STRATEGIES ADOPTED BY KCB LTD TO ATTRACT KENYAN INVESTORS IN DIASPORA

BY

CAROLINE MWENDWA KABERIA

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UNIVERSITY OF NAIROBI.

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DECLARATION

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

Signature: …………………………………. Date: …………………………………………

CAROLINE KABERIA

D61/60174/2010

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

Signature: ………………………………… Date: ………………………………………

DR JOHN YABS

LECTURER

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

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This research work is not a product of a solitary mind.

I am indebted to my supervisor for his guidance and mentorship. I thank him for being so patient with me throughout this project.

My sincere thanks go to the staff of KCB for their cooperation and time without which there would have been no progress in this research.

DEDICATION

This research project is especially dedicated to my husband Alfred and my children Muthoni and Wairimu for their constant support and encouragement throughout my studies.

I cannot forget my parents for their wisdom and counsel that have been the cornerstone in my quest for knowledge.

ABSTRACT

Diasporas have played significant roles in the development of many nations. Remittances are the largest source of net foreign inflows after foreign direct investment (FDI). Kenyan banks have been on the forefront of attracting the diaspora to channel money into the country through them. This research sought to determine various strategies employed by KCB Limited in an effort to attract diaspora to use KCB as a channel of sending and investing funds by incorporating the OLI theory. It targeted the senior management at the bank who are involved in decision making and thus would be best suited to give the information necessary for this study. The study used primary data that was collected using interview guide. It revealed that, the bank possesses ownership advantages which include its capital strength, economies of large size, technology, experience in foreign operations and product diversification. Broad access to financing from large firms such as the IFC also gives an advantage to the subsidiaries as compared to their local competitors by virtue of the parent company's capital base. Through its continuous internationalization process the bank has the advantage of international diversification of assets and risks. The ownership and internalization factors give KCB a competitive edge in the foreign markets because its subsidiaries have privileged access to capital from its parent company which is the most capitalized in the country. This capital can be obtained at preferential rates as compared to borrowing from another entity in the external market. The technology used by the bank also provides real time banking which is lacking in other competitor banks thus enabling it to provide efficient services to its customers wherever they are in the five countries in which KCB operates. Internalization of processes enables the bank to move its capital from one country where it is in excess to another subsidiary where it is in deficit. The technological platform also contributes to internalization because the system supports transactions across the four countries; therefore the bank does not need to purchase a different system when going into a new country. It would also be risky to contract such a system to an agent, a slight error would greatly affect the bank's operations across the region therefore this is entrusted only to its employees who are bound by company policy. The Location factors did not qualify for the case of KCB because apart from South Sudan, none of the other countries fit in Dunning's definition of location advantages which states that "location-specific advantages are those which are available, on the same terms, to all firms whatever their size and nationality, but which are specific in origin to particular locations and have to be used in those locations". Therefore, the OLI theory partly explains KCB's strategy in attracting Kenyans in diaspora process but not fully, because there are other strategies other than the Ownership, Location and Internalization but it provides a sound basis on the major strategies that KCB has used to attract Kenyan investors in diaspora. Other strategies adopted by KCB Limited to attract Kenyan investors in diaspora include The Banks dedicated relationship managers in each Region and a 24-hour Contact Centre to facilitate customer enquiries regardless of their time zones. KCB has also partnered with Brand Kenya Board as a major sponsor to establish the inaugural Kenya House at the Olympics and seized the London Olympics to market the service where Over 20,000 visitors visited the Kenya House in London and later in the USA which made it easier to market the Diaspora Banking to most of the Eastern Africans present.

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DEFINITION OF TERMS

Diaspora: A diaspora is a scattered population with a common origin in a smaller geographic area. The word can also refer to the movement of the population from its original homeland

Internationalization: a process of increasing involvement of enterprises in international markets

Foreign Direct Investment (FDI): This is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country

Remittance: is a transfer of money by a foreign worker to his or her home country or simply sending amount from one country to another.

Strategy is the direction and scope of an organization over the long term which achieves advantage for the firm through its configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholders' expectations.

CHAPTER ONE

INTRODUCTION

1.1Background of the Study

Entrepreneurs who are interested in the field of internationalization of business need to possess the ability to think globally and have an understanding of international cultures. By appreciating and understanding different beliefs, values, behaviors and business strategies of a variety of companies within other countries, entrepreneurs will be able to internationalize successfully. Entrepreneurs must also have an ongoing concern for innovation, maintaining a high level of quality, be committed to corporate social responsibility, and continue to strive to provide the best business strategies and either goods or services possible while adapting to different countries and cultures**.**

An increasing number of companies are operating on a global or regional rather than national scale. Thus, new parameters are added to management decisions calling for rethinking of organizational strategies and planning procedures. Marketing is no exception to this rule. International marketing managers are asking themselves how they should cope with the new scope of operations and whether they can apply domestic strategies' to international markets.

The main aim of any profit making organization is to make profits. To achieve this objective firms define the market which they would like to target with their goods or services. This market could include customers within a small market segment within a country or it may sometimes include customers beyond the national boundaries of the firm and thus the firm may look for various ways to reach such international consumers of its products or services. Through the internationalization process, firms gradually spread their business operations and activities beyond their national boundaries (Ahmad and Kitchen, 2008). Prior to a move towards international expansion, the firm has to make a number of decisions such as the markets to venture into, the timing of entry and the entry mode to use among other factors. This research considers the strategy the firm chooses to use across borders.

Pearce and Robinson (1991), define strategy as large scale, future oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives. Johnson and Scholes (2003), on the other hand defines strategy as the direction and scope of an organization over the long term which achieves advantage for the firm through its configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholders expectations.

There are different forms of strategy. Business strategy refers to how a firm competes, while corporate strategy answers questions concerning the businesses with which the organization should compete. International strategy is a key feature of many corporate strategies. In some cases, international strategy takes the form of outsourcing or offshoring.

At the corporate level, firms choose to use one of three international strategies: multi-domestic, global, or transnational (transnational is a combination of multi-domestic and global). These three strategies reflect trade-offs between local responsiveness and global efficiency For firms to gain a competitive advantage, they have to devise strategies that take best advantage of the firm's core competencies and that are difficult for competitors to copy.

1.1.1 Migration of Kenyan Investors

The emigration of Kenyans abroad in large numbers is a relatively recent phenomenon. It can be seen in three distinct waves. First, in the period preceding Kenya's independence in 1963, a small number of Kenyans were able to travel abroad in search of better education and training opportunities. Second was in the first two decades after independence where tens of thousands of European and Asian residents left the country, but only a few Kenyans were able to migrate and live abroad due to cost and other factors (Ghai, 2004: 2). Many of these pioneers participated in the struggle for independence and constitute part of the Diaspora. The third wave occurred during the great airlift where young Kenyans were taken abroad to acquire further education.

