# INTERNATIONALIZATION OF EQUITY BANK LIMITED.

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**A Management Research Project Submitted in Partial Fulfillment for the Requirements of the Award of the Degree of Master of Business Administration, Department of Business Administration, School of Business, University of Nairobi.**

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## DECLARATION

I the undersigned declare that this project is my original work and has not been presented for a degree award in any other university.

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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

This study is dedicated to my beloved mother for her love, support, encouragement and prayer which saw me through the entire course. Special appreciation goes to my friends for their advice and patience.

And

To God,
Thank you.

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I wish to acknowledge the help and contribution of the following without whom this research report would not have been possible,

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God bless you all.

# ABBREVIATIONS

| | |
|---|---|
| CBK | Central Bank of Kenya |
| KBA | Kenya Bankers' Association |
| GDP | Gross Domestic Product |
| [illegible] | [illegible] |
| COMESA | Common Market for Eastern and Southern Africa |

# ABSTRACT

The objectives of this study were to find out the key factors that motivated Equity Bank to venture into the East Africa Region. It was also aimed at finding out the internationalization strategies adopted by Equity Bank so as to penetrate in the region. Studies on internationalization have been done on multinational corporations, however this study focuses on our indigenous financial institutions with a close emphasis on Equity Bank.

The study revealed how internationalization has helped Equity Bank to achieve it mission and fulfill its purpose through a strategically planned expansion programme. The research also discussed various strategies available for adoption by any firm planning to stretch outside its borders with a specific emphasis on acquisition as this was the strategy considered appropriate Jby Equity Bank.

The Research design appropriate for this study was a Case study as it allowed for in-depth exploration of the factors motivating internationalization. This method also offered an opportunity to learn more through extensive description and contextual analysis in line with the objectives of the study. The use of Literature review and interviewing individuals who could speak authoritatively on the subject was applied and data collected during the study was analyzed qualitatively.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background.

There have been reforms in our economic and political environment here in Kenya which were ignited by the introduction of multipartism in the country. These reforms were aimed at instilling greater accountability on the part of the government. On the same note economic reforms implemented by the government since 1993 aimed at spurring economic growth. These reforms include freeing of the shilling to allow its exchange rate to be determined by the market, removing all current account restrictions, allowing residents and non residents to open foreign currency accounts with domestic banks, allowing residents to borrow without limitations abroad, unconditional liberalization of the capital market, removing price controls, repealing the exchange control Act, abolishing export and import licensing except for a few items as listed in the export and essential supplies Act.

These economic reforms brought with them increased international interest in the domestic market. This has intensified competition in the domestic market leading to eroded profit levels for some companies. Some of Kenyan commercial banks have responded to these competition threats by pursuing foreign market opportunities through the internationalization strategy. In the pursuit of this strategy, some Kenyan banks have now expanded then-operation in the neighboring countries such as Tanzania, Uganda and Sudan (Daily Nation May 26, 2002).

A firm internationalizes when it operates in more than one country. It is argued that there are forces which motivate a firm to consider expanding internationally. He classifies these forces as reactive and proactive reasons. A firm is reactive when the managers are responding to something outside their control in the firm's environment. It is proactive if managers are expanding the firm in order to give the firm a competitive edge or advantage over its competitors. Foreign market selection should be done in such a way that ensures for a best match between the firms resources and the selected foreign markets. A good model in foreign market selection is one which embodies the SWOT analysis as an in - built factor in its evaluation process. SWOT analysis involves an integrated evaluation of organizations internal factors (strengths and weaknesses) and external factors (opportunities and threats).

Different models can be used in selecting foreign market. According to Porter ( 1990 ), firms need to evaluate their competitiveness and embrace the competitive advantage model, which is useful in cases where the firm's main aim is to enter those foreign markets that represent a market opportunity for the firm and in which the firm is likely to enjoy a competitive advantage. This model involves the identification of foreign market business opportunity as represented by the unsatisfied needs in the foreign market, determining the success requirement of the foreign business opportunity, identifying the firms core competences and determining how well they match the success requirements of the foreign market and determining whether the firm has distinctive competences regarding the foreign market v .business opportunity. Firms also have to take into account the Return on Investment (ROI).This provides a useful index for ranking countries according to profitability (Adam Smith, 1776) hence enabling a firm to decide which country to enter first.

### 1.1.1 Internationalization

The period since end of 2nd world war has been a period of rapid expansion of world trade. This rapid expansion has been due to willingness by countries to lower barriers of trade between them and cany trade according to agreed set of roles. This liberalization of trade has increased the degree of economic integration between countries (Grimwade, 1992)
According to Shapiro (1991), for most companies the internationalization does not occur by design at least in the early stages. He cites that studies on corporate expansion indicate that firms begin with exporting (relatively low risk - low return) and setting up a foreign sales subsidiary, securing licensing agreements and finally establishing foreign production (higher risk - higher return). By internationalizing in phases, a firm can gradually move from export oriented strategy through contractual agreement (licensing) to international or foreign production oriented strategy. This in effect means that the firm is investing in information, learning enough at each stage to significantly improve its chances of success at the

succeeding stage i.e. risk minimization response when operating in a highly uncertain foreign environment.

Thus internationalization of a firm implies getting involved in international activities or operations that may take the form of importing and exporting (international trade) and foreign production through foreign direct investment. International trade is the first phase of international operations of a firm which leads to other modes of international operations like licensing, joint ventures and finally foreign direct investment (Ragman et al 1985)

The rise of the multinational corporations / enterprises ( MNC /MNE ),which have subsidiaries in more than two countries that compete independently has greatly changed the nature of international competition. Shapiro (1991) observes that the multinational corporations have made it possible to overcome barriers to international trade as well as the movement of factors of production which the absolute advantage and competitive advantage theories of international trade did not take into account. The internationalization of business implies getting involved in international business i.e. spreading of business activities across the national frontiers / boundaries by selling or operating in foreign countries. Balls and McCulloh (1993) observed that international competition results from the domestic firm competing in foreign environment or the products of a domestic firm competing with others in foreign market.

### 1.1.2 Banking industry in Kenya and in East African region

#### 1.1.2.1 Introduction

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The CBK publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. .

There are forty-four banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus. Thirty-five of the banks, most of which are small and medium sized, are locally owned. The industry is dominated by a few large banks most of which are foreign-owned, though some are partially locally owned. Six of the major banks are listed in the Nairobi Stock Exchange. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banks' interests and also addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking.

Kenyan banking sector has improved tremendously over the last ten years, not just in size and profitability but also in terms of the products offered and the quality of services. The most important observation though is that Kenyan banks are more stable today than they were ten years ago. While many of the banks collapsed in the late 1990s because of poor management of credit risks, with Charter House Bank of Kenya being the most recent due to operational issues. The financial sector is poised for significant product and market development that should result to further consolidation of the banking sector (Muchene,2009).We have also witnessed great competition in the industry in the recent years with banks aiming at the unbanked population in the society so as to improve their operations. This has really brought tremendous change in the industry as compared to early years when banking in Kenya was for the elites in the society. We recognize Equity Bank for leading in this change and introducing banking to every one who has attained the age of majority as prescribed in Kenyan laws.

