1996).

2.3.3 Technology

New technology represents a key competitive advantage to firms and challenges international business to manage the transfer of diffusion of proprietary technology with its attendant risks. (Deresky, 1995). An MNC can enjoy many technological benefits from its global operations. Advances resulting from cooperative Research & Development can be transferred among affiliates around the world and specialized management knowledge can be integrated and shared (Deresky, 1995). The risk of technology transfer and piracy is considerable and costly. Governments impose restrictions on licensing agreements, royalties and patents protections (Deresky, 1995). Philip (1996) observes that not only is technology the key to economic growth, but for many products it is the competitive edge in today's global market.

2.3.4 Culture

Michael and Ilkka (2007) observe that culture is one of the most challenging elements of international market place. A manager needs both factual and interpretive knowledge of culture. Complications stems from the fact that we cannot learn culture, we have to live it. Internationally successful companies have to be patient and not rush into situations but rather build their operations carefully by following the most basic business principle. (Know your challenge, know your audience and know your customer). Philip (1996) comments that its imperative foreign marketers learn to appreciate the intricacies of culture different from their own if they are to be effective in a foreign market. The culture of society comprise the shared values, understandings, assumptions and goals that are learned form earlier generations, imposed by present members of society (Deresky,1995).

CHAPTER THREE:RESEARCH METHODOLOGY

3.0 Introduction

This chapter represents the research design, population, sample, data collection method and data analysis techniques that were used to achieve the objective of the study.

3.1 Research Design

This study used a sample survey design. The study sought to determine the challenges faced by Kenya Commercial Bank while entering new international markets. A survey gave primary data collected from the banks senior management about the international markets that the bank is operating in the different countries. Similar studies have been carried out using this design and the results were satisfactory.

3.2 Data Collection

The study relied heavily on primary data collected by way of questionnaire that was filled by the senior managers of the bank. The questionnaire was administered through email attachments, drop and pick. It targeted senior managers in KCB. The questionnaire package included a letter of introduction and one questionnaire. Each respondent was asked to fill the questionnaire to the best of their knowledge. It was designed to assure complete anonymity and copies of the questionnaire sent to each respondent. The research instrument was administered and responses collected by the researcher.

3.3 Data Analysis

Data was subjected to cleaning by ensuring the data was correctly and accurately filled. Missing information was clarified through telephone calls. The data coded in a tabular form and developed into a database structure. The reports were generated through graphs which were used to interpret and derive conclusions from the analyzed data in relation to the research question and objective. Interpretations were made and conclusions drawn.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSIONS.

4.0 Introduction

Senior managers in the bank assisted to fill in the questionnaires. They helped provide necessary information in regards to the challenges encountered when entering international markets. The key to the questionnaire was; for strongly agree-1, for agree-2, for disagree-3 and for strongly disagree-4.

4.1 Political Elements

Majority of the respondents strongly agreed that the political climate of a country affects the entry of the bank into those countries and so is the political stability. The political stability and climate helps the investor confidence. Thus the peace deal in Sudan promoted the bank to venture into this potentially growing country.

Chart 4.1.1: Political climate

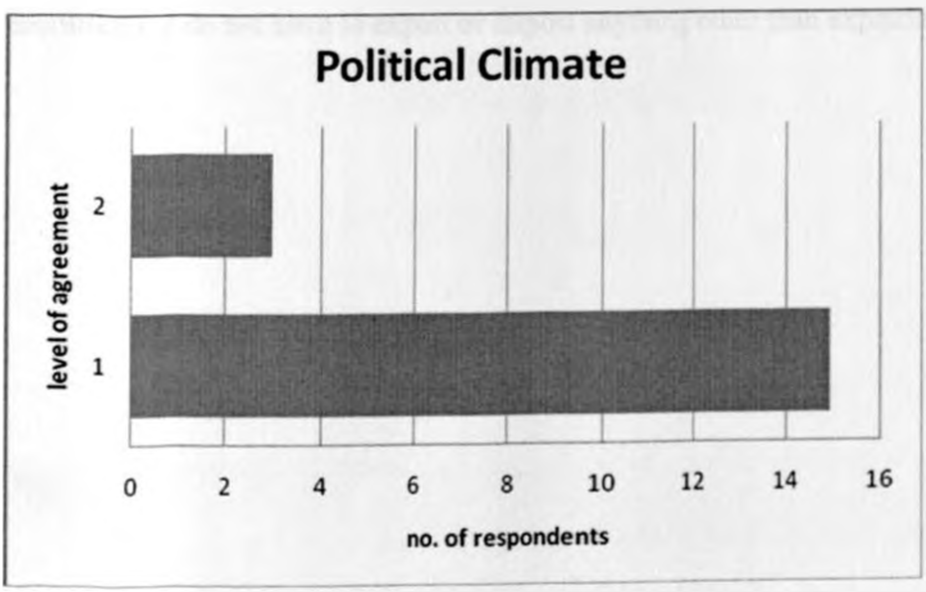
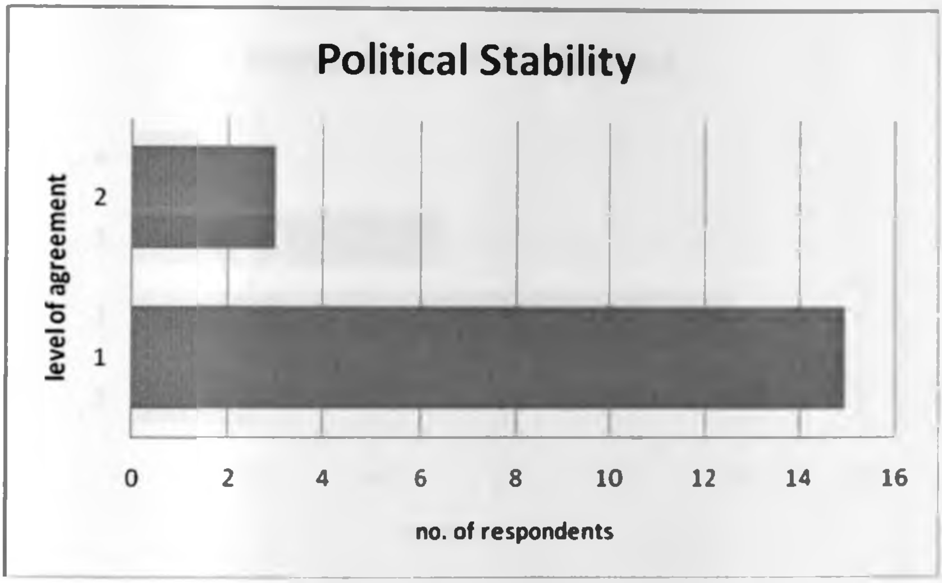


Chart 4.1.2: Political stabilty



Most of the respondents agreed to the fact that corporate and personal taxes are important. In these countries (where the bank has moved to) the tax regimes are mostly like in Kenya and thus the bank does not have to adjust to paying taxes. Import tariffs and quotas do not affect the entry of the bank and so are the export restrictions since the bank provides the service in these countries and do not have to export or import anything other than expatriate experience.