The most important reason for this shift in migration patterns was the deterioration in the economic performance of Kenya. While the first two decades witnessed high economic and employment growth, with new opportunities opening up for Kenyans in all sectors, the situation was reversed over the past 25 years, especially in the 1990s, with negative per capita income growth and worsening income distribution. Millions of Kenyans have suffered declining living standards; even those with higher education and technical skills are finding it difficult to get remunerative employment opportunities. It is therefore understandable that increasing numbers of Kenyans have been seeking employment opportunities abroad.

In addition, the rapid pace and intensity of globalization and the growing gap in living standards between Kenya and developed countries, as well as political repression, the spread of corruption and an increase in personal insecurity, have also encouraged emigration. However, in recent times, migration has also been a result of business opportunities, especially in countries neighboring Kenya (Ngugi, 2011). Official estimates from the Ministry of Foreign Affairs in Kenya indicate that there are about 3 million Kenyans in the diaspora, approximately 8 per cent of the country's population. The Kenyan Diaspora has a potential to play a key role in the development of the country. This potential has remained untapped although its significance can be seen in terms of remittances and in the transfer of technology.

The term Diaspora has generated a debate around the World. This debate has however not elicited a universally agreed definition. Contributing to the debate, the International Organization for Migration (IOM) has defined Diaspora as members of ethnic and national communities who have left, but maintain links with their homelands. The African Union defines the African Diaspora as, "Consisting of people of African origin living outside the continent irrespective of their citizenship and nationality and who are willing to contribute to the development of the continent and the building of the African Union". Consequently, the Extra – Ordinary Summit of the Assembly of Heads of State and Governments of the African Union in its meeting held on 3rd February, 2003, declared the African Diaspora as the sixth region of the continent. The declaration was based on the recognition of the African Diaspora as an important part of the continent whose potential needs to be fully exploited in building the African Continent.

The Kenyan Diaspora is defined as consisting of Persons of Kenyan Origin (PKO) and Non-Resident Kenyans (NRK's). PKO status designates foreign citizens of Kenyan origin or descent. On the other hand NRK status is for Kenyan citizens holding a Kenyan passport and/or having dual citizenship and residing outside the country for an indefinite period whether for employment, business, vocation, education or any other purpose.

Remittance is money sent by a person in a foreign land to his or her home country. Due to the huge sums involved, remittances are now being recognized as an important contributor to the country's growth and development. The surge of remittances to countries of origin in the last two decades, exceeding aid and foreign direct investment (FDI) to developing countries, has reignited debate on their development potential in receiving countries.

The Central Bank of Kenya conducts a survey on remittance inflows every month through the formal channels that include commercial banks and other authorized international remittances service providers in Kenya. In April 2013 remittance inflows amounted to USD 105 million. This was 1.5 percent higher than the inflows recorded in March 2013 which amounted to USD 103.4 million and 9.8 percent higher than the figures recorded in April 2012 which amounted to USD 95.6 million. In May 2013 remittance inflows amounted to USD 110.2 million. This was 4.9 percent higher than the inflows recorded in April 2013 and 9.1 percent higher than the figures recorded in May 2012.In the 12 months to April 2013, average remittance inflows increased to USD 99.1 million from USD 85 million during the 12 months to April 2012. In the year to May

2013, average remittance inflows increased to USD 99.9 million from USD 87.8 million in the 12 months to May 2012.

1.1.2 Kenya Commercial Bank

The history of Kenya Commercial Bank (KCB) 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 headquarters of the expanding railway line to Uganda. The next major change in the bank's history came in 1958 when Grind lays Bank merged with the National Bank of India to form the National and Grind lays Bank. Upon Kenya's independence in 1963, the Government of Kenya acquired 60% shareholding in National & Grind lays 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 shares and it was renamed Kenya Commercial Bank. The Government has over the years reduced its shareholding in KCB to 23%, as of December 2008 and a rights issue which was concluded in August 2010 further reduced shareholding by the Kenyan Government to 17.74%.

In 1972, Savings & Loan (Kenya) Limited was acquired to specialize in mortgage finance; this has since been incorporated into the KCB Group as Mortgage Centre. This division of KCB specializes in the provision of mortgage facilities to individual and institutional investors both locally and to citizens in the diaspora. The Bank has a well-established domestic retail and corporate banking franchise. Outside Kenya, it has subsidiaries in Tanzania, Uganda, South Sudan, Rwanda and Burundi. The Bank’s shares are cross listed on the Kenya, Uganda, Tanzania and Rwanda Stock Exchanges and are widely held by Kenyan and other international investors.

KCB (Tanzania) Limited was incorporated in April 1997, in Dar es Salaam. It was established to provide a wide range of financial products to the emerging economies of that region and to facilitate cross-border trade following the revival of the East African Co-operation.

KCB South Sudan was founded in 2006 following the cessation of hostilities between South Sudan and Sudan. It was also at this time that the signing of the Comprehensive Peace Agreement took place in Naivasha, Kenya.

KCB Bank Uganda Limited was incorporated in the year 2007, with the first branch being opened at Commercial Plaza, Kampala Road. In December 2008, KCB Rwanda commenced banking services in Kigali, following licensing by the National Bank of Rwanda. KCB Group has opened a subsidiary in Burundi which includes two start-up branches in the capital Bujumbura with the headquarters located at the latest city landmark.

It is worth noting that all these subsidiaries are 100% owned by KCB Group based in Nairobi except for South Sudan subsidiary whose ownership is at 99%.By the end of 2012 all subsidiaries of KCB had managed to break even except KCB Burundi.

KCB is the region's largest bank in terms of total assets at Kshs.370 billion, most capitalized at Kshs.55 billion and total number of branches at 230 spread in six countries, namely; Kenya has 173 branches, Tanzania has 11 branches, Southern Sudan has 20 branches, Uganda 14 and

Rwanda has 11 branches, Burundi has 1 branch. This is complemented by over 940 ATMs that offers a twenty-four hour services across the region. It serves about 2 million customers and has 5,035 agents spread across the country.