### 1.1.2.2 Nature of competition within the banking industry

Due to the stiff competition that has been witnessed in the industry, their has been a reduction in the number of financial institutions. For instance a few years ago there were 67 financial institutions in Kenya out of which 53 were commercial banks, 8 non- bank financial institutions, 2 mortgage finance companies and 4 building societies. Their has been a constant reduction in this number because of bank failures, mergers and acquisitions. Among the causes of bank failures in Kenya were politically motivated loans, insider lending particularly to politicians, and inadequate information leading to inadequate supervision as well as stringent regulation from the governing body (CBK). The Central Bank of Kenya deserves credit for improvement in the regulatory processes that have resulted in Kenyans having more faith in their banks, even the smaller banks that have been victims of closure. Total assets in the banking sector have grown from Ksh 328b in 1997 to 746b in 2007 a 132% increase, (Central Bank of Kenya Annual report, 2007). Similarly, profitability has grown from Ksh15 billion in 1997 to Ksh to 27b in 2007. However, the key question is, how has this growth been reflected in the overall development of the country socially, economically and politically? Socially, the incidence of poverty is still as bad as it was ten years ago with more than 50% of Kenyans still poor.

The rapid reforms in the banking industry over the last decade have made the industry stronger, cleaner, transparent, efficient, faster, disciplined and a lot more competitive. However, what we have achieved so far may be only a prelude to the greater things to come. While a few banks have established a good record in terms of innovation, growth and value creation, most others are yet to make much headway. The cost of banking intermediation and extent of banking penetration is still lower than other markets. If the banking sector is to support the economy significantly then it has to considerably strengthen itself and adapt to the turbulent environment in which it operates. Banking sectors that have failed to respond to changing market realities have historically been a hurdle to the development of the financial sector in many developing countries. In Kenya, while bank lending has been a significant driver of GDP growth, periodical systemic failures have significantly affected the stability of the system.

A successful Bank will have to first meet and address several challenges that the industry currently faces. It will have to be nimble and agile enough to respond to a market that is seeing growth driven primarily by new products and services. This includes opportunities in the retail front such as credit cards, consumer finance, wealth management and private banking and on the wholesale banking front through fee based income, investment banking and advisory services. This will call for completely new skills set both in terms of new knowledge as well as ability in marketing in areas where the traditional banker have much way to go. With the booming economy and swelling middle class, the retail banking has been growing explosively over the last five years. The trend will continue in future with even foreign banks returning to this area with their ambitious plans, hi addition, there is huge potential at the bottom of the pyramid for bringing in the large amount of cash used by villagers into the banking system. It calls for some outside the box kind of thinking and cost effective solutions. Sooner, banks may rediscover the rural potential for mobilizing low cost deposits using their e-banking channels cost effectively.

#### 1.1.2.3 Changes in the banking industry

Kenyan banking industry has been experiencing many changes in the past few years. In the early 1920s' a lot of bank failures was witness in the country with banks like Euro bank and Trust bank among other banks going under with client deposits. This caused many queries as far as our banking regulations are concerned and as a result, customer confidence in our financial institution was adversely affected. The economic status as well as the political environment of our country contributed a lot to that effect. As a result a lot of regulations were put in place where liberalization exists by the governing body (CBK) but the market continues to be restrictive. There has been a decline in interest margin due to customer pressure, leading to mergers and reorganization within the banking industry. This has been witnessed over the years with the current agreement happening between CFC and Stanbic to form CFC Stanbic Bank.

There has also been an increased demand for non-traditional services including the automation of large number of services and a move towards the emphasis on the customer rather than the product. This has been majorly contributed by the dynamic changes in the field of ICT as well as customer enlightenment on the quality of service they deserve. An increase in the non-traditional players offering financial services such as the MPesa and Zap services. This has diluted some of the key functionalities in the banking industry and especially funds transfer and loss of deposit hence forcing banks to seek business in the neighboring countries to reinforce their deposits as well as revenue.

Due to market saturation in the home country our local banks have seen the need to look for market elsewhere and the first avenue they found viable was East African region. Political good will within East Africa has also motivated our local financial institutions to expand their operations within the region, political instability is known to be a major cause of economic slump among other factors, hence political stability within east Africa has attracted our financial institutions. The need for further growth has also been a major motivating factor for the expansion. As banks grow in size so is their profitability due to the large market they are able to serve through the wide delivery channels hence accessing cheap deposits that boost lending and fees income. The need to serve international customers has also been a motivation towards this move. Banks are also able to build their capacity through expansion. The desire to exploit specific strengths within the firm has also motivated our financial institutions to expand. Competition has been on the rise within the home market with banks competing for the unbanked population. This has also been facilitated by the influx of western banks like Eco Bank, United Bank for Africa (UBA) as well as the Islamic banks and all of them are targeting the unbanked population in the country hence leaving our local institutions with no option other than to seek market elsewhere.

Kenya is rated as the highly taxed nation within East Africa and this has made our financial institutions to diversify within the region to enjoy less tax. The need to benefit from economies of scale is also a major motivating factor in our financial institutions. Proximity of a market is a very key factor in any business, East Africa is easily accessible from Kenya and this has been one of the factors which have pooled our financial institutions to invest within the region. Increased trade among the East Africa countries that is expected to grow further as East African community (EAC) integration takes shape, coupled with huge growth opportunities in East Africa market has been seen as a key factor attracting our financial institutions in the region.

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East African region has been experiencing many challenges due to the political and economic instability that have been witnessed in the region in the past years. Uganda as a country has been the first choice for all our local financial institutions which are considering internationalization hence making it a key reference in this study. Uganda's financial sector previously dogged by turbulence two years ago has fully recovered from the turmoil with depositor confidence at all time high. Uganda has over twenty commercial banks with total assets of the equivalent of US$ 890m. Some of the banks include Citibank Uganda, Standard Chartered bank, Stanbic bank, Uganda Commercial Bank Ltd, Nile Bank, Crane Bank, Allied Bank Ltd, Orient Bank, Trans Africa bank, Cairo International bank and National Bank of commerce.

The government has slapped a moratorium for the last two years for commercial banks being opened in Kampala district. There is room for new investment in the commercial banking sector with the sector attracting investors like Citi Group, Standard Chartered Bank, Equity bank, Kenya Commercial Bank among other financial institution to invest in the region. Other opportunities for investment include acquiring cheap banking assets. Investors can also opt for strategic investment in an emerging market like Uganda based on population size and long-term economic potential. Most banks are agencies and offer money transfer services for Western Union, there are over forty Forex bureau found in major urban areas with majority of them concentrated in Kampala.

The banking industry in East Africa and especially in Uganda has been one of the hubs for our financial institutions as they try to internationalize their business with banks like Equity Bank, Fina Bank, Kenya Commercial Bank and CFC Stanbic Bank having seen the opportunities in the country and going ahead to tap the market. Ugandan economy is majorly agriculture based with majority of the population being in micro businesses. This is one of the reasons that have made our micro financial institution have an upper hand within the region. The National Bank of Uganda has also assured banks investing in the country security of their investment by being committed to the pursuance of its objectives which include carrying out open market operations in the country, protecting the value of the currency and determining the exchange rate, estimating the reserve and liquidity requirement in order to ensure the smooth functioning of the economy, to hold and manage foreign exchange reserves of the country, to monitor the activities of the financial markets in the country and to ensure overall stability of the Ugandan financial system (banking crisis in Uganda journal,2003 - 2006).