Chart 4.1.3: Import tariff & Quotas.

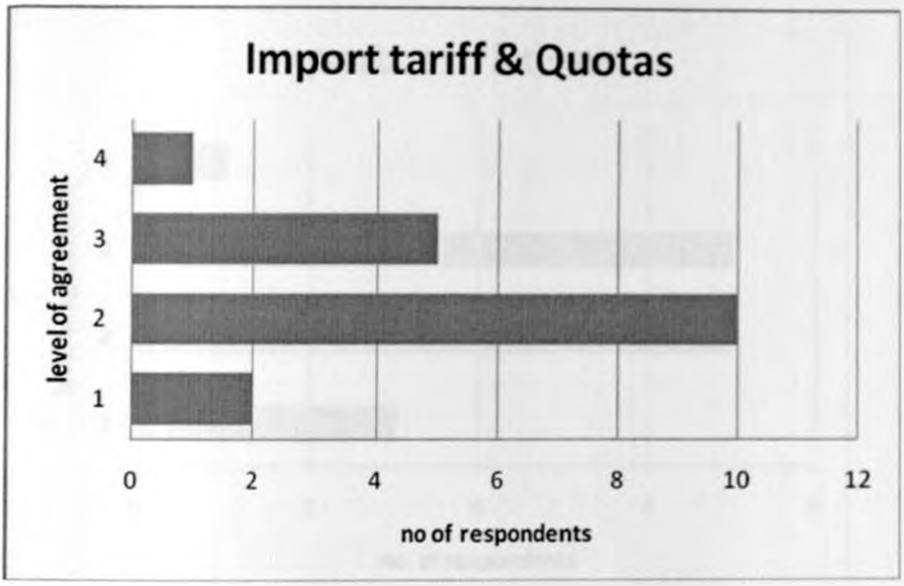
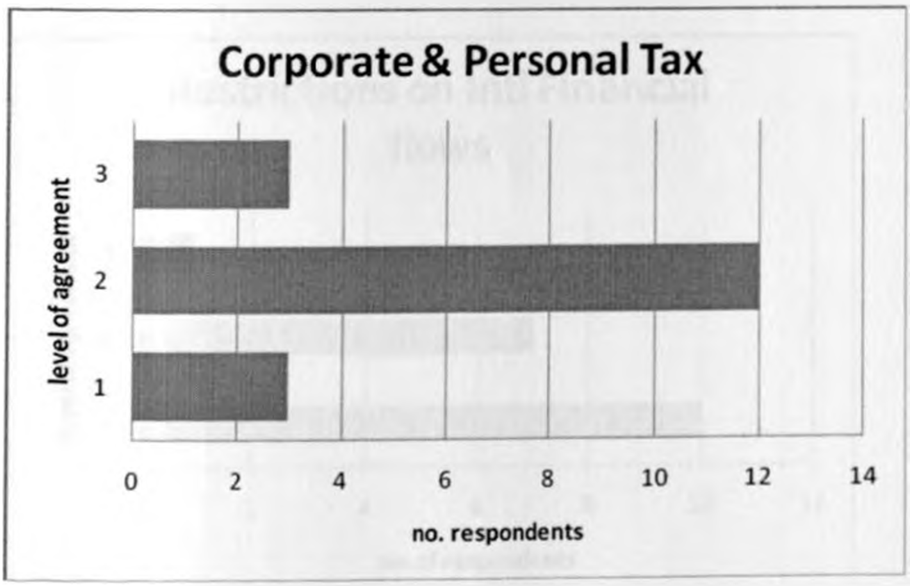


Chart 4.1.4 : Corporate and Personal taxes



Majority of the respondents felt that restrictions on international financial flows impacted by the Central Bank affected how the bank carries out its operations in other countries and thus the choice of country it would operate in.

Chart 4.1.5: Export Restrictions

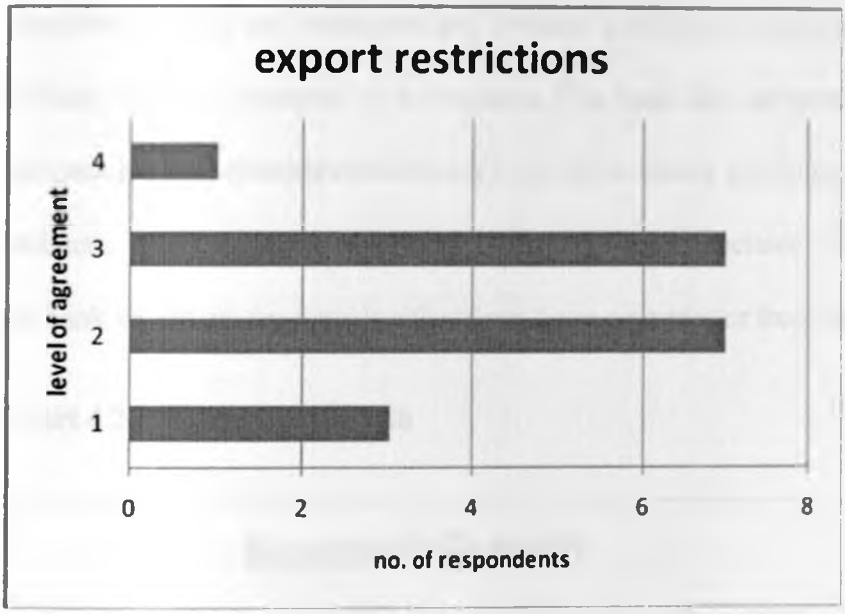
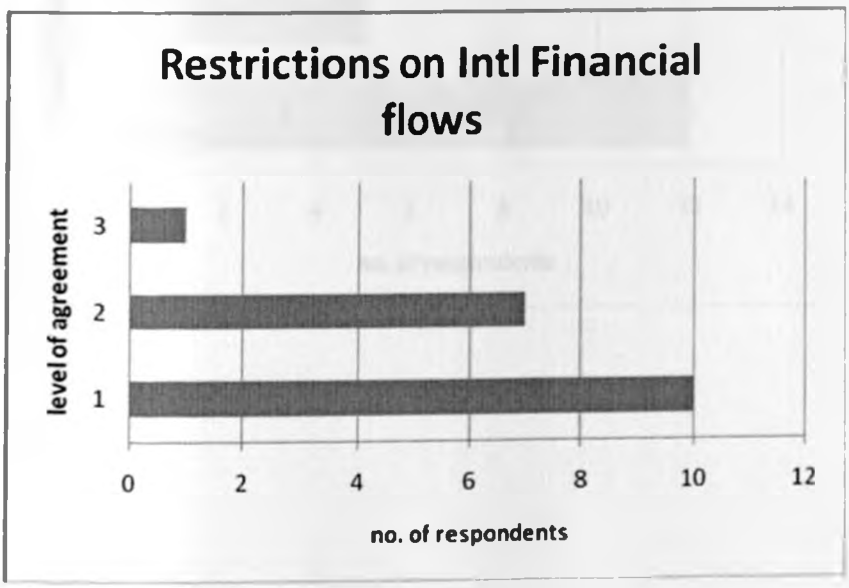


Chart 4.1.6: Restrictions on International Financial Flows.