KCB consolidated its operations for 100 years in the Kenyan market before venturing into other foreign markets. In its initial years of operation, the bank reported losses in the three subsidiaries of Uganda, Tanzania, Rwanda and Burundi. KCB will focus on strengthening the subsidiaries in Uganda, Rwanda, South Sudan and Tanzania. In all the markets, KCB successfully spearheaded green-fields establishments and which are today posting profits. KCB has made history by becoming the first local bank to complete presence in all the countries that make up the East African Community.

According to n-soko, KCB eyes diaspora cash with investment scheme. KCB Group seeks to attract diaspora cash through an online investment scheme that is targeting remittances from East Africans living abroad. The investment plan, which will be Internet- and mobile phone-driven, will facilitate KCB customers' investment in real estate, listed shares and government securities. Remittances from the diaspora have been on an upward curve, with a World Bank report of December 2012 indicating that developing countries received over $350 billion in 2011.Kenya is receiving an estimated Sh67 billion ($800 million) of this amount, followed closely by Uganda which got more than $649 million. Over the years, KCB has witnessed the growth of this diaspora market that now stands at over 12 million people in the region alone and established a great need for a reliable product to suit the dynamic needs of this market segment. Central Bank of Kenya has attributed the rise in these remittances to increased use of formal channels and lower transaction fees as a result of growing competition among money transfer service providers. High cost of funds in the local market saw KCB's interest expenses rise to Sh2.5 billion from Sh397 million in the first three months of the year.

Most of these remittances are used mainly for investment, payment for education, family maintenance, building and construction of houses as well as for savings. Many people in the diaspora have lost huge sums of money to their relatives and friends whom they had entrusted to invest on their behalf, especially in the real estate sector. In Custodial business, to deposit money into an account, an individual will choose on whether to use SWIFT system that involves transfer among correspondent banks. The transfer usually takes 48 hours, with the person receiving the cash charged Sh600 above what the sender is charged by the remitting bank. One can also write a cheque in favor of the account, which will take 12 working days to clear. Investment in listed shares will be facilitated through the banks' custodial business, which uses listed stockbrokers to execute customers' instructions. KCB is also operating in Uganda, Rwanda, Tanzania, South Sudan and Burundi and will, therefore, receive the funds in different currency denominations.

Deposit taking Microfinance Jamii Bora which signed an agency agreement with KCB to offer money transfer services through Western Union is the latest entrant into this lucrative market.Jamii Bora will act as a KCB agent and it targeting to establish over 510, 00 agents in over 200 countries using western union services.Jamii Bora is banking on KCB, which has proved it wants to take the largest share in the multibillion markets.

After opening an online platform for its corporate and consumer divisions two months ago, KCB used the Last Olympics in London as an opportunity to register over 300 account holders live and Mobi banking connection was done on the spot from the United Kingdom (UK) .KCB's Diaspora banking seeks to tap remittances from families of its East African customers and beyond.

1.2 Research Problem

It has for long been recognized that internationalization is an incremental process in which firms move through stages of development such as export, licensing and joint venture. This is however, not always the case as some firms prefer to begin their internationalization process through high commitment modes by establishing wholly owned subsidiaries in foreign markets. Dunning (1977, 1980 and 1988) in his eclectic paradigm approach known as the OLI (ownership, localization and internalization) model emphasized that a firms' international expansion and entry strategy depends on its ownership advantages (firm resources), location advantages (host country factors) and internalization advantages (relational factors). Based on this viewpoint, if the home market has a location advantage over the target foreign market, exporting is a suitable entry mode. If the host market has a location advantage, firms look at the contractual mode of entry. If the risk of contract with local partners is high, FDI is the appropriate mode. Otherwise, licensing is adopted.

In addition, the rapid pace and intensity of globalization and the growing gap in living standards between Kenya and developed countries, as well as political repression, the spread of corruption and an increase in personal insecurity, have also encouraged emigration. However, in recent times, migration has also been a result of business opportunities, especially in countries neighboring Kenya (Ngugi, 2011). Official estimates from the Ministry of Foreign Affairs in Kenya indicate that there are about 3 million Kenyans in the diaspora, approximately 8 per cent of the country's population. The Kenyan Diaspora has a potential to play a key role in the development of the country. This potential has remained untapped although its significance can be seen in terms of remittances and in the transfer of technology

As Kenya's banking sector becomes more competitive, each financial institution is seeking to expand its market share. Banks are looking for alternative ways to support their balance sheets and grow their operations. Almost exhausting the bonds and equity markets, financial institutions are now turning their focus on the Diaspora market that is proving very lucrative. Kenyans in the Diaspora send more than $1.7 billion annually, attracting financial institutions to tap into this new market. Last year alone, Kenyans in the Diaspora sent home $1 billion, a 55.3 percent rise from $490 billion sent five years ago. As Diaspora remittances continue to rise; more financial institutions are positioning themselves for a piece of the pie.

Most of the money sent by Kenyans in the Diaspora is now being used to fund investment projects, a move that has attracted local companies, especially in the banking sector. World Bank estimates Kenyans in the Diaspora to be approximately 500,000.Local banks like Kenya Commercial Bank (KCB), Equity and Cooperative banks already offer their banking services to the diaspora community.

Several studies have been carried out in regard to KCB; Kamanda (2006) studied the factors influencing regional growth strategies of KCB and concluded that attractive regional market, desire to follow competition and customers, growth in market size, inducement by host government, reduction of operating cost, desire to boost cooperate image, tap new opportunities, leverage on regional integration and free trade frontiers are the factors influencing the regional growth strategy of KCB.

Kieti (2006) in his study of the entry strategies among Kenyan firms venturing into Southern Sudan found that the strategies are a function of various parameters some of which are in the foreign business environment while others are firm specific. The study concluded that there are several factors to look at when determining mode of entry into Southern Sudan and they include; political environment, trade and investment regulations, a firm's experience in international business as well as firm size and the products. This study did not however, look deeply into these parameters in the foreign business environment and the firm specific factors that affect entry of foreign firms into the market.

Mwadime (2010) went further to find out the reasons for the presence of KCB in each of the foreign markets in which it operates. In Rwanda the reasons for opening up a subsidiary was due to presence of few banks, the East African Community agreement, presence of a large unbanked market and lastly in pursuit of strategy or vision. In Uganda the reason for operation was to follow its customers, existence of large trade volumes between Sudan and Uganda and ego to follow other banks which had established a presence in the market. The presence in Southern Sudan was mostly influenced by the Comprehensive Peace Agreement which was signed to start off the peace process and this was also a virgin market since KCB was the first bank in the market with a large unbanked population, and the bank was wooed by the government since it did not have a proper banking system. This study was however, not conclusive since it was not able to establish why KCB used the same entry strategy in the different markets even when it was apparent that these markets offered different incentives.

