

**ENTRY STRATEGIES ADOPTED BY NATIONAL
INDUSTRIAL CREDIT (NIC) BANK IN KENYA TO
ENTER INTO OTHER EAST AFRICAN MARKETS**

BY

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DECLARATION

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

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DEDICATION

This research paper is dedicated to my family and friends. Thank you for the love, support and always being there for me. God bless you.

ABSTRACT

Increasing trade within the East African region is beginning to drive ever-increasing demand and opportunities for businesses in this region, leading to expansion or re-organization of Kenya-based banks in the region. Entry strategies are crucial to the survival of new firms as they ensure that firms are moving on the correct track right from the start without deviating from their goals. The selection of an appropriate strategy in a foreign market can have significant and far reaching consequences on a firm's performance and survival. NIC Bank, one of large financial services provider is pursuing regional expansion programme, a strategy to meet the ever increasing demand for banking services in East Africa region. The study therefore sought to identify strategies used by NIC Bank to enter the East African market. The procedures for conducting the research are discussed in chapter three. The study was a case study on NIC Bank. Primary data was collected using self-administered interview guides. The target respondents were three senior managers of the bank in Kenya, Tanzania and Uganda. The interview guide contained open-ended questions. The open-ended questions enabled the researcher to collect qualitative data. Before processing the responses, the completed interview guides were edited for completeness and consistency. A content analysis was employed. Finally, the study reveals that NIC Bank moved into the East African markets through FDI. However, there are a couple of challenges facing the bank ranging from increased competition to corruption and government bureaucracy especially in Tanzania. As part of the recommendation, the research puts forward a necessity for thorough market analysis as a key step in the process of selection of market entry strategies. The study also recommends further research on other market entry strategies such as joint ventures adopted by other banks to enter other markets within the continent.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

One of the most dramatic and significant world trends in the past two decades has been the rapid, sustained growth of international business. Markets have become truly global for most goods, many services and especially for financial instruments of all types. There are many challenges and problems that face firms that do business outside of their home countries. They include concerns such as how to handle business in different currencies, ways of dealing with the government as well as how to operate effectively in diverse legal environment. The concerns also include what strategies will be adopted to enable a firm to compete successfully against rivals from other countries.

As firms have no control over the external environment, their success depends upon how well they adapt to it. A firm's ability to design and adjust its internal variables to take advantage of opportunities offered by the external environment, and its ability to control threats posed by the same environment, determines its success. There are several factors exogenous to the home environment of the organization, which influences decision-making on resource use and capabilities. This includes the social, political, economic, regulatory, tax, cultural, legal, and technological environments.

According to Kieti (2006) the choice of foreign entry mode greatly impacts on the entrant's future decisions and performance in foreign markets. The choice of entry mode also carries with it great implications on the resource commitment levels for a foreign firm, which is difficult to transfer from one to another, especially from high levels of resource commitment (Zhao and Decker, 2005). Kenyan banks have taken to

regional expansion and business diversification in a bid to increase their income streams. Twelve local banks, which include large players Equity, KCB, Co-operative and CFC Stanbic, have regional operations. The selection of an appropriate entry strategy in a foreign market can have significant and far-reaching consequences on a firm's performance and survival Davidson, (1982); Gatignon and Anderson, (1988). The decision about the choice of foreign entry strategy is of great importance to the international expanding firm. The decision impacts greatly on the scale of resources commitment and has far reaching implications on future performance of the foreign business (Roots, 1994)

1.1.1 Concept of International Business

International Business is the performance of trade and investment activities by firms across national borders. Since the most conspicuous aspect of international business is the crossing of national boundaries, international business can also be referred to as cross-border business (Grosse, 1992). Globalization both compels and facilitates companies to pursue cross-border business activities and international expansion. A few decades ago, international business was largely the domain of large, multinational companies. Recent developments have created a more level playing field that allows firms of any size to benefit from active participation in international business.

Many of the concerns of decision-makers in international business have to do with environmental factors such as government policies and economic conditions in different countries (Groose 1992). Deresky, (1997) observes that international management demands a contingency approach to complex and dynamic environment each of which has its own unique requirements. Political environment in a country influences the legislation and government rules and regulations under which a foreign

firm operates. Every country in the world follows its own system of law and a foreign company operating within it has to abide by these laws for as long as it continues to operate there.

The technological environment comprises factors related to the materials and machines used in manufacturing goods and services. The organization's receptivity and willingness to adopt to new technology, as well as the willingness of its consumers to do likewise, influences decisions made in an organization. Economic factors exert huge impacts on firms working in an international business environment. The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses. According to (Gilligan, 1989), International business has been going through the most fundamental and far reaching process of change of the post war period. The implications of this change pose a significant challenge both to the industry and government throughout the world and promise to alter not only the nature and structure of competition but also the balance of economic power.