Since 1991, over 2000 enterprises of different sizes have committed in excess of US$2.5 billion in actual investment into the country for projects that range from agriculture, manufacturing, financial to transportation. For many investors Uganda is an attractive investment location at the heart of Africa that guarantees easy access to regional market, a predictable and stable economic environment, a fully liberalized economy, an abundant natural resource base, demonstrated government commitment to the private sector, existence of a well trained English speaking work force and well developed basic infrastructure compared to other countries in the region hence making it a key reference in this study. Since 1986, Uganda has implemented a radical economic program aimed at reversing the past economic stagnation in the country. As a result, the country has achieved macro economic stability characterized by twenty years of low inflation, stable exchange rates and consistently high economic growth ( Bank of Uganda, 2008). Uganda currently ranks as the fastest growing economy in sub Saharan Africa and in many ways has come to reflect the new face of emerging Africa hence attracting our local financial institutions.

Up to early 1990s, East Africa's financial structure was characterized by government controls and instability leading to financial repression and lack of development in the sector. The sector was consequently dominated by commercial banks that were mainly concentrated in urban areas. Financial intermediation was restricted to the mobilization of short-term savings and advancing credit to short-term low risky businesses with quick returns. Over the years, the sector has evolved from the era of total control by the government to a liberal one. whereas between 1970s and 1980s successive governments made sure the Central Banks were under full control of government with virtually no control of money supply in the economy, today the central bank has full autonomy over the implementation and formulation of the monetary policy. In that period excessive government fiscal deficit were met by government borrowings from the central bank, resulting in chronic inflation. The financial sector also faced distressing government controls that compromised its development. To date the government has eased most of the controls retaining only those that are necessary for prudential purposes.

Nonetheless, Uganda's financial sector is one of the smallest and less developed in sub Saharan Africa. The sector is very small in terms of volume and value of transactions. As measured by the ratio of financial savings to money supply (M2) financial deepening in Uganda is still low at an average of about 29.3 percent. Further more the ratio of financial savings to Gross Domestic Product (GDP) is very low at about 2.9 percent. This compares very poorly with neighboring Kenya of about 13 percent and that of the low-income countries of about 20 percent. As a consequence of the low domestic saving rate, the country relies heavily on foreign resources and investors for capital accumulation.

This situation can be explained by the continuing decline of the formal financial sector in the country over the years. Whereas the total number of bank branches was 270 in 1970, the total branch network in 2006 was less than 155 branches and 45 agencies despite the increase of banks from nine to seventeen. In addition, there has been a rapid deterioration in the ratio of customers per branch from 34,000 in 1972 to 80,000 in the 1990s. Following the closure of several banks and a number of Uganda Commercial Bank (UCB) branches, the ratio worsened to 100,000 people in 1996 and to 164,000 people per bank in 2006.

The deterioration and instability in the rest of the economy, including macroeconomic and political instability, poor supervision and poor portfolio management further exacerbated the problems of the financial sector. In addition, there was a lot of government interference in the operations of the financial institutions, particularly in lending because of its control of the major banking institutions. The government had 100 per cent ownership of the largest commercial bank in the country, Uganda Commercial Bank Limited (UCBL), and minority shares in several other private commercial banks such as Bank of Baroda, Stanbic Bank and Bar-clays Bank.

### 1.1.2.5 Reforms in the banking industry in Uganda

During the 1990s, the financial sector witnessed a number of changes and crises. Several new banks were established and others closed. The UCBL opened several new branches at the close of the 2000, many of which were later closed because of accumulated losses. (Banking crisis in Uganda journal, 2003 - 2006). Since 1987, the Ugandan government embarked on a wide range of reforms, including financial sector reforms, in order to promote sustainable economic growth. The centerpiece for financial sector reform, which is part of the overall EconoWc Reform Programme (ERP) in Uganda, was to rationalize operations in this sector towards improved liquidity management and economic progress.

The reforms in the financial sector were geared towards improving the mobilization of savings, ensuring efficient allocation of resources and improving the effectiveness of monetary policy. As such, reforms in the sector have taken the form of interest rate liberalization, removal of credit controls, reduction of direct government participation in the financial sector and strengthening of the supervisory framework. In addition, the exchange rates have been liberalized and foreign exchange bureaus legalized. The program has been implemented in phases to ensure a progressive and cautious transition from a regulated to a market-based financial system so as to avoid huge jumps in interest rates and instability in the financial sector. In the absence of short-term financial and money markets and with poor bank supervision, the transition from administered to flexible interest rates needs to follow a very gradual process. A hurried approach can easily result in a situation where interest rates rise out of hand as banks rush to raise their lending rates to cover their high intermediation costs. The consequence can be increased failure to repay loans and instability in the financial sector. This was clearly the case in the Latm American countries (Chile, Argentina and Uruguay), the Philippines, Malaysia and Turkey in the 1980s where interest rates were liberalized very quickly. Authorities in Uganda decided to take it slowly by liberalizing interest rates through auction of T-bills, introducing the new minimum capital requirements in a span of about two years.

The Ugandan government embarked on an Economic Recovery Programme (ERP) in May 1987 with a currency reform under which the total money supply in the economy was debased by a factor of 100, as the major component of the programme. In April 1992, government started the auctioning of Treasury bills to lay the foundation for market-determined interest rates and as a means of borrowing from the public, in addition to regulating money supply in the economy. The government embarked on the full-scale financial sector reforms with the implementation of the Financial Sector Reform Programme (FSRP) in 1993, which received financial support from the International Development Agency (IDA), (Banking crisis in L[T]ganda journal, 2003 - 2006).

The government has taken steps to improve the effectiveness of monetary policy and to support more strongly the continuing stabilization and macroeconomic adjustment programmes. Efforts have also been made to increase deposit mobilization and decency of credit allocation through rationalizing the interest rate structure and maintaining positive real interest rates by maintaining low inflation rates. Further, competition and efficiency in the banking sector and greater private sector participation in the financial system have been encouraged by reducing (to the minimum for prudential control) all the existing entry and exit barriers. Efforts have also been made to eliminate government's equity participation in private banks and moves have been made to invite private sector participation in UCBL. All this was meant to enhance the role of the interest rate in optimal allocation of financial resources (banking crisis in Uganda journal, 2003 - 2006). In December 2002 the government offered its equity in private banks for the sale of shares to their original owners.
The accounting and cheque clearing system have been improved with the introduction of a clearing account held by each commercial bank at the Central Bank and now clearing is done twice a day. It takes only three days to clear cheques within the Kampala area and efforts are in place to reduce this further to two days and to improve the cheque clearing system upcountry. This is aimed at enhancing competitiveness.

The government has undertaken a review to enact the financial legislation and improve the legal and regulatory framework for banks and other financial institutions. This was intended to strengthen the role of the central bank as the primary monetary and supervisory authority and to strengthen its research capability and, on the whole, to give the Bank of Uganda independence. The Bank of Uganda Act was revised in 2003. The new Bank of Uganda Statute 2003 and Financial Institutions Statute 2003 gave autonomy and full authority to the Bank of Uganda in monetary policy management, supervision and control of all financial institutions in the country. The objectives of the two statutes were to enhance the Bank of Uganda's power to protect depositors' funds held in commercial banks, to give authority to the Bank of Uganda to issue and enforce regulations over commercial banks and implement key prudential and supervisory guidelines, to set up in line with international standards a legal framework for Uganda's banking practices with respect to capital adequacy, legal .lending limits, licensing of banks and quality of management.