Increase of other local banks in the diaspora banking has brought about competition and will only worsen as more of them venture into diaspora market. The competitive situation makes it necessary for banks to choose superior strategies and tactics to attract Kenyans in diaspora. Following this, it is of great interest to shed more light into how commercial banks manage to get customers in the diaspora to bank with a particular bank as opposed to another. The study will therefore critically look into the following questions:

Does KCB have documented strategies used for diaspora customers?

Does KCB clearly communicate the strategies to the concerned employees?

What strategies does KCB use to attract diaspora customers?

1.3 Research Objective

The objective was to determine Strategies used by KCB to attract Kenyan investors in diaspora.

1.4 Value of the study

This study will enable KCB to know the strategy advantages that it possesses and to learn on how better to exploit these strategy advantages through internalization of its activities. Other firms intending to internationalize will be able to obtain information on how they can apply these strategies to attract diaspora customers.

By relating theory to real life case, it will enable managers to apply the information in their everyday strategic decision making process.it will also add to the academic pool of research done about diaspora banking.

The government and policy makers will benefit from the information when formulating policy regarding both outward and inward FDI

This study will analyze strategies in KCB and the findings should be generalizable to the entire banking industry as KCB is the biggest bank in Kenya and has regional reach. Any useful findings of this study may greatly impact the regional banking industry and other local sectors.

The findings of this research will also provide pertinent information that can be used to help credit unions, and other financial institutions identify opportunities for growth and understand how to most effectively position themselves in the market so as to take full advantage of the opportunities surfaced through the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter tries to review literature that is relevant to the research by looking at what other authors have written that could add more insight into the topic under study. The main areas to be looked include a general discussion on what is strategy and the international strategies that can be used to attract customers abroad

2.2 Concept of Strategy

Pearce and Robinson (1991), define strategy as large scale, future oriented plans for interacting with the competitive environment to optimize achievement of organizational objectives. Johnson and Scholes (2003), on the other hand defines strategy as the direction and scope of an organization over the long term which achieves advantage for the firm through its configuration of resources within a changing environment to meet the needs of markets and fulfill stakeholders expectations.

Strategy can be formulated on three different levels: corporate level, business unit level, functional or departmental level. While strategy may be about competing and surviving as a firm, one can argue that products, not corporations compete, and products are developed by business units. The role of the corporation then is to manage its business units and products so that each is competitive and so that each contributes to corporate purposes.

2.2.1Corporate level strategy

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses. Corporate level strategy is concerned with: Reach - defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.

Competitive Contact - defining where in the corporation competition is to be localized.

Managing Activities and Business Interrelationships - Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.

Management Practices - Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

2.2.2 Business Unit Level Strategy

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm. At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with: positioning the business against rivals, anticipating changes in demand and technologies and adjusting the strategy to accommodate them, influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies cost leadership, differentiation, and focus that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces. Firms choose from among three generic business-level strategies to establish and defend their desired strategic position against rivals: (1) cost leadership, (2) differentiation, and (3) integrated cost leadership and differentiation. Each business-level strategy helps the firm establish and exploit a competitive advantage within a particular scope.

2.2.3 Cost-Leadership Strategy

Choosing to pursue a cost-leadership strategy means that the firm seeks to make its products or provide its services at the lowest cost possible relative to its competitors while maintaining a quality that is acceptable to consumers. Firms achieve cost leadership by building large-scale operations that help them reduce the cost of each unit by eliminating extra features in their products or services, by reducing their marketing costs, by finding low-cost sources or materials or labor, and so forth.

2.2.4 Differentiation Strategy

Differentiation stems from creating unique value to the customer through advanced technology, high-quality ingredients or components, product features, superior delivery time, and the like. Michael E. Porter, Competitive Advantage (1985). Companies can differentiate their products by emphasizing products' unique features, by coming out with frequent and useful innovations or product upgrades, and by providing impeccable customer service. For example, the construction equipment manufacturer Caterpillar has excelled for years on the durability of its tractors; its worldwide parts availability, which results in quick repairs; and its dealer network. When pursuing the differentiation strategy, firms examine all activities to identify ways to create higher value for the customer, such as by making the product easier to use, by offering training on the product, or by bundling the product with a service.

2.2.5 Integrated Cost-Leadership/Differentiation Strategy

An integrated cost-leadership and differentiation strategy is a combination of the cost leadership and the differentiation strategies. Firms that can achieve this combination often perform better than companies that pursue either strategy separately. Gregory G. Dess(1995). To succeed with this strategy, firms invest in the activities that create the unique value but look for ways to reduce cost in non-value activities.

2.2.6 Functional Level Strategy

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively.

When deciding on a strategy to pursue, firms have a choice of two potential types of competitive advantage: (1) lower cost than competitors or (2) better quality (through a differentiated product or service) for which the form can charge a premium price. Competitive advantage is therefore achieved within some scope. Scope includes the geographic markets the company serves as well as the product and customer segments in which it competes. It’s important to remember that none is better than the others. Rather, how effective each strategy depends on each firm’s specific circumstances—namely, the conditions of the firm’s external environment as well as the firm’s internal strengths, capabilities, resources, and core competencies.

2.3 Internalization Theory

The theory of internalization was long regarded as a theory of why FDI occurs. By internationalizing across national boundaries a firm becomes a multinational. This theory is based on the market imperfections, which provides a major explanation as to why firms may prefer FDI to either exporting or licensing. Market imperfections are factors that inhibit markets from working perfectly. With regard to horizontal FDI, market imperfections arise in two circumstances; when there are impediments to the free flow of products between nations and when there are impediments to the sale of know-how. Barriers to the free flow of products between nations decrease the attractiveness of exporting relative to FDI and licensing, while a barrier to the sale of know-how increases the profitability of FDI relative to licensing. Thus the market imperfections explanation predicts that FDI will be preferred whenever there are impediments that make both exporting and sale of know how difficult and / or expensive.

This explanation is however not sufficient to explain FDI since firms can transfer these advantages through exports or joint ventures. It is also a well-known fact that firms operate in imperfect markets, yet this theory assumes that the markets are perfect thus firms can easily transfer the advantages they possess.

2.4 Eclectic Paradigm (OLI) Theory

MNEs are firms that produce goods and services abroad with their own employees as opposed to firms that export to these countries or that license or franchise producers located there. Dunning lists three necessary and sufficient conditions for the existence of MNEs, these are; Ownership advantages, Location advantages and Internalization advantages. Firms operating abroad usually incur higher costs than they do at home because they do not know the local environment as well, are not inserted in local networks and are quite often the victims of discrimination by local authorities.