4.2 Economic Elements

Economic growth and consumer and investor confidence were seen as very key to the banks decision to go to countries to do business. The bank first surveyed the potential growth of the business in these countries before entry. As the economy grows so will the demand for banking products. Unemployment rate did not affect the banks decision to enter these markets because the bank would get employees either from these countries or from the home country Kenya.

Chart 4.2.1: Economic Growth

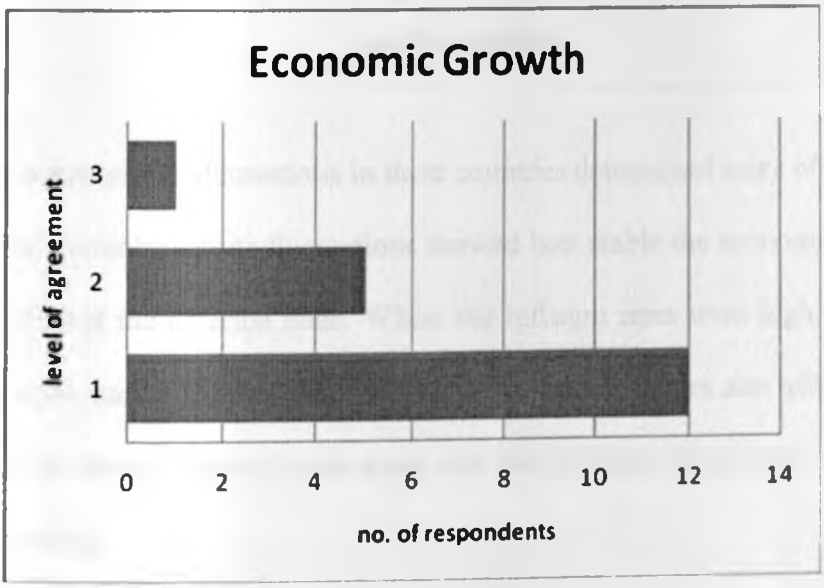
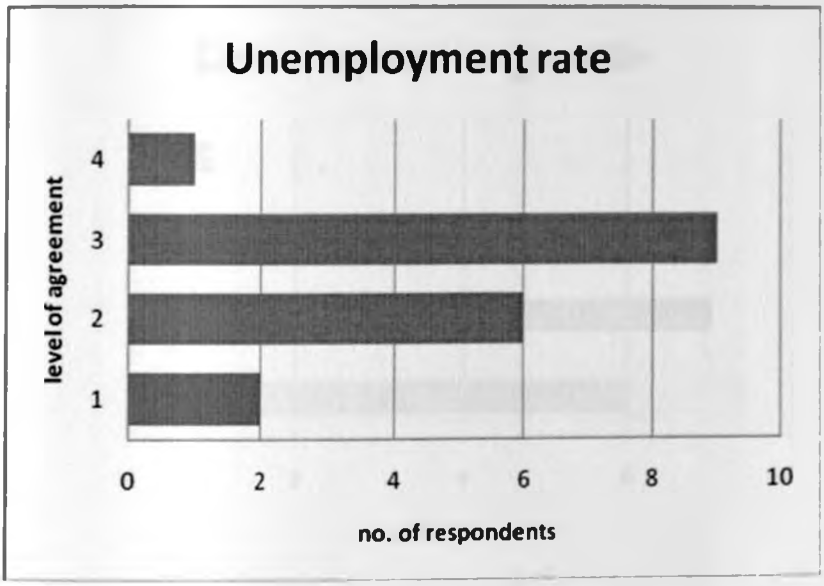


Chart 4.2.2: Unemployment Rate



Exchange rate fluctuations in these countries determined entry of the bank there. The strength of the currency and its fluctuations showed how stable the economy was. These rates also directly affected the inflation rates. Where the inflation rates were high, the bank avoided entry as the target market had less disposable income. Inflation rates also affected lending rates and thus the bank always targeted those areas with low inflation as the bank wanted to be seen as fair when lending.

Chart 4.2.3: Currency Exchange Rate

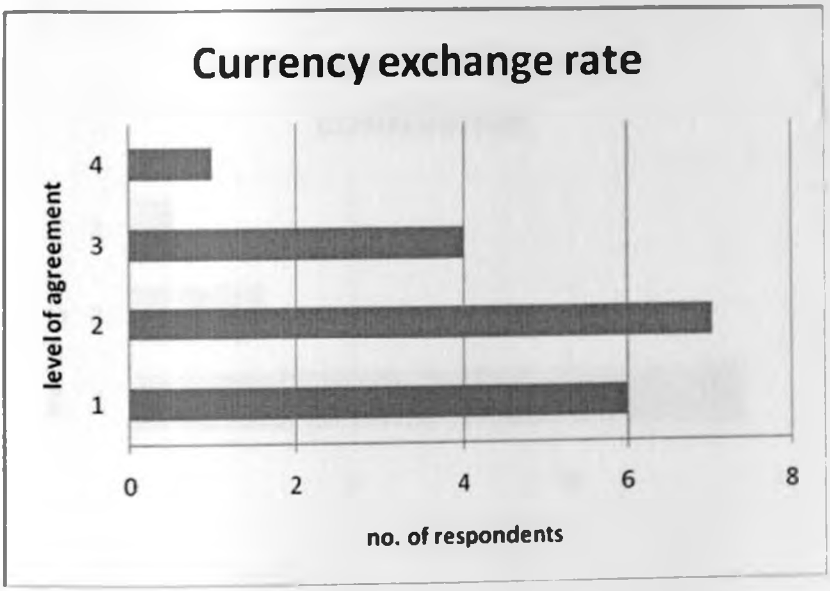
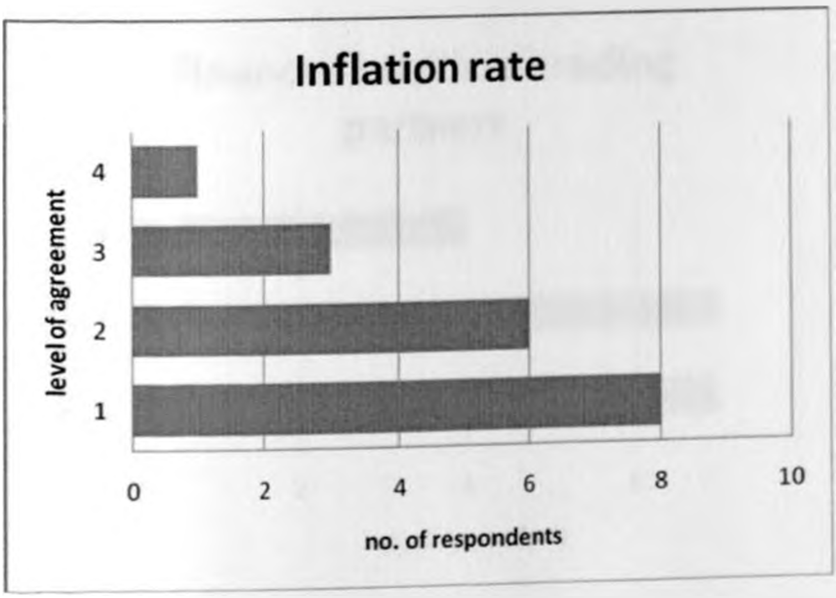