1.1.2 Market Entry Strategies

A market entry strategy consists of the pattern of moves and approaches devised by an organization to successfully enter and compete in a foreign market. The appropriate market selection and entry strategy is potentially a complex decision, significantly influenced by the extent to which the internationalization process has been triggered by changes in either external or internal factors (Ellis, 1995). Pearce and Robinson (2007) define strategy as a large scale, future oriented plan for interacting with the competitive environment to achieve company objectives. In a quite simple explanation, strategy is a firm's theory about how to compete successfully, Peng

(2009). Regardless of the trigger to the internationalization process, once an organization has taken the decision to become international in its scope, external and internal factors will shape the chosen strategy. The key external factors include political, economic, social and technological and competition at the level of industry.

Similarly, the organization's internal factors will include core competencies, organizational learning and administrative heritage. Collectively, external and internal factors will influence the organization's market entry and development strategy. Firm's decision makers are faced with the question of whether or not to enter a new country market or to acquire a new business line. The firm has to carry out a thorough analysis of its competitive advantages and disadvantages relative to rival firms, and choose alternatives that take advantage of its strengths and minimize the impact of its weaknesses. Strategic alliance is a formal agreement between two or more separate companies in which there is joint contribution of resources, shared risks, shared control and mutual dependence. The relationship between the partners may be contractual or merely collaborative (Thompson, 2007). In a strategic alliance, each company maintains its autonomy while gaining new opportunity. A strategic alliance could help a company develop a more effective process, expand into a new market or develop an advantage over a competitor among other possibilities.

Wholly owned subsidiaries are operations in a host country that are fully owned by foreign parent firm (Gillespie, 2011). In a wholly owned subsidiary, the firm owns 100% of the stock. Establishing a wholly owned subsidiary can be done in two ways. The firm can either set up a new operation in that country often referred to as a Greenfield venture or it can acquire an established firm in that host nation or use it to promote its products (Hill, 2009). Greenfield venture is a foreign direct investment where a parent company starts a new venture in a foreign country by constructing new

operational facilities from the ground up. Most parent companies create new long-term jobs in the foreign country by hiring new employees. The government gains through job creation, knowledge and technology that boost the country's human capital.

Acquisitions and mergers. Merger is a pooling of equals with the new created company often taking a new name. An acquisition is a combination in which one company, the acquirer, purchases and absorbs the operations of another, the acquired, (Thompson, 2007). The resources, competencies and competitive capabilities of the newly created enterprise end up much the same whether the combination is the result of acquisition or merger.

1.1.3 Banking Sector in Kenya

Kenya's financial system is by far the largest and most developed in East Africa and its stability has improved significantly over the past years. 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) from time to time. The banking sector was liberalized in 1995 and exchange controls lifted. Central Bank of Kenya is tasked with formulating and implementation of monetary and fiscal policies. Central Bank is the lender of last resort in Kenya and is the banker to all other banks. The CBK ensures the proper functioning of the Kenyan financial system, the liquidity in the country and the solvency of the Kenya shilling.

The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector's interest's .The KBA serves a forum to

address issues affecting members. Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region, automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' banking products. Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market.

The banking industry in Kenya has undergone a major transformation due to amongst other factors, changing patterns of customer behavior, government regulation, technological innovations, service quality movements, and pressures to improve productivity, relaxation of previous professional association restrictions on marketing, internationalization and globalization. This has caused a lot of dynamism in the banking sector spiraling unprecedented competition. To survive and thrive, these banks have been forced to differentiate themselves mainly through customer-focused initiatives. This has led to a renewed focus on the development of relevant marketing strategies as a response to the evolving challenges. These strategies consist of the business approaches and initiatives specific banks are undertaking to attract customers and fulfill their expectations; to withstand competitive pressures and to strengthen their market positions.

Kenyan banks have slowed national expansion in the past two years, turning to the regional market where financial services are largely underdeveloped. The large market under the East African Common Market Protocol has boosted cross-border

trade, with the banks betting on their regional networks to increase earnings from trade, finance, forex and other deals. Central Bank of Kenya governor Njuguna Ndung'u attributed the regional expansion desired by the Kenyan banks to innovation within the industry that has helped growth."The open space for innovation has helped sustain growth in the banking industry and the larger financial sector," said Prof Ndung'u.

1.1.4 National Industrial Credit (NIC) Bank

NIC Bank is a commercial bank in Kenya. It is one of the commercial banks licensed by the Central Bank of Kenya, the country's banking regulator. NIC Bank is a large financial services provider in East Africa. Headquartered in Nairobi, Kenya, the bank owns subsidiary companies in Kenya and a controlling interest (51% shareholding), in NIC Bank Tanzania, a commercial bank in neighbouring Tanzania. In May 2012, NIC Bank opened a 100% subsidiary, NIC Bank Uganda. As of December 2011, NIC Bank's total asset base was valued at about US\$945 million (KES: 79 billion), with shareholder's equity of approximately US\$126 million (KES: 10.5 billion). . Last year, NIC raised Sh2 billion in a rights issue, with part of the capital being used to start new operations in Uganda. The group has already registered the business name NIC in Rwanda and Zambia, with the management stating that they were waiting for any opportunities in the future.