Hymer (1976) argued that to make up for these disadvantages, the firms must have compensating advantages. Dunning calls these ownership advantages which include new products and processes as well as a strong brand name. Dunning notes that a firm's possession of ownership advantages is not a sufficient condition for it to own value adding operations abroad. This is because the firm could exploit these advantages by integrating into production at home and exporting the products. A second condition therefore is that it is more desirable to locate production in a foreign country than at home. For this to be true, a country must offer location advantages that can persuade a firm to locate production there as opposed to locating it at home.

In addition to the ownership advantages and the internalization advantages which are necessary for a firm to invest internationally, John Dunning adds that it must be in the firm's interest to use these in combination with some factor inputs located abroad, also termed as location-specific or L-advantages. By location specific advantages, Dunning means the advantages that arise from using resource endowments or assets that are tied to a particular foreign location and that a firm finds valuable to combine with its own unique assets such as the firm's technological, marketing or management know-how. Therefore, combining location-specific assets or resource endowments and the firm's own unique assets often require FDI. It requires the firm to establish production facilities where those foreign assets or resource endowments are located. The firm's unique assets will need to be transferred intra-firm to exploit the location advantages of the foreign market. This is termed the eclectic paradigm or Ownership, Location and Internalization (OLI) Theory. This theory has been used widely to explain the reason for existence of FDI.

2.5 Foreign Direct Investment through Wholly Owned Subsidiaries

FDI occurs when a firm invests directly in facilities to produce and / or market a product in a foreign country (Dunning, 2005). FDI takes on two main forms, green-field investment which involves the establishment of a wholly new operation in a foreign country and acquisitions which involves a firm acquiring a stake in a foreign firm. Horizontal foreign direct investment is FDI in the same industry in which a firm operates at home while vertical foreign direct investment is investment in an industry that provide inputs for a firm's domestic operations, or it may be FDI in an industry abroad that sells the outputs of a firm's domestic operations.

In a wholly owned subsidiary the firm owns 100 percent of the stock. Establishing wholly owned subsidiaries in a foreign market can be done in two ways. The firm can either set up an operation in that country often referred to as a green-field venture or it can acquire an established firm in that host nation or a combination of both termed as a Brownfield venture.

2.5.1 Advantages and Disadvantages of Wholly-Owned Subsidiaries

There are three clear advantages of wholly owned subsidiaries. First, when a firm's competitive advantage is based on technological competence, a wholly owned subsidiary will often be the preferred entry mode because it reduces the risks of losing control over that competence. Second a wholly owned subsidiary gives a firm tight control over operations in different countries. This is necessary for engaging in global strategic coordination i. e using profit from one county to support competitive attack in another. Third, a wholly owned subsidiary may be required if a firm is trying to realize location and experienced curve economies as firms pursuing global and transnational strategies try to do.

Establishing a wholly owned subsidiary has its disadvantages as well since it is generally the most costly of all the entry modes from a capital investment point of view. Firms doing this must bear the full capital cost and risks of setting up overseas operations. The risks associated with learning to do business in a new culture are less if the firm acquires an established host country enterprises, however acquisition raise additional problems including those associated with trying to marry divergent corporate cultures. These problems may more than offset any benefits derived by acquiring an established operation because the choice between green-field venture and acquisitions is such an important one.

2.5.2 Greenfield Venture vs. Acquisition

The choice between acquisitions and green-field ventures is not an easy one to make. Both modes have their advantages and disadvantages. In general, the choice will depend on the circumstances confronting the firm. If the firm is seeking to enter a market where there are already well established incumbent enterprises and where global competitors are also interested in establishing a presence, it may pay the firm to enter via an acquisition. In such circumstances, a green-field venture may be too slow to establish a sizeable presence. However, if the firm is going to make an acquisition, its management should be cognizant of the risks associated with acquisition such as and consider these when determining which firms to purchase. If the risks are too high then it would be better to enter by the slower route of a green-field venture than to make a bad acquisition.

If the firm is considering making an entry into a country where there are no incumbent competitors to be acquired, then a Greenfield venture may be the only mode. Even when incumbents exist, if the competitive advantage of the firm is based on the transfer of organizationally embedded competencies, skills, routines, and culture, it may still be preferable to enter via green field venture. Skills and organizational culture which are difficult to articulate and codify are much easier to embed in a new venture than they are in an acquired entity, where the firm may have to overcome the established routines and culture of the acquired firm.

2.6 Scale of Entry and Strategic Commitment

A firm intending to expand its operations internationally needs to consider the market entry choice and the scale of entry. Entering a market on a large scale involves the commitment of significant resources and it implies rapid entry. Not all firms have the resources necessary to enter on a large scale and even some large firms prefer to enter foreign markets on a small scale and then build slowly as they become more familiar with the market. The decision to do a foreign direct investment in another country leads to increased commitment, greater understanding of the local business environment and the possibility of further investment in the future. The consequences of entering on a significant scale are associated with the value of the resulting strategic commitments.

A strategic commitment has a long-term impact and is difficult to reverse. Deciding to enter a foreign market on a significant scale is a major strategic commitment. The scale of entry gives both customers and distributors a reason for believing that the firm will remain in the market in the long run. The scale of entry may also give other foreign institution considering entry into that particular market to pause since they will now they have to compete not only against indigenous institution in that market but also against an aggressive and successful MNE. On the negative side by committing itself heavily to one market, it may have fewer resources available to support expansion in other desirable markets. The commitment to one particular market limits the company's strategic flexibility.

It is important for a firm to think through the implications of large scale entry into a market and act accordingly. Of particular relevance is trying to identify how actual and potential competitors may react to large scale entry into a market. It is worth noting that, the large-scale entrant is more likely than the small scale entrant to capture first-mover advantages, associated demand, pre-emption scale economies and switching costs.

The value of commitments that flow from rapid large -scale entry into a foreign a market must be balanced against the resulting risks and lack of flexibility associated with significant commitments; on the other hand strategic inflexibility can also have value, by eliminating option of retreat, the firm will have no choice but to perform and succeed in that particular market.