Chart 4.2.4: Inflation Rate



Consumer and investor confidence in the bank influenced the choice of which country the bank set up base. This is because they are the ones whom the bank targets as their customers. Thus the bank first set up in neighboring countries as they knew them better.

Chart 4.2.5: Consumer and Investor Confidence

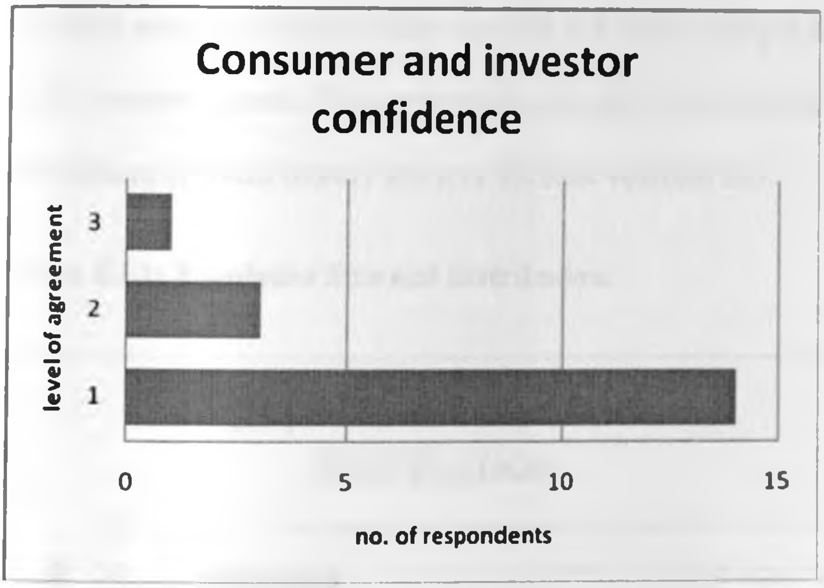
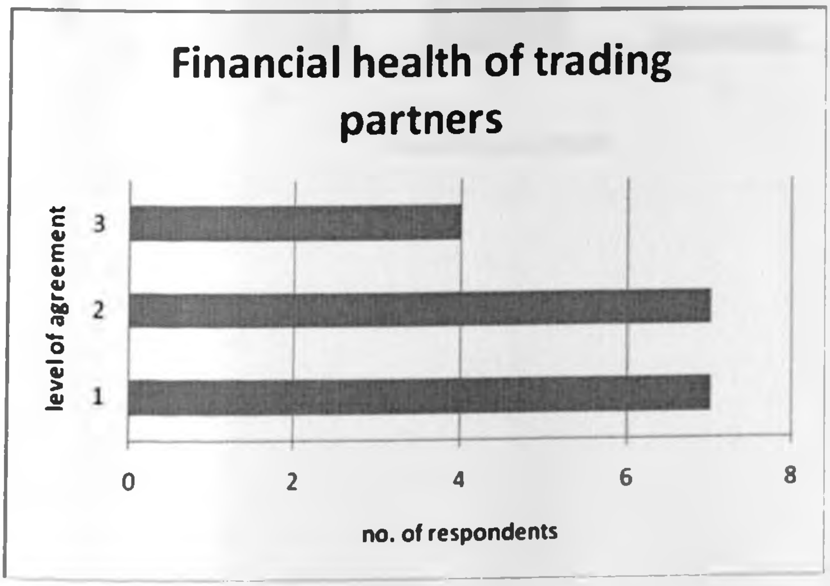


Chart 4.2.6: Financial Health of Trading Partners



4.3 Social Cultural Elements

The bank opened branches where they felt that they could get enough customers and who had excess money to bank. Thus population size and distribution and income levels were a great determinant of which country and area the bank ventured into.

Chart 4.3.1: Population Size and Distribution.

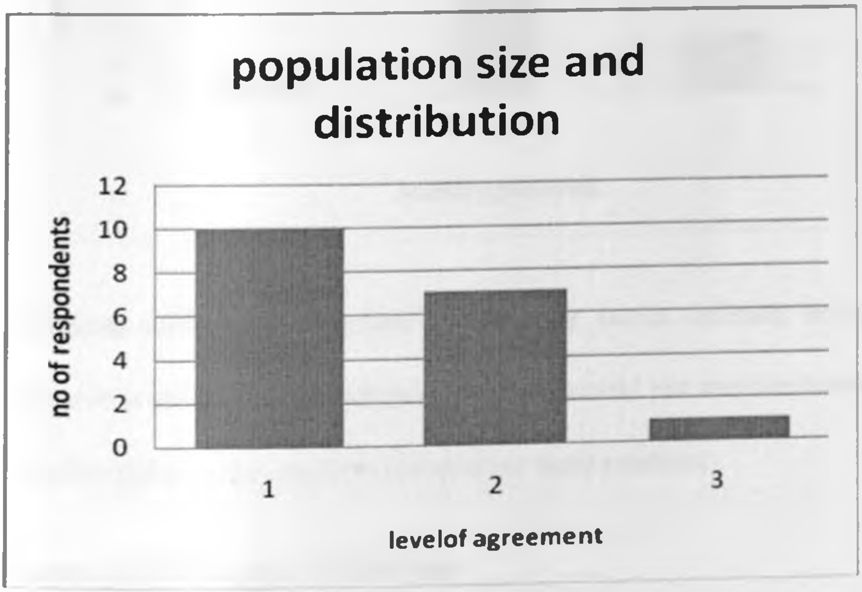
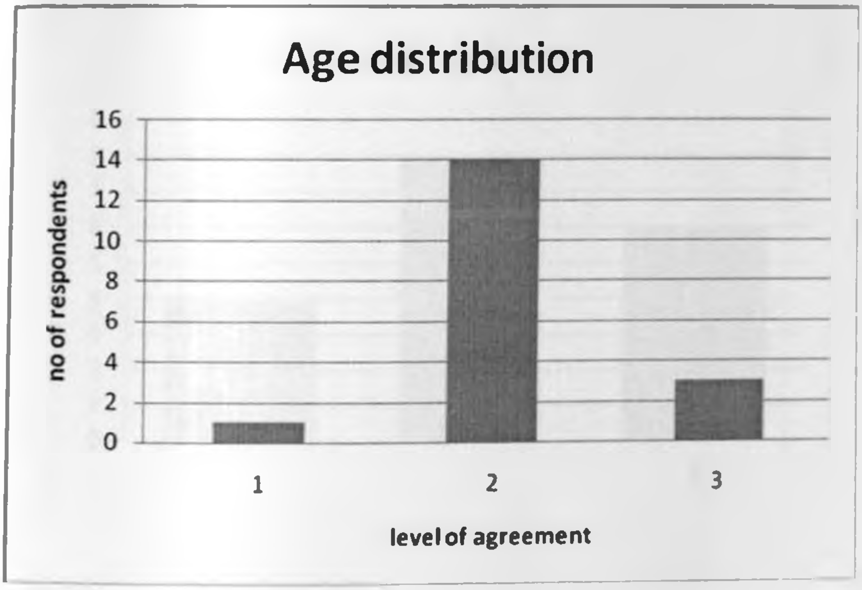