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These reforms have been undertaken with the broad aim of improving the management of monetary policy through improved monetary policy formulation and implementation, -liquidity management and control, development of new monetary instruments and money markets, and opening up of the financial sector to increased private sector participation. In [illegible] for all commercial banks operating in the country at the time or new banks wishing to be licensed for the first time. The purpose was to make bank capital requirements sensitive to the risk in a bank's portfolio of assets and off-balance sheet activities. This was in order to avoid excessive proliferation of small and risky banks. The minimum capital requirements for both new and existing banks were increased from Ushs 15m to Ushs 500m for indigenous banks and to Ushs 1 billion for the foreign-owned banks. This was to be effected by the end of 2006. Plans are now under way to increase the minimum capital requirements of commercial banks to Ushs 3billion.

Furthermore, the new standards require that different proportions of minimum capital be held against different categories of assets according to perceived risks. This, it was hoped, would help reduce banks' incentives to lend to risky ventures that could result in their insolvency. In addition, the new standards require that all loans not serviced for at least six months or more be categorized as non-performing assets or declared as losses to the bank. The new capital and other standards may affect indigenous and foreign banks differently because of the rather different sets of conditions under which they operate. Indigenous banks in many Less Developed Countries (LDCs) operate with a quasi-profit maximizing objective. Unlike the foreign banks, indigenous banks, particularly the government-sponsored banks such as the UCBL and the former Co-operative Bank Ltd., have a social welfare maximizing objective and not a profit maximizing objective.

Right from the beginning, these banks were established partly to fill the void in credit left by the conservative and often discriminating foreign banks, by providing medium and long-term credit to previously deprived sectors and the African population. These banks therefore adopt risky loan portfolios, which are dominated by mortgages to the lower and middle-income groups and loans to small businesses. These banks also exhibit elements of inefficient management, including poor credit risk evaluation systems and the tendency to pursue rent-seeking strategies. Such strategies include 'insider' lending — a concoction of investment schemes involving relatives, close associates/sister companies and members of the political elite. 'False' accounting and selective disclosure of information and manipulation of management systems may also be used to defraud commercial banks in Uganda. In 2003 the bank of Uganda statute and the financial institution statute were passed by the parliament requiring commercial banks operating in Uganda among other factors to have a paid up capital of Uganda shillings 500,000 for the locally owned banks and Uganda shillings lbn for foreign owned banks. The new capital requirement was made effective from December 2006 (banking crisis in Uganda journal, 2003 - 2006).

### 1.1.3 Equity Bank Ltd establishment and services

Having commenced business on registration in 1984, Equity Bank has evolved from a building society to a micro finance institution and now the all-inclusive Nairobi stock exchange public listed commercial bank. With more than three million accounts, Equity Bank hosts 48% of all bank accounts in Kenya, making it the largest bank in the region in terms of customer base. The solidness of Equity Bank is underpinned by its massive shareholder fund base of over Kshs.17 billion complemented by an additional Kshs.7 billion of subordinated tier two capital. The capital base makes Equity Bank the most capitalized bank in the region.

Equity Bank has received both local and global accolades for its unique and transformational financial model. The bank is credited for taking banking services to the people through its accessible, affordable and flexible service provision. In 2007 and 2008 consecutively, Equity Bank was named the best Bank in Kenya by Euro money Awards for Excellence. Equity Bank is also the holder of the 2007 Global Vision Award in Microfmance "for initiating concepts of the future that will shape the global economy" In 2008, the Kenya banking survey named Equity Bank as the top ranked bank in Kenya, and the Renaissance Capital Bank Awards 2008 also named Equity Bank as the overall best bank in Kenya.

During its first Super brand edition for East Africa in 2008, Equity Bank was recognized as the sole banking Super brand in East Africa. Equity Bank has also been named by Africa Investor as the 2008 Best Performing Public Listed Company in Africa (Ai 100) and has been voted by the African Banker 2nd Edition as the Best Microfmance bank in Africa. Equity Bank enjoys an A+ Credit rating from Global Credit Rating Agency. Equity Bank offers financial services through its over 120 licensed and still growing countrywide branch network and supported by Alternate Delivery Channels which include 350 Visa branded ATM's 2500 Points of Sale (POS), Cash back services in all leading Super markets as well as internet and mobile banking channels. The bank runs on a Global Robust State of the Art Information Technology Computer System which makes its expansion viable. It offers a wide range of services which include deposit taking from various accounts such as the demand deposit accounts, savings and fixed deposit accounts, Credit facilities such as unsecured personal loans, business loans, study loans, car loans, medical bill loans etc and overdrafts, Funds transfer both inward and outward through electronic options such as SWIFT ( society for world wide inter bank funds transfer), RTGS ( real time gross settlement)- through the central bank of Kenya (CBK), Electronic Funds Transfer ( EFT) through the inter bank clearing systems and mail transfers, Trade finance, Discounting of both local and foreign bills, Cheque clearing, Bids and performance bonds, Trade and shipping guarantees, Central depository services for share companies that are quoted in the Nairobi stock exchange, Safe custody for valuables and documents, Debit and credit ( both local and international) cards, Multifunctional automated teller machines (ATMs).

Having been established with the foregoing objective of providing financial services to indigenous Kenyans and their enterprises in the post independent Kenya with the view of accelerating economic development and redistributing wealth, Equity Bank ltd still does offer a wide array of banking services that are found in any large bank and which services are viewed progressively to match advancement, particularly in the technological communication sectors. Guided by its purpose "We exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities." Equity Bank expanded its operation in Uganda in April 2008 by signing a conditional agreement with Uganda Micro finance Limited (UML) to take up 100 % of the bank's share capital. UML is the leading Microfinance institution in Uganda. Equity Bank acquired the microfinance company at a price of Kshs. 1.66 Billion.

Equity Bank's business model has attracted both local and international recognition. On many occasions, the Bank has been invited to various international forums and bodies to share on its successes. Equity Bank has also become a hub of other institutions worldwide keen on learning and exchanging insights on the Equity Bank model of extending financial services to the low-income segment and the un-banked population in the region. It is against this background that the researcher considers Equity Bank to be one of the most appropriate indigenous financial institutions to support Kenyan business in the expansion process, and therefore suitable for the study. Equity Bank expansion within East Africa region has been motivated by different specific factors. The type of clients served by the institution have made its expansion easy within the region, Equity Bank took a lead in the banking industry by specializing on the marginalized population with low levels of income. This has been the major factor contributing to its success in the internationalization process within East Africa where majority of the population was unbanked due to the low levels of income. Equity Bank has a bias in the financing of Small and Micro Enterprises (SME) as portrayed by its origin as micro finance institution and this has given them an upper hand in penetrating in the East African region.

Management enthusiasm within Equity Bank has also facilitated this move with the chief executive officer James Mwangi having been recognized both locally and internationally for bringing change in the banking industry in Kenya. This has motivated the move to establish subsidiaries within East Africa with its global brand recognition giving it a easy entry. The need for further expansion has also motivated the institution to stretch its operation outside the borders. In Kenya Equity Bank has branches every where and this left them with no room for further expansion within the local market hence they considered seeking market across borders. Any expansion strategy need a lot of capital and lack of the same is a major constrain to many firms willing to stretch their operations outside their borders. Equity Bank has received a lot of support from donors and this has enabled their expansion. Within the banking sector, ICT is a key resource which can hinter or motivate any firm's expansion. With this regard, Equity Bank has mvested in a state of the heart ICT software that can y support a huge number of customers.