Balanced against the value and risks of the commitments associated with large-scale entry are the benefit of a small-scale entry which allows a firm to learn about a foreign market while limiting the firm’s exposure to that market. Small-scale entry is a way of gathering information about a foreign market before deciding whether to enter on a significant scale and how best to enter. By giving the firm time to collect information, small-scale entry reduces the risks associated with a subsequent large –scale entry but lack of commitment associated with small-scale entry may make it more difficult for the small-scale entrant to build market share and to capture first mover or early-mover advantages. The risk averse firm that enters a foreign market on a small scale may limit its potential losses but may also miss the chances to capture first-mover advantages.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In chapter two, we looked at literature that was relevant to the research by looking at what other authors had written that could add more insight into the topic under study. The main areas looked into included general discussions on what strategy was and the international strategies that could be used to attract customers abroad. This chapter looked at how the information would be sought.

3.2 Research Design

The research design that was adopted for this study is a case study. Yin (1994) defined a case study as an empirical enquiry that investigates a contemporary phenomenon within real life context, especially when the boundaries between phenomenon and context are not clearly defined. Yin (1994) argues that the case study allows an investigation to maintain the holistic and meaningful characteristics of real life events such as individual life cycles, organizational and managerial processes, neighborhood change, international relations and the maturation of industries. Therefore the case study approach was especially useful in situations where contextual conditions of the events being studied were critical and where the researcher had no control over the events as they unfolded.

Yin (1993) distinguishes three types of case studies; exploratory, causal and descriptive case studies. The descriptive case study requires a theory to guide the collection of data and ‘this theory is openly stated in advance and be the subject of review and debate and later served as the ‘design’ for the descriptive case study’.

Given the nature of the research objective which was to understand the strategies KCB has used to attract Kenyans in diaspora and whether these strategies have had positive impacts.

3.3 Data Collection

The main data collection technique for this study was the interview guide which was self-administered. The interview guide had open ended questions which enabled the collection of the respondents’ views from the various subsidiaries of Kenya Commercial Bank Limited. The respondents were staff from the top management at KCB Group parent company in Kenya and top management of subsidiaries because they are part of the strategy formulators. The top management included the Chief Executive Officer, the Chief Business Officer International, Director Corporate Banking, and Managing Directors for KCB Sudan, Tanzania, Uganda and Rwanda.

The interview guide allowed for flexibility of questions and it also enabled the respondent to give more details when answering the questions. This enabled the researcher to test the respondents’ knowledge and to make reliable assessment of their views.

3.4 Data Analysis

Data was analyzed through content analysis. Qualitative analysis categorizes phrases, describes the logical structure of expressions and ascertains associations in order to interpret the results of the findings. According to Patton (2002), qualitative data analysis allows the researcher to study selected issues, cases, or events in depth and detail. Data collection is not constrained by predetermined categories of analysis and the researcher does not attempt to manipulate the program or its participants for purposes of the evaluation.

Data was classified into various themes for ease of analysis. Through this method, inferences were made by systematically and objectively identifying specified characteristics of information collected.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter analyses the data findings together with the interpretation of information collected. First is a look at the responses and secondly, the findings on strategies adopted by KCB to attract Kenyan investors in Diaspora. Lastly are recommendations on the basis of the findings.

4.2 Responses

The respondents were three senior managers, one from International Division and had been with the bank for 10 years, the other one from Strategy and New Business Division had been with the bank for 6 years and lastly one from diaspora banking unit who has been in the bank for 15years. This made them suitable as respondents because the bank's internationalization process actively began six years ago and the diaspora market which was launched in Aug 2012.

4.3 Results

The findings were divided into ownership (O) advantages possessed by KCB, location (L) advantages existing in countries in which KCB operates, the reasons why KCB would want to (I) internalize its processes instead of going through the market and the reasons for its preference of Greenfield ventures as a strategy adopted to attract Kenyan investors in diaspora. Other results that came out strongly include strategies such as word of mouth, use of social media, tailor made products just to mention but a few.

4.3.1 Ownership Advantages

The study found that the ownership or firm specific advantages that KCB has include, capital strength, economies of large size, technology, experience in foreign operations and product diversification. KCB was the most capitalized bank in the country at Ksh. .55 billion as at half year 2013. The bank also has privileged and broad access to financing from large firms such as the International Finance Corporation (IFC) which is the private lending arm of the World Bank. Through its continuous internationalization process the bank has the advantage of international diversification of assets and risks.

4.3.2 Location Advantages in the Foreign Countries

The economic advantage that was contingent to South Sudan was that it provided a virgin market, since the country did not have many banks at the time when KCB opened its first subsidiary in 2005. This gave the bank first mover advantage and was able to capture 40% market share, the bank was also able to break-even within the first year of operation and reported profits after one and a half years of operation. Presence of few banks in Rwanda presented a large unbanked market. Tanzania and Uganda had a number of banks already present and were considered relatively mature markets.

The general economic advantage that these countries offered was that they were new markets which gave KCB the opportunity to increase its presence in the region and to tap on new customers through its diversified products. The Kenyan market was also becoming competitive with new entrants from West Africa coming into the country such as Ecobank, UBA and Bank of

Africa. Thus the bank was also diversifying its portfolio in other markets by following its existing customers who were involved in cross border trade.

There were no political advantages such as favorable government policies in regard to inward FDI in all the five East African countries that KCB is operating in, and even if they existed it was not a driving factor for setting up operations in those particular countries.

There were however, socio-cultural advantages in terms of the psychic distance between Kenya and the five East African countries in which KCB operates in. The language dialects are also nearly similar and most countries speak English or Kiswahili which are widely spoken in Kenya thus language barriers can be circumvented. There are trade patterns among the five countries including Kenya, for example many traders in Kenya export products to Uganda which is land locked and produce from industries to Tanzania; many traders in Kenya also trade in Burundi ,South Sudan and Rwanda since these are 'new countries' thus providing opportunities for new markets. Since many of the business people within the region trade across the national boundaries the bank was following its customers as well when setting up operations in these countries to take care of the transactional part of their trade.

4.3.3 Internalization

The reasons that led KCB to internalize its operations rather than use the market is as Kenya's banking sector becomes more competitive, each financial institution is seeking to expand its market share. Banks are looking for alternative ways to support their balance sheets and grow their operations. Almost exhausting the bonds and equity markets, financial institutions are now turning their focus on the Diaspora market that is proving very lucrative .Another reason is its technological platform. The bank is now on a state-of-art core banking system, T24, which became operational at the end of 2008. This system is able to support transactions across the borders and its implementation has enabled KCB to introduce technology driven products and services such as the new state-of-the-art Contact Centre, and the KCB Connect, which is one of the country's best mobile telephone banking. This enables the customers to access their accounts and transact when they are in any of the five East African countries in which KCB operates in. This is a system that the bank boasts of and that none of its local competitors can offer real time banking across the region.