Chart 4.3.2: Age Distribution



Religious affiliations somehow affected the banks decision because in countries like Sudan where it is predominantly Islamic, the bank could not use conventional banking institutions and it had to tailor make products suitable for these markets.

Chart 4.3.3: Religious Affiliations

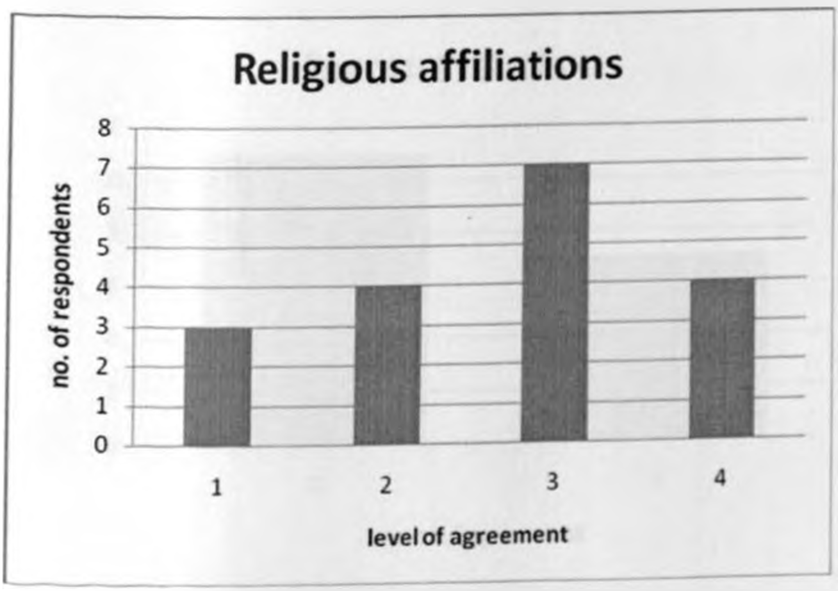
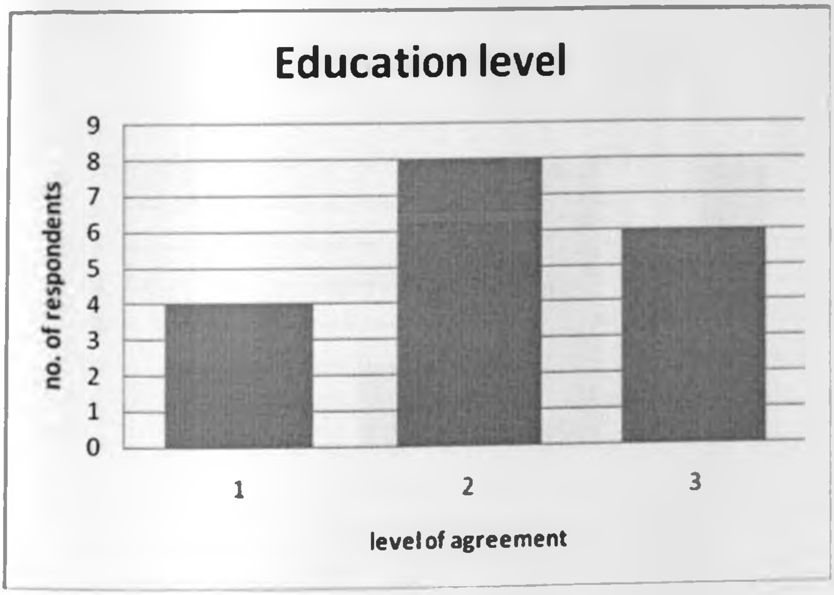


Chart 4.3.4: Education Levels



The age and education levels tended to influence the income levels hence the level of business the bank will conduct. Ethnicity did not affect the bank's entry as everybody was welcome to bank at KCB no matter their ethnic background.