## 1.2 Research problem

Internationalization is normally motivated by certain developments both within the domestic market and the external market. Within the banking industry in Kenya such developments have taken the form of phenomenal growth and profitability, high level of competition, abrupt changes in customer needs hence a need for innovative products and services, high level of customer awareness hence demanding for good customer service, saturated industry calling for firms to seek alternative market, development of alternative channels of transacting like the M-Pesa and Zap services, and unpredictable political turmoil leading to economic stagnation hence calling for diversification through international expansion.

Internationalization is the process by which firms increase their awareness of the influence on international activities on their future and establish and conduct transactions with firms from other countries (Beamish, et al 1991), Beamish argues that the major motivating factor for a firm to internationalize is profit maximization. Internationalization is the process whereby firms gradually increase their international involvement as they develop knowledge of the foreign market and operations, and on the other hand commit more and more resources to foreign sales (Bennet, 1999).

According to Masese (2001), a business is internationalized when it operates or sells its products in foreign countries. International business is a business whose activities involve the crossing of national borders; this definition includes not only international trade and foreign manufacturing but also the growing services industry in such areas as transportation, tourism, banking, retailing (Hongo, 2001). He goes to list the main forces of internationalization as market saturation at home, exploiting foreign market opportunities, economies of scale, extension of product life cycle, risk diversification, profit maximization, sourcing economies, presence in competitor home market, oligopolistic reaction, overcome foreign market trade barriers, to utilize excess capacity, management enthusiasm, dumping, stabilization of demand and prestige.

v A number of studies have been done on various aspects of internationalization in different firms in Kenya. Murigi (2006) found out that most of the strategies adopted depended mostly on the strengths the firm possesses. He also found out that opportunities in the host country also attract firms to establish subsidiaries in the country. Musa (2004) is a study on responses of commercial banks to changes in the operational environment. It was a case study on Kenya Commercial Bank with emphasis on how the bank has tried to widen its network through expansion strategy within and outside the Kenyan borders in order to reach more customers. Kimata (2006) did a study on "factors considered by Kenyan firms when deciding to establish subsidiaries / branches in Uganda and Tanzania" and found out that firm's expansion to the external market is motivated by political, legal and economic factors both in the home country as well as in the host country. Of these studies, none of them seems to have looked at our local financial institution and analyzed the reasons for their motivation to establish subsidiaries in East Africa despite Kenyan economy being the best among the other East African economies, thus creating a knowledge gap. None of them also looked at the strategies applied by these firms in their internationalization process and what motivated them to consider the process. The main question arising out of these studies is - can we relate these studies to Equity Bank expansion? In addition, are some of these issues true to Equity Bank expansion?

With majority of Kenyan population still unbanked, we have witnessed an influx of western banks like Eco Bank and united bank for Africa establishing subsidiaries in the country hence the question remains; why is Equity Bank not keen in exploiting the local market first before venturing into the foreign market? This is an area which has remained unstudied and the aim of the present work is to gain insight on the Critical factors, which are motivating Kenyan banks to consider internationalization with a specific reference to Equity Bank. With the research gap and the continuous changing environment in which commercial banks are operating in Kenya, one question that warrants the need to this research does arise: '"what is motivating Equity Bank to venture into East Africa and what strategy is it applying in this process?"

## 1.3 Objectives of the study

The study has two objectives,

i) To determine the factors motivating Equity Bank to establish subsidiaries in East Africa

ii).To establish the internationalization process used by Equity Bank.

## 1.4 Importance of the study

The results of this study will assist banks and other financial institution to know the factors they need to take care of as well as the process they need to adopt when deciding to establish subsidiaries within East Africa. Regulatory bodies such as the Central Bank and treasury will be able to draw upon this study as they formulate supportive policies governing the conduct of international business. Academicians will learn more as the study is bound to contribute to the body of knowledge and provide opportunity for further research because the study will contribute to the development of literature on firm internationalization and enriching the debate by providing data from firms operating from a less developed country, in this case Kenya.

## CHAPTER TWO: LITERATURE REVIEW

### 2.1 Introduction

Presently more than fifty percent of Kenyan population is living below the poverty line. Poverty wastes people and their potential (government of Kenya poverty eradication paper 2002 - 2003). Poverty has numerous malfunctions including low and unreliable income, poor health, low levels of education and literacy, insecurity and uncertain access to justice, unempowerment and isolation from the main stream of socio economic development.

The primary development goal for Kenya is to achieve a broad based sustainable improvement in the standards and welfare of all Kenyans. This will require a concerted effort to tackle the intolerably high incident of poverty that currently afflicts more than half of our population. While government has a particular responsibility for spearheading action and creating a positive framework, the private sector, non-governmental and community-based Organizations all have a vital role to play in meeting challenge of poverty reduction. Kenya must mobilize resources and use them efficiently and effectively in the fight against poverty. Kenya's interim poverty reduction strategy has five basic components and policy objectives, which are to facilitate sustained and rapid economic growth, to improve governance and security, to increase the ability of the poor to raise their income, to improve the quality of life of the poor, and to improve equity and participation (Government of Kenya, 2002)

### 2.1.1 The internationalization strategy

A diligent search by the researcher revealed that little research has been done in this field. However a study by Sharma (1989) on factors considered important by multinationals when choosing the host country to invest in are mentioned here. The researcher has compiled whatever available materials with addition from newspapers and magazines. Literature on internationalization indicates that firms regard foreign markets as risky (not familiar) and the need for strategic information on foreign markets cannot be over emphasized.

Ansoff and McDonnell (1990) argued that the cost of information on foreign markets is very much higher than the cost of domestic information and some vital knowledge about foreign environments can be acquired through hands on experience. To avoid high information cost and the risks thereof, the strategy is to go abroad at a slow and cautious pace on an evolutionary basis (Rugman et al 1985; Shapiro 1991). Internalization is the process by which firms get involved in international operations through the various foreign market strategies While the rationale of any business strategy must be that it benefits the shareholders by maximizing their wealth, the main objective of a firms expandmg its business activities to international scope according to Globern ( 1986 ) is among other factors to gain a long run profitability, to attain stability of profit growth overtime ( risk diversification ) and to improve the rate of return and market share.

Porter (1^90) argued that in configuring its world wide activities of the value chain, a firm is faced with broad choices including concentrating the activities in one or more nations or to dispense them to many nations. Where competitive advantage was derived from concentrating activities in one nation, this was referred to as the export based global strategy while competitive advantage arising from dispensing activities to several or many nations was referred as foreign direct investment ( FDI ). According to Kibera and Waruinge 1988; Barney 1997) a firm can use different modes depending on the competitive advantage and the product.

Some of these modes of entry include management service contract also known as management contract. This is a long term agreement to provide a management service to a firm. Such contracts are suitable for service business. The business is usually run under the management service providers who are internationally recognized rather than property owners. Licensing is another mode which entails the sale of a patent, manufacturing know-how, technical advice and assistance or the use of trade mark or trade name on a contractual basis. We also have Franchising which is a particular form of licensing in which the franchiser makes total marketing programme including brand management advice. The franchise agreement tends to be more comprehensive since the franchisee agrees total operations being prescribed. Joint venture is another mode whereby two or more firms invest and form a new company in which the parties have shares. In this case the international company has enough equity to have a voice in management but not enough to completely dominate the venture.