The bank also possesses managerial expertise and this comes out explicitly in the Kenyan staffs who have been involved in leading the foreign operations startups, even though the host countries have insisted on local employees to make up a percentage of the staff in the subsidiaries.

4.3.4 Use of Greenfield Ventures

The bank policy is to have 100% ownership of its subsidiaries thus this was the major reason for the use of Greenfield ventures. There are also other reasons that justified the use of Greenfield. The first subsidiary that was opened by KCB was in Tanzania, in 1997, at that time buying another entity was unlikely with few suitable candidates for acquisition. Secondly, KCB opened its subsidiary in South Sudan in 2005 and at this time the country was recovering from war thus there were no suitable banking institutions as candidates for acquisition. The only entry mode choice available was through Greenfield ventures. This is justified because the bank has benefitted from first mover advantage.

The bank was also aware of inherent risks of acquisitions such as difficulty in merging KCB culture with that of a new entity. Having a Greenfield enables the bank to copy paste its operations from the parent to the host countries, implementation is also faster and gives the parent freedom to determine the number of branches to be set up and their sizes. There are also legacy issues of the company to be acquired in terms of bad debts and brand reputation; when a company acquires another firm, it takes up all the advantages and the disadvantages the firm had.

4.3.5 Other strategies adopted by KCB LTD to attract Kenyan investors in diaspora

The KCB Diaspora Banking was the first in the Regional market operating seamlessly in the six markets namely Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan. Its Diaspora Banking service targets the 12 million-plus East Africans living or working abroad. The site is user-friendly and can be navigated through with ease following enhanced content of financial information. It is an integrated one-stop solution for all customer enquiries and also offers our customers a variety of contact options to ensure they are able to interact with us much more conveniently

The KCB Diaspora Banking proposition is a one-stop shop information portal that has information, a three-step account opening site and a transaction site. Customers have the freedom to transact on the website either in local or foreign currencies with access to our KCB mobile banking services across the globe. KCB Ltd got a new website which consolidated all its products and gives an offering of a chat room for clients to engage with the bank anytime from anywhere. Being cognizant of the fact that KCB has customers across the globe on different time zones that need to be accommodated.

Another strategy is that the Bank has dedicated relationship managers for each Region and a 24-hour Contact Centre to facilitate customer enquiries regardless of their time zones. KCB invested Sh800 million over the last seven years to step up efforts to increase customer numbers especially from the diaspora.

KCB partnered with Brand Kenya Board as a major sponsor to establish the inaugural Kenya House at the Olympics and seized the London Olympics to market the service where Over 20,000 visitors visited the Kenya House in London and later in the USA which made it easier to market the Diaspora Banking to most of the Eastern Africans present.

4.4 Discussion

As per the findings some of the issues discussed in the literature review are applicable to the case of KCB, particularly in light of acquisitions and Greenfield ventures. KCB has however, not considered use of acquisitions because of its policy which requires the bank to have 100% ownership of its subsidiaries. The bank got offers from prospective firms in Uganda and Rwanda but the deal was to give away less than one hundred per cent ownership which was against bank policy.

Acquisitions are generally cheaper if the players do not overvalue the firm to be acquired because the foreign firm can spread and gain market share within a short period of time. A major disadvantage of greenfield is that it takes longer to break even and one has to start growing market share of 0%. The greenfield is viable if there are no incumbent competitors to be acquired or the existing companies are not suitable candidates for acquisition; it would be better to go through the slower route of Greenfield rather than to make a bad acquisition.

The ownership advantages that KCB has include its financial strength, being the most capitalized bank in the region. This advantage is very critical in setting up a greenfield venture which is very costly. The bank also has managerial expertise which comes about from experience, the bank operated in Kenya for more than 100 years before venturing into Tanzania, where it opened its first subsidiary. This enabled it to build a skill base of its managers who were sent out to start up operations in South Sudan, Tanzania, Uganda, Rwanda and Burundi. These are personnel who were well conversant with the bank's policies and procedures thus would be able to implement these in the subsidiaries and also provide training to the local employees in processes and procedures. The parent company also has preferential and broad access to financing from large firms such as the IFC; this is then availed to its subsidiaries which with their own portfolios would not be able to access such funding.

The socio-cultural advantage stands out as the major location advantage that the five countries offered among the economic, political and socio-cultural advantages mentioned in literature review. This comes out in terms of psychic distance, with few language barriers and existing trade patterns among the countries within the region.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the research conclusions drawn from the study. It also gives some recommendations useful to the bank under study, other banks and policy makers as well as areas for further research.

5.2 Summary

This study sought to find out strategies adopted by KCB ltd to attract Kenyan investors in Diaspora by incorporating the OLI theory. It targeted the senior management at the bank who are involved in decision making and thus would be best suited to give the information necessary for this study. The study used primary data that was collected using interview guide and it revealed that, the bank possesses ownership advantages which include its capital strength, economies of large size, technology, experience in foreign operations and product diversification. Broad access to financing from large firms such as the IFC also gives an advantage to the subsidiaries as compared to their local competitors by virtue of the parent company's capital base. Through its continuous internationalization process the bank has the advantage of international diversification of assets and risks.

These ownership advantages are particular to the firm and are readily transferable between countries and within the firm. In this case the firm has a monopoly over its technological platform which is used across all its subsidiaries. This may lead to lower marginal cost than its competitors since it does not have to purchase a new system when starting up operations in a foreign market.

Internalization plays a critical role in the bank's operations because in external markets prices are charged between buyers and sellers. In the internal market, on the other hand, prices are charged between related parties within the same organization. The company itself sets the transfer prices of goods and services within the organizational boundaries. This leads to flexibility to help achieve the overall goals of low cost production. This comes out as a compensating advantage which gives rise to lower costs that can offset the costs of operating at a distance in an abroad location as compared to the native firms.

KCB also benefits from internalization by being able to provide its services directly to the consumer without worrying that quality of service may be compromised.

The bank's preference of a wholly owned subsidiary gives it tight control over its operations in the different countries. This, as seen from literature review, is necessary for engaging in global strategic coordination i. e using profit from one county to support competitive attack in another. For instance since South Sudan reported profits in the first one and a half years of operation and the parent company in Kenya was reporting profits, these were used to support the other subsidiaries that were not yet profitable but required capital.