Chart 4.3.5: Income Levels

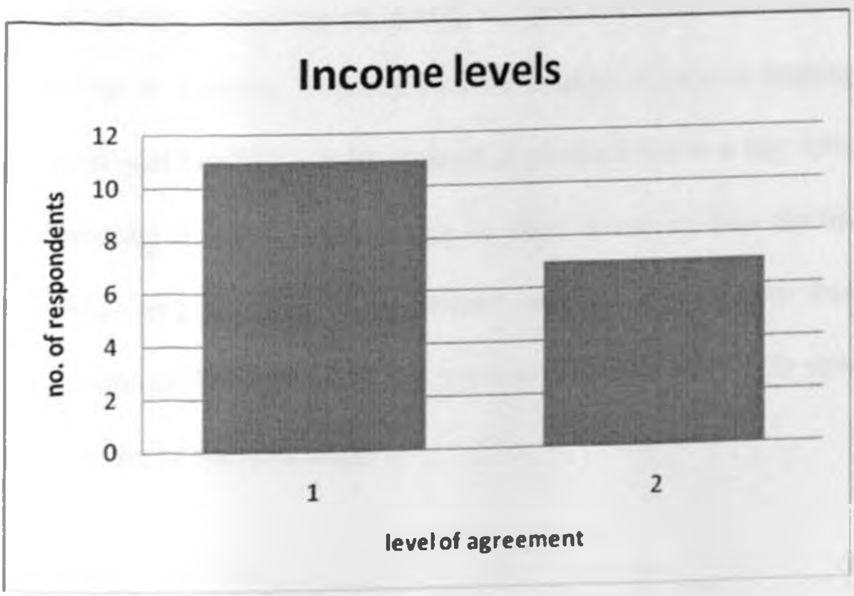
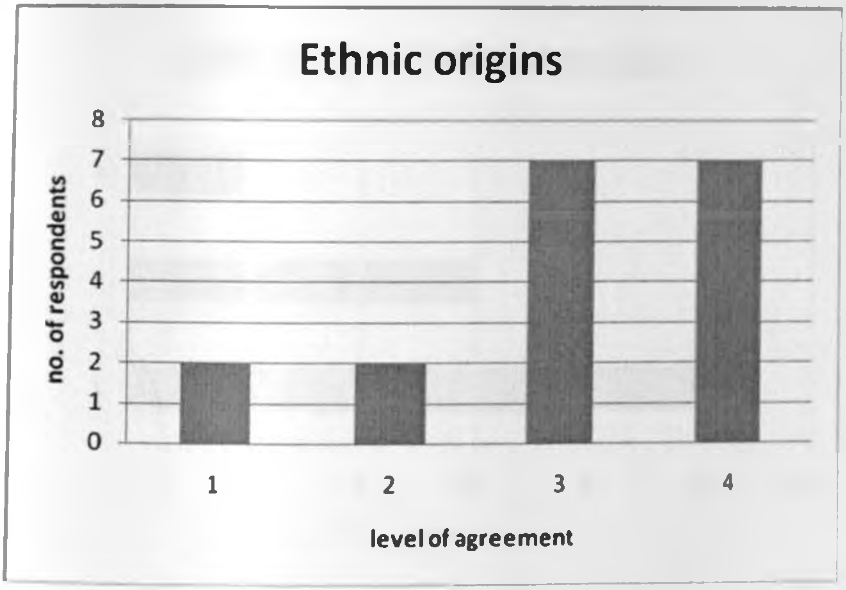


Chart 4.3.6: Ethnic Origins



4.4 Technological Elements

Technological elements greatly influenced entry of the bank into these markets. Although when the bank was entering Sudan there was no good infrastructure, the improvement of the infrastructure thereof encouraged the bank as it knew that there would be improvement. There was improved technology especially wireless data and voice connectivity which helped the bank carry out its business. This has seen the change of its core banking system in these countries to the well enabled T24 system. Industrial productivity is a key driver to a thriving economy and the banking industry was growing in these countries thus the bank's option to cut into these markets and get a share. Competitors' influence the industry thus they play a role though not significant at the entry level but more so once the bank is in operation. New products did not affect entry of the bank at all.

Chart 4.4.1: Efficiency of Infrastructure

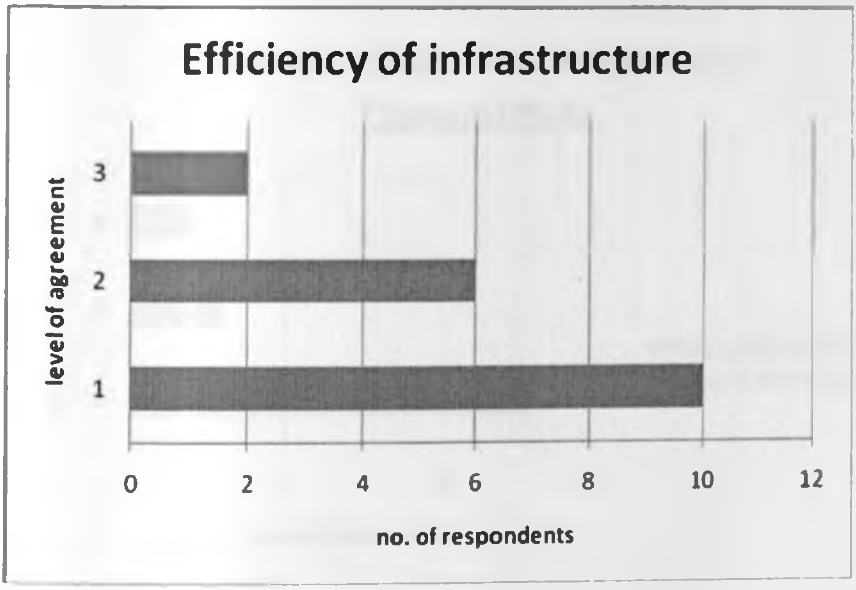


Chart 4.4.2: Industrial Productivity

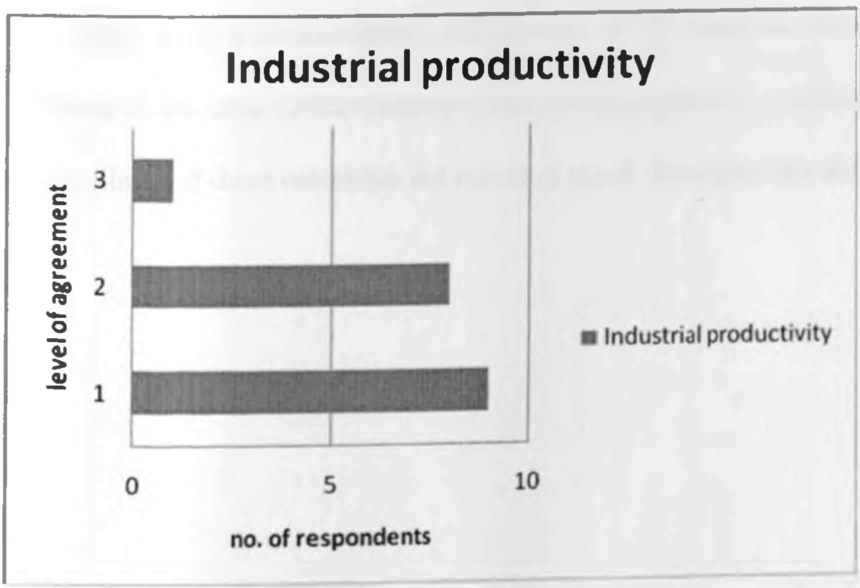
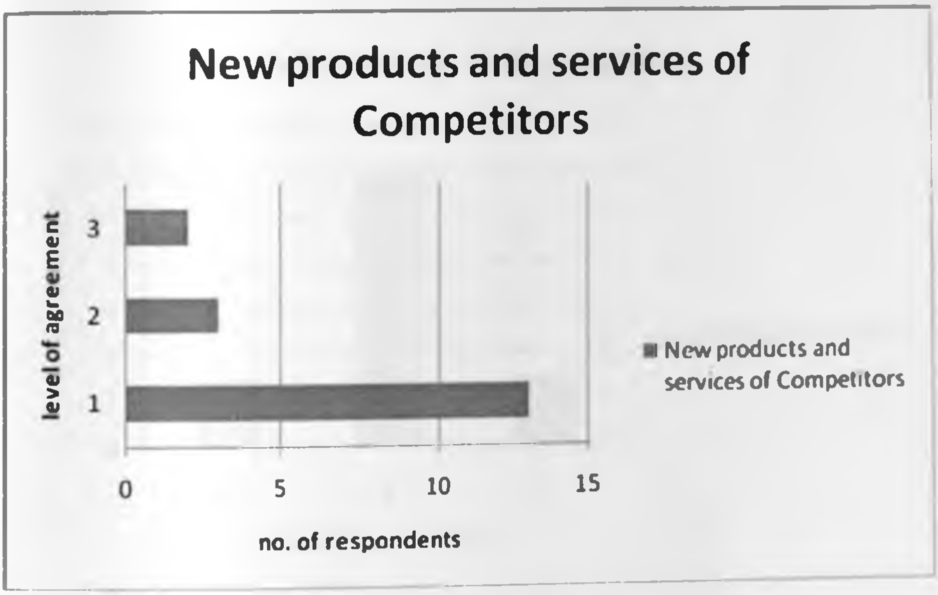