Strategic alliances (corporate coalition) is a mode of internationalization which is a cooperative arrangement between firms. The partners seek to add to their competencies by combining their resources with those of other firms with a commitment to reach an agreed goal. In this case partners tend to be of comparable strength and resources. Mergers exist when two corporations come together to form one company. Consolidation is a business combination where two or more companies join to form an entirely new company. All the combimng companies are dissolved and only the new entity continues to operate. Their are also cases where firms can adopt strategies like having a wholly owned foreign subsidiary, exporting, assembly, contract manufacturing etc.

### 2.1.2 Theories of international trade

International trade forms one of the modes of engaging in international business or operations. Just to mention, among the theories of international trade we have the theory of absolute advantage by Adam Smith (1776), the comparative advantage by Ricardo (1817), the factor proportions theory/ Heckscher - Ohlin theory of trade, technological gap theory by Posner (1961). Porter (1990) argues that these theories explain international trade or foreign investment and therefore cannot explain global strategies used by international competitors where trade and foreign investment are integrated.

### 2.1.3 Factors motivating firms to go abroad or to internationalize

While the rationale of any business strategy must be that of benefiting the share holders by maximizing their wealth, the main objectives of a firms expansion of its operation to international scope (Globermn,1986) are ;long run profitability, stability of profit growth over time, risk diversification, improve rate of return and market share. Barney (1997) argues that to be economically viable global strategies must meet the two value criteria: the strategies must exploit the real economies of scope (synergy) i.e. the cost savings or revenue enhancement that a firm, experiences because of the mix of business that a firm is operating in. It must also be more costly for the equity investors to realize the economies of scope on their own, especially in geographically diversified foreign markets. Like any other strategy, global strategies must enable a firm to exploit environmental opportunities or neutralize environmental threats. Porter (1990) argues that a firm creates a sustainable competitive advantage through internationalization by being cost leader or by differentiating its products or services.

Ansoff and McDonnell, 1990; Globern, 1986; Ball and McCulloh 1993; Barney, 1997) cited different motives or reasons that influence firms to go abroad, a firm would want to gain access to new customers for current products or services. When firms face mature, saturated markets, the only way to increase sales and profits is to seek new markets outside their home country hence minimizing price wars between rivalry firms. Risk diversification is also another reason and the argument here is that a firm can reduce the risk exposure if it operates in multiple geographical markets due to stability of earnings. This is because earnings from different countries will be imperfectly correlated since they experience the stages of the business cycle at different times. Risk diversification can be a viable motivation for international expansion.

The need to develop new core competencies is also another motivating factor. Firms may begin overseas operations to refine their core competencies and to develop new competencies. By exposing competencies to new competitive contexts, traditional competencies can be modified and new competencies developed. For internal operations to affect a firm's core competency, firms must learn from their experiences in non-domestic markets and exploit the new core competencies in a firms other operations. In order to achieve faster growth, which the domestic market may not provide, managers may only fulfill this desire through international expansion in the following ways; going international may create an impression of importance which can influence customers, managers derive satisfaction and pride in managing international companies not to mention the attractive salaries and perquisites that go with it.

Developed infrastructure in foreign market facilitates the ability to communicate with subordinates and customers by data transmission, voice and video. This gives managers' confidence in their ability to control foreign operations in addition to shorter traveling times hence motivating foreign market entry by firms. The need to gain internationalization advantages hence making things like international transfer of labor, capital technology and other factors through internal markets of the multinational enterprise more efficient (yields a better return) than "arms- length" transfer in the open market also motivate firms to internationalize. Firms may internationalize if they posses advantage not available to local firms such as economies of scale, superior technology, and or marketing knowledge, management or finance (Globern, 1986; Ball and McCulloh, 1993).

Overseas expansion by one firm may trigger off others in order to prevent early entrants from preempting the market entered (The bandwagon or "me too" effect). The bandwagon effect may also result from one firm expanding vertically abroad. Usually the host governments especially in developing countries will not only prohibit imports once there is a firm that produces locally but will also permit two or three other companies to enter so as to maintain a sufficient market. Therefore there is a need to follow other firms to avoid being locked out of that market.

Firms can also be motivated by the need to extend the product (demand) life cycle and lower production cost. From a global strategy perspective, a product is at different life cycle in different countries. Therefore the firm can use the resources and capabilities it developed during a particular stage of the life cycle in its domestic market to exploit that same stage of the life cycle in a non - domestic market (Barney 1997). Ansoff (1990) also argues that by the time the domestic demand reaches maturity or decline stage the pressure to move to countries in earlier stages of growth becomes strong. This strategy may greatly enhance a firm's economic performance (Barney, 1997).

Firms may establish subsidiaries abroad aimed at lowering costs. These reduced costs arise from access to lower cost factors of production, economies of scale through increased sales and access to government subsidiaries aimed at attracting new investments interest rates (cost of capital) subsidies, investment grants, and reduced taxes on profits. Ansoff and

McDonnell(1990) cautioned that labor cost advantages are not static and those firms should anticipate that as low cost countries develop economically labor cost may rise to make local manufacturing more attractive

### 2.1.4 Challenges of internalization

International business differs from domestic business in that a firm operating across borders must deal with three kinds of environment i.e. domestic, foreign and international (Ball and Mcculloh, 1993).Other factors i.e. economic, political, social and cultural are external to the firm, they are beyond the control of the managers. Of concern to international business managers is the stability of any government, where stability means the ability to maintain itself in power and whether it's fiscal, monetary and political policies are predictable and not ^ubject to ^udden radical changes. Stability therefore enhances the prosperity of business consequently making such countries first choice destinations for international companies (Ball and McCulloch, 1993). This exposure to uncontrollable forces in an unfamiliar foreign environment i.e. political, social - cultural, legal and economic factors may pose financial (economic) and political risks.

Firms pursuing international strategies expose themselves to financial risks especially due to fluctuations in currency (exchange rate risk) and inflation (Barney, 1997). These fluctuations may result in profitability (good news) or loss (bad news) in foreign investments. The employment of financial instruments such as options, futures (forwards) and swaps may help firms to hedge against such fluctuations (Lipsey and Chrystal 1995; Ross et al 1990). However hedging strategies only neutralize financial risks but not the business risks (firm specific), which calls for the development of capabilities and resources (Barney, 1997).

There is no consensus on the definition of political risk, but one popular view considers the risk to exist when unanticipated discontinuities affecting corporate profitability and resulting from political changes can occur in the business environment (Golberrmam, 1986). political risk can emerge from social unrest consequent to a low or unevenly distributed income among country's population, from competing political ideologies or ethnic groups within a nation, the rise and fall of individual political leaders or from international relations(involvement in foreign wars for instance(Bennett 1999). Barney 1997 citing porter (1980) argued that changes in political rules of the game can have the effect of increasing some environmental threats or reducing others and thus changing the value of a firm's resources and capabilities. Barney (1997); Bennett (1999) describe the two types of political risks as occurring at macro and micro level. Macro level risks are those broad political changes that may occur and affect all industries operating in the country. At micro level the politics in a country affect the fortunes of a firm in particular industries.

# CHAPTER THREE: RESEARCH METHODOLOGY

## 3.1 Research design

This was conducted through a case study design. This was deemed an appropriate design as the study involved an in-depth investigation of the factors motivating Equity Bank to establish subsidiaries in East Africa as well as the approaches it adopted to undertake this process. It is a method of study in depth rather than breadth. A case study is a form of qualitative analysis involving very careful and complete observation of a situation. Given the cost involved and the availability of time for the study, the researcher deemed this design to be the most appropriate.