The nature of the banking industry and also the fact that KCB is majorly a retail bank makes it difficult to use other modes such as exporting or licensing, thus the best option was to set up foreign operations through FDI. This decision to engage in foreign direct investment in other countries lead to increased commitment, greater understanding of the local business environment and the possibility of further investment in the future. This is evident because the bank has been expanding its operations in the four countries through opening new branches. This scale of entry gives both customers and distributors a reason for believing that the firm will remain in the market in the long run. The scale of entry may also give other foreign institution considering entry into that particular market to pause since they will now have to compete not only against indigenous institutions in that market but also against an aggressive and successful MNE. It is worth noting that, through large-scale entry the bank has been able to capture first-mover advantages, associated demand and pre-emption scale economies.

5.3 Conclusions

KCB has successfully gained entry into five countries in the East African region namely, South Sudan, Tanzania, Uganda, Rwanda and Burundi. It made some losses during its initial years of operation but now the subsidiaries have turned into profitable ventures.

The ownership and internalization factors give KCB a competitive edge in the foreign markets because its subsidiaries have privileged access to capital from its parent company which is the most capitalized in the country. This capital can be obtained at preferential rates as compared to borrowing from another entity in the external market. The technology used by the bank also provides real time banking which is lacking in other competitor banks thus enabling it to provide efficient services to its customers wherever they are in the five countries in which KCB operates. Internalization of processes enables the bank to move its capital from one country where it is in excess to another subsidiary where it is in deficit. The technological platform also contributes to internalization because the system supports transactions across the four countries; therefore the bank does not need to purchase a different system when going into a new country. It would also be risky to contract such a system to an agent, a slight error would greatly affect the bank's operations across the region therefore this is entrusted only to its employees who are bound by company policy.

The Location factors did not qualify for the case of KCB because apart from South Sudan, none of the other countries fit in Dunning's definition of location advantages which states that "location-specific advantages are those which are available, on the same terms, to all firms whatever their size and nationality, but which are specific in origin to particular locations and have to be used in those locations". The major advantage that the five countries had was psychic distance which is not sufficient on its own to justify as a location advantage because it would not give the same advantage to a firm with a parent company outside of the East African region. This advantage would also not be applicable if KCB ventured beyond the region.

Therefore, the OLI theory partly explains KCB's strategy in attracting Kenyans in diaspora process but not fully, because there are other strategies other than the Ownership, Location and Internalization. Overall, the OLI theory provides a sound basis on the major strategies that KCB has used to attract Kenyan investors in diaspora, but on its own is not sufficient to justify that the Ownership, Location and Internalization advantages are the only strategies used attract Kenyan investors in diaspora by KCB. However, it provides useful insights into the ownership advantages that are possessed by the bank and how it can apply the theory as a strategic tool by first assessing these ownership advantages relative to the key rivals in the market(s) of concern and applying these to gain low cost advantage over its native competitors.

5.4 Recommendations

Being that KCB Ltd. is majorly a retail bank, the only entry mode suitable for starting up international operations would be through FDI. However, there are different forms of FDI such as Greenfield ventures (the only mode used by the bank), acquisitions and joint ventures.

I would therefore recommend the bank to try and utilize the other modes of FDI such as acquisition. This is because, given its vision which states that "To be the preferred financial solutions provider in Africa with global reach." This implies that the bank is on a journey to be a global bank and will set up foreign operations in other countries beyond the East African region. The bank policy which dictates that it must have 100% ownership is hindering the bank from looking at other options available for it to gain entry into foreign markets. What the bank can do is to have a majority ownership on its subsidiaries rather than 100% ownership in some markets since this can be a costly avenue. The policy should be in such a way as to allow other entry modes depending on the circumstances facing the firm, without eroding the control of the parent company by ensuring majority shareholding. In countries with mature markets it would be better to penetrate the market via acquisitions because the risks associated with learning to do business in a new culture are less if the parent acquires existing firms. This enables it to establish a sizeable presence within a short period of time and also gain market share from the acquired firm. It would be better if the bank left its options open so that depending on the market in question, for instance a mature market, getting in via greenfield may prove to be slow and more expensive if there are incumbent competitors. The bank may run out of the psychic distance advantage if it ventures further away from the East African region thus it would be better if it considered the other advantages it would gain in other foreign markets and how best to tap this at low cost.

The bank can also use the OLI theory as a strategic tool, by first assessing its ownership advantages relative to the key rivals in the market(s) of concern.

5.4.1 Recommendations to Policy Makers

The governments of most of these countries can improve the conditions for inward FDI to attract with such financial power such as KCB to consider their countries as suitable for setting up operations.

Governments should also have a monitoring mechanism on acquisition transactions so that the local firms do not take advantage of the foreign firms' capital base and charge exorbitant cost of acquisition. This will give a clear way of analyzing the costs of setting up a Greenfield venture relative to an acquisition rather than if the players are left to set their own prices which would distort the actual value of the entity to be acquired.

5.4.2 Recommendations for Further Research

This study only looked at one organization, it would be better if an industry-wide analysis can be done to determine the factors that influence the internationalization process of different banks. It would also be good to have a study carried out on a different industry because the nature of banking makes FDI the only suitable mode of entry. The theory can also be tested in a different sector e. g manufacturing to determine if the Ownership, Location and Internalization factors would lead it to start foreign operations via FDI rather than using incremental modes such as exports and then slowly to higher commitment modes.

5.4.4 Limitations

The study only focused on one organization thus is not sufficient to draw conclusions of whether the OLI theory can explain strategies adopted by KCB to attract Kenyan investors in Diaspora .The respondents did not give full information in fear of breeching bank policy thus there may be other factors that this study was not able to establish.

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APPENDIX II: INTERVIEW GUIDE

SECTION A: RESPONDENTS PROFILE

1. Which department are you working in?

2. What position do you hold in the bank?

3. How many years have you been working for KCB?

SECTION B: STRATEGY CHOICE

4. Is there a strategy preferred by KCB and why?

SECTION C: OWNERSHIP ADVANTAGES

The following are ownership advantages that lead companies to start up successful wholly owned subsidiaries in foreign markets. Are these some of the ownership advantages possessed by KCB?

5. Capital

6. Technological Know- how

7. Foreign market experience

8. Management Skills

9. Patented Information

10. Monopolistic Advantages

SECTION D: LOCATION ADVANTAGES

11. Are there some location advantages unique to each country that KCB is operating in?

YES NO

12. If the answer to the question above is a Yes, what are the specific location advantages unique to each country?

i. Tanzania

ii. South Sudan

iii. Uganda

iv. Rwanda

v. Burundi

SECTION E: INTERNALIZATION ADVANTAGES

13. What factors lead to preference to internationalize processes rather than using an external agent?

SECTION F: GREENFIELD VENTURES

14. What are the reasons for the bank's preference of Greenfield ventures?