Chart 4.4.3: New Products and Services of Competitors



4.5 Legal Elements

The legal elements did not greatly affect entry of the bank into these markets as the bank had to conform to the laws of the country where it was operating. In these countries the Kenyan laws and the laws of these countries did not have much discrepancies thus they did not affect entry as such.

Chart 4.5.1: Minimum Wage Laws

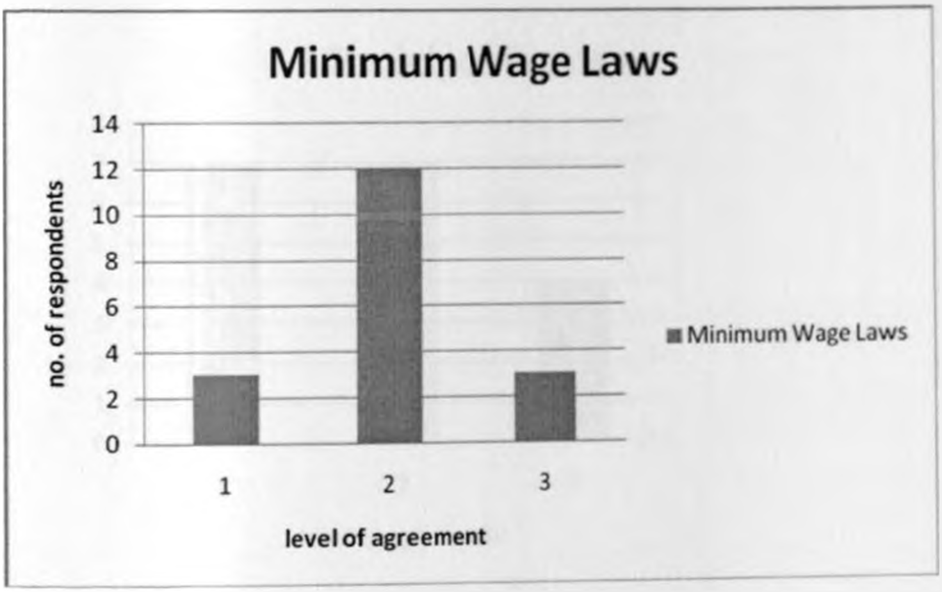


Chart 4.5.2: Union Laws

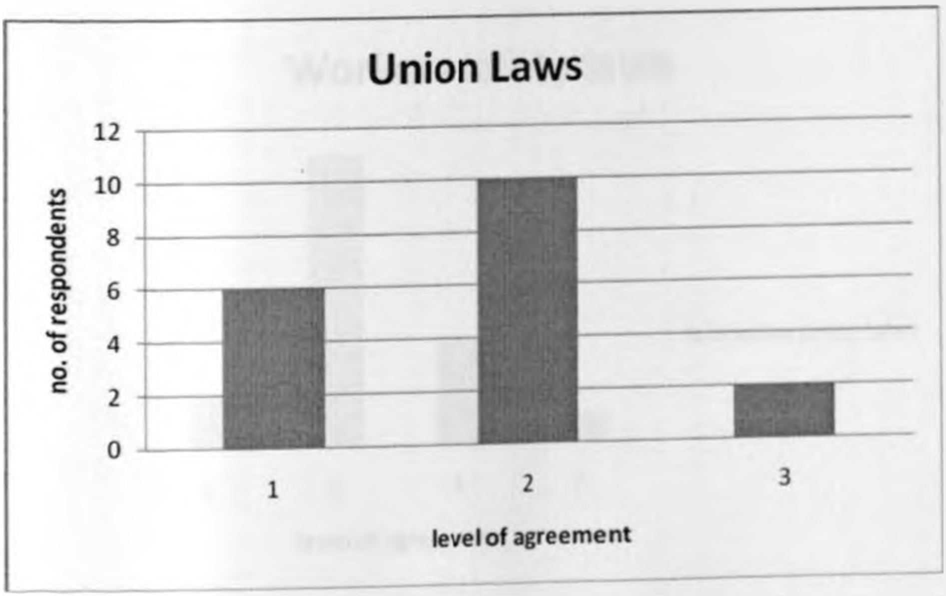
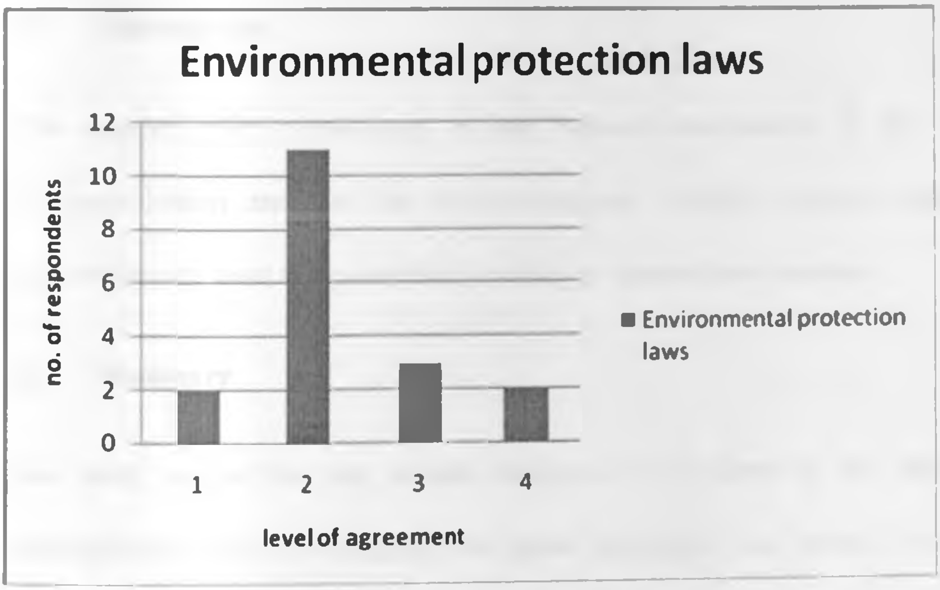


Chart 4.5.3: Municipal Licenses

Chart 4.5.4 Worker Safety Laws

Chart 4.5.5: Environmental Protection Laws



CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the research conclusions. It also offers a number of recommendations useful to the banks managers, scholars, planners, policy makers and other banks who may want to expand their territory to international markets.