The case study method deals with the processes that take place and their interrelationship. The objective of the case study method is to locate the factors that account for the behavioral patterns of the given unit as an integrated totality ( kothari,2002). According to Kothari ( 2002), a case study involves a careful and complete examination of a social unit, institution, family , cultural group or an entire community and embraces depth rather than breadth of a study.

## 3.2 Data collection

The source of data was primary data which was collected using an interview guide, a copy which is attached as appendix 1. An interview guide was deemed necessary for this study because it is more flexible, provides the interviewer with greater control of the interview situation and gives an opportunity to probe further. The interview guide consisted of two sections. Section one collected information on factors that motivated Equity Bank to expand its operation to other countries and section two sought to find out the strategies applied by Equity Bank in its expansion process.

The respondents were the CEO of Equity Bank who was represented by his personal assistant, the corporate strategy manager and the product development manager. These are the officers of the bank who have information on factors that have motivated Equity Bank to expand regionally. The researcher personally discussed each of the issues detailed in the interview guide.

### 3.3 Data analysis

On receiving feedback from the respondents, the data was thoroughly checked to ensure completeness, consistency, accuracy and uniformity. Content analysis was used to analyze the data because this study sought to solicit for data that is qualitative in nature. Content analysis is a research method that uses a set of categorization for making valid and replicable inference from data to their context (Rubin and Piele, 1990).

In case studies the researcher examines raw data using many interpretations in order to find linkages between the research object and the outcomes with reference to the original research questions. Throughout the evaluation and analysis process, the researcher remains open to new opportunities and insights. The case study method provides researchers with opportunities to use data in order to strengthen the research findings and conclusions.

# CHAPTER FOUR: RESEARCH FINDINGS

## 4.1 Introduction

This chapter presents the research findings. All the selected respondents were interviewed apart from the CEO who was represented by his personal assistant. The following were found to be the major factors that motivated Equity Bank to expand its operations within the East Africa region.

### 4.1.1 Risk diversification

Risk is inherent in any investment and is a requirement to grow capital. The best way to reduce risk is through owning a concentrated, yet well-diversified portfolio of profitable, industry-leading businesses. There are two types of risks associated with investing and these are systematic risk and unsystemic risk. Systemic risk is the general risk associated with investing in capital markets and cannot be diversified away, as it refers to macroeconomic factors - such as interest rates and inflation - that affect the market as a whole. Unsystematic risk on the other hand is unique to a specific company. This type of risk can be largely mitigated through diversification. Diversification comes in many forms. The basic theory of diversification is that spreading your investments across a number of securities in different sectors, industries and geographic regions reduces the risk that your portfolio will suffer a significant setback if a particular stock, industry or region is particularly hard hit.

This was indicated by all the respondents as a very important factor motivating the expansion. Businesses are faced with different types of risk ranging from political risk, market risk as well as business risk. It is therefore secure for any business to diversify its operation so as to spread the risk. A case in point was cited in Kenya in the year 2007 when the country experienced post election violence. During this period businesses in Kenya were highly affected. The entire respondent confirmed that in Equity Bank the loss of business during this period did not affect their revenues much simply because their subsidiaries in the rest of the East Africa region business was going on as usual. It was also indicated that concentrating business in one market narrows revenue hence the need to extend revenue sources through expansion.

### 4.1.2 Need to develop core competencies

This is a very key motivating factor. Growth has to be matched with competencies. It also enables a firm to be able to address not only the local needs but also international needs. There was need to compare with international banks through international trade within the region. It was noted that expansion through the region has strengthened trade finance which is a key source of revenue within the industry. With the introduction of the COMESA treaty, tfids is factors which will strengthen the bank port folio due to easy settlement of accounts within the region hence facilitating trade.

### 4.1.3 Nature and development of infrastructure

Infrastructure is an important factor though not considered a key factor as indicated by one of the respondents. Well developed infrastructure enables easy communication and transmission of data. Introduction of satellite and wireless telecommunication has eased the emphasize which was put in infrastructure development earlier while doing the feasibility study. In banking the key area of concern in terms of infrastructure is the ICT which is crucial for the banks operating system. The other areas of infrastructure like poor roads are mitigated by economic development as time goes by.

### 4.1.4 Market saturation at home

All the three respondents stated that pressure from competition at home is one of the key factors pushing the organization to consider expansion within the region. They also indicated that competition in the local market has drawn the profit margins downwards hence raising the need to look for more potential. However the respondents recognized the existence of some unexploited market / niche within the local market but they cited it as a very risky venture and one with low payback period.

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The entire respondent had the view that this is a less motivating factor and regarded it as more of a need to meet customer demands. They also matched this with the organization's mission " we exist to transform the lives and livelihoods of our people socially and economically by availing them modern, inclusive financial services that maximize their opportunities" For example they indicated the good business they are getting from expatriates, the United Nation bodies in Sudan and retirees through money transfer. This has made transaction for the mentioned parties easy and more fulfilling hence meeting their -needs.

**4,1,6 Profit maximization and Need to utilize excess capacity**

It was clearly indicated that the core business of the organization is to make profit. It is the responsibility of the management to increase shareholders wealth and this can only be achieved through profit maximization. Expansion creates more outlets for service delivery hence more revenue.

The need to utilize excess capacity was not considered as an important factor at all. It was claimed that centralization of services like trade finance has seen full utilization of the available resources hence this is not really a factor motivating the bank to venture in to the region.

### 4.1.7 Other motivating factors

The respondent added that policies existing within a country also encourage or discourage conduct of business depending on how flexible or prohibiting they are. Hence this was mentioned as a key factor to consider when considering expansion. System which can protect investments was also mentioned as a major motivating factor. An example was given of Southern Sudan where investments are at threat all the time due to lack of protective systems. Political climate scored high also since it was mentioned to be a key determinant of the economic status of a nation. It was however indicated that the organization will not shy away from expansion due to the unpredictability in the political environment in many nations but it •will adapt to the risk involved and develop strategies to curb the same. An example was given of the uncertainty in Sudan in the year 2011 when they will be having the referendum.

Two of the respondents cited economic backbone of a country as a key factor to consider. This is what drives the wealth of the country. Awareness of this will go a long way in developing products which suits the market. For example the bank is said to be leaping a lot of revenue from Sudan through trade finance operations due to cross border trade. As we know southern Sudan is agriculture based while the northern part mainly depends on mining hence encouraging cross border trade.

The presence of the private sector in the economy was unanimously indicated as a key motivating factor. Private sector contributes greatly in determining the stability of the financial systems in a country and this is a competitive point for countries.

Culture and awareness are also key factors said to be motivating the organization. If there is a culture of harmony then it means the interest of the organization is taken care. On the contrary where a country is dominated by a culture of threats as it was said to be the case in Sudan then organizations venture with a lot of fear. Awareness was also said to give the organization a easy entry in to the market.

## 4.2 Factors not considered important / motivating expansion

All the respondents reported that the following factors were not considered by the bank as motivating factors although according to literature review they are considered important. The need to gain prestige was cited as factors not considered important or good enough to motivate the institution to expand its operations within the region. It was indicated that the main drive for expansion is profit maximization rather than prestige. It was also indicated that at the moment the institution is not considering expansion in order to gain presence in competitor's home market but to explore new market. Managers were also seen to consider expansion in order to be identified with growth but this was cited a less important motivating factor because expansion is a business driven objective.