5.2 Summary

This study sought find out which challenges were faced by the bank as it entered into international markets. It targeted the senior managers who were in a position to tell these challenges. It used primary data which was collected using a questionnaire. Data was edited for completeness and consistency. The main challenges included culture, language, political climate and stability, economic growth of the country, inflation rate, consumer and investor confidence, population size and distribution, age distribution, education levels, income levels, efficiency of infrastructure and industrial productivity. There are rapidly changing customer needs and financial institutions are competitive in nature and change is not rapidly deployed. The legal framework in some countries like Uganda has had a cessation on entry of foreign banks. In other countries like Sudan, the bank has had to set standards for the banking industry as there were no other banks operating in the country at the time the bank was entering.

The bank had not thought of operating in Sudan or Rwanda because of political instability. Once the politics normalized, the bank got an opportune time to venture into these countries. It had the opportunity to be the market leader. Language is one of the challenges in these countries. The bank operates mostly in English speaking countries. Rwanda was the first French speaking country to operate in. the staff were mainly from Kenya and mostly did speak French or

Kinyarwanda. The bank had to act quickly and train locals so that they could at least get people who could communicate with the customers.

The bank also anticipated refutation or some antagonism by the locals. The customers in these tended to favor the local banks to a foreign bank that had a Kenyan name. These countries also had a different banking culture from that of the Kenyans. Customers had no saving initiative especially Rwandese who felt safer with their money than it being in a bank since they feared for war. The bank also adopted Kenyan strategies for the international markets. After sensing the rejection of their services, they chose to custom make products for the specific markets. Conventional banking also posed a problem especially in Islamic dominated countries.

5.3 Conclusion

This section will give a summary of the key conclusions made from the findings of the study as discussed in chapter four. From the survey, the bank considered the macro environment factors as it made its decisions to move to the other countries. The political elements were vital factors for the bank to consider as they entered international markets. Of most importance were political climate, political stability, corporate and personal taxes and restrictions on international financial flows. The politics of the country determined the nature of the business environment. Its stability thus determined how safe the bank felt its operations would be. The tax regime in these countries determined how much the bank would be taxed and how this reflected on the business. Import tariffs, quotas and export restrictions did not affect the bank's decision as these did not affect a service industry.

The economic factors also affected the decisions of entry into the international markets. Economic growth, currency exchange rate, inflation rate, consumer and investor confidence and financial health of trading partners were seen as key factors to consider prior to the bank's entry into the international markets. The bank had to foresee growth in these regions so as to do business there. Inflation rate also determines how stable the market is and so does the exchange rate. Unemployment rate is not a serious challenge as the bank can always employ the locals or get employees from the home country.

The social cultural elements also created a challenge for the bank as it sought to enter these markets. Population size and distribution affected the location of the branches. Age distribution also affected the decision of which products to promote as some are focused on some age brackets. Religious affiliations also affected entry especially in Muslim affiliated countries as they do not have conventional banking. Income levels are a challenge as the bank is targets this money for deposits. . Education levels are challenge as it affects the income levels of the banking population. Ethnicity is not a challenge as anyone from any race can bank with KCB.

The technological elements are a key factor. Efficiency of infrastructure determined how seamlessly the bank operations would flow. The industrial productivity determined if there was a likely hood of competition and how lucrative the business was. New products and services of competitors determined how much customers the bank got and their volumes in relation to the products offered. The legal factors did not really pose a challenge as the laws practiced in the mother country were similar to those of the international markets.

5.4 Recommendations

There is a chance of finding more in this field like what were the strategies that the bank undertook to successfully enter these markets. Also it would be of interest to find out the competitors challenges while entering the same markets and which strategies they use. The bank has successfully overcome these challenges and is even increasing the branch network in these markets and is seeking to enter other markets in the region.

5.5 Limitations

There was misinterpretation of data but it was clarified by telephone follow up to clarify the points that were not understood. In this research was

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APPENDICES

OCTOBER 2009.

DEAR RESPONDENT,

Letter of introduction.

This questionnaire is designed to collect views on the challenges faced by KCB while entering new international markets and the approaches to overcome them.

The study is being carried out as part of management research project in partial fulfillment of the requirements for the award of the degree of Master of business Administration, School of business, university of Nairobi.

The information collected will be used strictly for academic purposes only and will be treated with utmost confidence. A copy of the final research will be availed to you upon request.

Thank you for your kind assistance.

Yours sincerely,

Annette Mugera,

MBA Student.

QUESTIONNAIRE

Thank you for taking time to answer this questionnaire. Please tick appropriately.

1. What is your position in KCB?

   ....

2. What does your position in the bank entail?

   ....

   ....

   ....

   ....

   ....

3. In the countries that the bank operates in what are the major challenges that they face as they enter these markets.

   ....

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   ....

   ....

4. Show, by level of agreement, how the following political elements affects entry of the bank into new international markets.

   For strongly agree put 1,

   For agree put 2,

   For disagree put 3,

   For strongly disagree put 4.

i.	Political climate	[ ]
ii.	Political stability	[ ]
iii.	Corporate & personal tax	[ ]
iv.	Import tariff & quotas	[ ]
v.	Export restrictions	[ ]

vi. Restrictions on international financial flows [ ]

Explain your answer above

....

....

....

5. Show, by level of agreement, how the following economic elements affects entry of the bank into new international markets.
   i. Economic growth [ ]
   ii. Unemployment rate [ ]
   iii. Inflation rate [ ]
   iv. Consumer & investor confidence [ ]
   v. Currency exchange rates [ ]
   vi. Financial health of trading partners [ ]

   Explain your answer above

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6. Show, by level of agreement, how the following social-cultural elements affects entry of the bank into new international markets.
   i. Population size & distribution [ ]
   ii. Age distribution [ ]
   iii. Education levels [ ]
   iv. Income levels [ ]
   v. Religious affiliations [ ]
   vi. Ethnic origins [ ]

   Explain your answer above

....

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....

7. Show, by level of agreement, how the following technological elements affects entry of the bank into new international markets.

   i. Efficiency of infrastructure [ ]
   ii. Industrial productivity [ ]
   iii. New products & services of competitors [ ]

Explain your answer above

....

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....

8. Show, by level of agreement, how the following legal elements affects entry of the bank into new international markets.

   i. Minimum wage laws [ ]
   ii. Union laws [ ]
   iii. Municipal licenses [ ]
   iv. Worker safety laws [ ]
   v. Environmental protection laws [ ]

Explain your answer above

....

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9. Are there any other challenges that were faced while entering these markets?

....

....