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'•The desire' to posses monopolistic advantage was dismissed as a motivating factor and competition recognized as healthy for any business since it keeps the business owners on their toes and up to the standards. The need to match with competitors was rated very low as a'motivating factor since the organization claimed to be using a unique model of doing business. They also confirmed to be driven by the presence of their niche market in the region. The need to gain international recognition scored low too as respondents pointed out that they are driven by their vision.

## 4.3 Internationalization strategy used by Equity Bank

This refers to the mode used by a firm to enter an international market. An inappropriate entry and operation strategy can result to failure. A wrong strategy can lead to a firm's failure abroad and at home as well. Research show that a firm's foreign market entry strategy is directly related to the firm's performance. An appropriate entry can be an important source of competitive advantage abroad. An in appropriate strategy on the other hand can be a competitive liability leading to a competitive disadvantage.

Equity Bank seems to have taken this into consideration and applied the best entry strategy in their case. It is from this choice of entry which has given them a competitive advantage in the

East African region. It was confirmed that acquisition was the appropriate mode Equity Bank applied in its expansion programme thou feared due to the fact that some of the organizations are not health in terms of capitalization and high credit risk as opposed to green field strategy which was regarded to be the safest thou with a lot of challenges penetrating the market.

## CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

This Chapter represents a summary of the research findings, the conclusions, limitations of the study and suggestions for further research. The Personal Assistant to the Chief Executive Officer of Equity Bank was interviewed on behalf of the CEO, other two managers in charge of regional expansion were interviewed thus achieving a response rate of 100%.

### 5.2 Summary, Discussions and conclusions

The Resdarch study had two objectives. The first objective was to determine the factors motivating Equity Bank to establish subsidiaries in East Africa. The second one was to establish the internationalization process used my Equity Bank.

Internationalization of a firm implies getting involved in international activities or operations that may take the form of importing and exporting (international trade) and foreign production through foreign direct investment. International trade is the first phase of international operations of a firm which leads to other modes of international operations like licensing, joint ventures and finally foreign direct investment (Ragman et al 1985). International trade is motivated by different factors within and outside the environment. From the research the following were found to be factors that have motivated Equity Bank to expand its operations within the East Africa region. Risk diversification, need to develop core competencies, nature and development of infrastructure, market saturation at home, political stability, need to extend product (demand) life cycle, culture and awareness, profit maximization and need to utilize excess capacity.

The study found out that Equity Bank has invested heavily to ensure that the process was a success. It was revealed that the bank is headed not only to the East Africa Region but also to Central Africa. The study established that one of the key strength which has given Equity

Bank a trumpet entry in the region is its origin and the emphasis it has on micro finance businesses. Having established its roots from a micro finance institution and being owned purely by Kenyan natives has given people the trust and identity to trade with the bank. The bank has also invested in excellent and well trained personnel who are able to roll out the programme with the least hitches if any. It has also invested in a state of the heart core banking software whose flat form can support a huge number of customers. It has gone ahead and centralized majority of its operations and customers are able to transact wherever they are with no difficulties.

The study also revealed that thou the mandate of the whole process is bestowed with the top management, other staff at the middle level management are also involved in the process. They are the ones who undertake the rollout activities and support the subsidiaries in many wa^s: For instance it was stated that after a launch has been done in a certain country, the responsibility of expansion within that country now shifts to the business growth and development manager in that country. System support is offered from Kenya and this definitely makes the junior staff be part of the expansion.

It was also indicated that strategy selection is very important while entering a new market. These strategies vary from country to country and the choice of the strategy is determined by different factors within the environment as well as the organization. The success or failure of the venture depends on the choice of strategy. From the research it was indicated that the choice of the strategic option is based on quite a number of factors some of which are specific to the organization and others can be dictated by the environment. Within the organization it was clear that availability of financial resources is very paramount. One of the respondent mentioned that green field requires a lot of resources and that is why many organization opt for acquisition thou a very risky venture. Green field was associated with a lot of challenges while penetrating the market. Equity Bank entered the region through acquisition not because they lacked the finances to go green filed but because this was the best and appropriate model to enter the region.

In conclusion, the study found out that Equity Bank is not only maximizing profit through the expansion but it is also transforming people's lives by offering accessible and affordable financial services not forgetting the many jobs it has created not only to Kenyans but also to some of the East Africa citizens. The bank is delighted by this as well as the effect it has in the financial sector within the region and it is determined to be an "African Bank owned by Africans". The study found out that expansion is a costly and risky affair, filled with uncertainty and the benefits can only be reaped with time and patience and once successful, the Organization that has selected this risky venture will stand out competitively.

## 5.3 Limitations of the Study

As this was a Case study, the design limited the unit of study to only one and there was no room for comparison of the findings of this one unit with those of similar units. The study also Jimited itself to information and details that could be discussed without compromising any part of the Bank's business aspects as it competes in a very dynamic and competitive industry. The respondents being among the top executives in the organization signed confidentiality agreements which meant that the information they provided was also limited. Again those are the people who the future of the bank lies into their hands and they cannot compromise this great responsibility by exposing the organizations success formula.

Time was another major limitation especially with regards to aligning the respondents' time with the researchers' time. It was difficult to find time with the CEO and that is why the researcher was referred to the CEO's Personal Assistant.

## 5.4 Suggestions for Further Research

The study concentrated on the internationalization of Equity Bank, it would be interesting to carry out a survey of other banks that have also ventured in the East Africa Region and get a broader view of this aspect within the industry. Further research can also be done in the same industry and compare the rate of success of the expansion strategies applied by different banks.

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## APPENDIX : INTERVIEW GUIDE.

This questionnaire seeks to collect information on factors motivating Kenyan Banks to expand their operations within East Africa: A case study of Equity Bank". We will go through the questions together as I note down your feedback. I request you to provide the information frankly and honestly. All information received will be treated confidentially and used for academic purposes only.

### SECTION A: FACTORS MOTIVATING KENYAN BANKS TO EXPAND THEIR OPERATION WITHIN EAST AFRICAN REGION.

1. How do you regard risk diversification as a factor in your decision to invest within the East Africa region?
2. How about the need to develop new core competencies?
3. How do you regard the nature and development of infrastiucture in the country you are considering?
4. Can managers consider regional expansion in order to satisfy their desire?
5. How do you consider the desire to posses monopolistic advantage as a factor in your decision to invest within the East Africa region?
6. How about the need to match with competitors (me too effect)?
7. Does the need to gain internationalization advantage motivate you to consider expansion?
8. Is market saturation at home a factor you consider while considering expansion within East Africa region?
9. How about the need to extend the product (demand) life cycle as well as the need to lower production cost?
10. How do you regard profit maximization as a factor while making the decision?
11. Do you consider the need to utilize excess capacity as a factor when making the decision?
12. Do you consider regional expansion in order to gain prestige as an organization?
13. How do you regard the desire to have presence in competitors' home market as a factor while making your decision?

14. How does Kenya compare on the basis of the following factors to the rest of the East African countries?

a). Economic liberalization___

b) Unexploited market_

c) Competition_

d) Stability of financial market_

e) Existence of investment opportunities

**SECTION B: INTERNATIONALIZATION STRATEGY.**

15.which internationalization strategies have you applied or intending to apply in order to venture in the following countries?

< a) Uganda

b) Tanzania_

c) Rwanda

16. What motivated you to adopt the strategies you have mentioned in no. 16 above?

17. Out of the strategies you have mentioned above, did you find them appropriate?

18.What is your general comment on internationalization strategies applicable to our commercial banks?

**Thank you.**