The bank was founded in 1959 as a joint venture by Standard Bank Limited and Mercantile Credit Company Limited, both headquartered in the United Kingdom at that time. NIC was initially a non-bank financial institution (NBFI). In 1971, NIC became a public company, by listing on the Nairobi Stock Exchange, where it still trades today as NIC Bank. In 1995, the Central Bank of Kenya required all NBFIs in

the country to either convert to fully fledged commercial banks or close shop. NIC applied for and was granted a banking license that same year. In 1997, NIC Bank merged with African Mercantile Bank Limited (AMBank), a Kenyan financial institution. In May 2009, NIC Bank acquired a 51% shareholding interest in Savings and Finance Commercial Bank, a small Tanzanian retail bank with approximately US\$30 million in assets and approximately US\$5 million in shareholder's equity at the time. As of March 2011, Savings and Finance Commercial Bank has rebranded to NIC Bank Tanzania. In May 2012, NIC Bank opened a 100% subsidiary, NIC Bank Uganda.

NIC has set aside Sh608 million to inject in its Tanzanian subsidiary through a rights issue slated for mid this year and also buy more shares of the lender. The cash call will see NIC raise its shareholding of the Tanzanian unit above the current 51 per cent, the Nairobi Securities Exchange (NSE) listed lender disclosed in its annual statement. The Tanzanian subsidiary has planned to raise an additional capital of Sh468 million (Tsh8.5 billion) through the rights issue, which implies that NIC will require about Sh234 million to take up all its rights. The mid-sized Kenyan lender has, however, also set aside an additional Sh374 million to buy more shares of its Tanzania subsidiary. "The board of directors approved the acquisition of additional shares from existing shareholders, and the take-up of rights that are not exercised by existing shareholders. This brings the total additional investment in NIC Tanzania to Sh608 million," said the board in the statement.

The group posted an after-tax profit of Sh3 billion with the Tanzania business contributing Sh103 million to the basket, a drop from Sh109 million earned in the previous year. The rights issue is expected to conclude by end of June. Funds raised

would finance branch expansion, with the target being to reach more small and medium-sized enterprises. In Kenya, the lender has a strong base in corporate banking and asset financing. NIC Bank ventured into Tanzania in 2009 by acquiring a 51 per cent stake in Savings & Finance Commercial Bank, which it later renamed in line with the group's brand. The bank has two branches in Dar es Salaam and one in Mwanza, Arusha and Kahama.

Plans by the group to firm its foothold in Tanzania are in line with its overall strategy of an increased regional presence. In addition NIC Bank is Kenya's 7th largest bank by shareholders funds and Kenya's 9th largest bank by assets. NIC Bank Group consists of six companies namely NIC Bank Kenya, NIC Bank Tanzania, NIC Bank Uganda, NIC Capital Investment Bank, NIC Securities and NIC Insurance Agents. The bank is a one stop financial services provider operating in East Africa. NIC is set to acquire up to three other local banks to meet the central bank's capital requirements. A rule introduced in 2009 requires Kenya's 43 banks to have at least 1 billion Kenyan shillings (\$12 million) core capital from the end of 2012. This was increased from an earlier requirement of only 250 million shillings (about \$3 million), (www.nic-bank.com)

1.2 Research Problem

Today's business environment is dynamic, complex and continually changing, Brown, Squire and Blackmon (2007). Any company that aspires for industry leadership in the 21st century must think in terms of global, not domestic, market leadership (Thompson, 2007). The world economy is globalizing at an accelerating rate as countries previously closed to foreign companies open up their markets, as the internet shrinks the importance of geographic distance, and as ambitious growth-

minded companies race to build stronger competitive positions in the markets of more and more countries. Different organizations expand to foreign markets for various reasons including the need to gain access to new customers, to achieve lower costs and enhance the firm's competitiveness, to capitalize on its core competencies and to spread risk across a wider market base among others, these however can only be achieved if the right strategy is adopted by the organization.

Past studies indicate that the choice of foreign entry mode greatly impacts on the entrant's future decisions and performance in foreign markets (Kieti, 2006). He further notes that Kenyan firms venturing into Southern Sudan need to devise entry strategies that will preposition them to take advantage of the opportunities in the economy in a manner that is sustainable. The choice of the strategies has been very critical in ensuring a smooth entry into foreign markets, since what works for one organization may not work for another. Moreover, strategies used in entering one country may not necessarily work in another country. The decision about the choice of foreign entry strategy is of great importance to the international expanding firm. The decision impacts greatly on the scale of resources commitment and has far reaching implications on future performance of the foreign business (Roots, 1994). Kieti (2006) confirms that the decision on foreign entry strategies among Kenyan firms is a function of various parameters some of which are firm specific others are influenced by the foreign business environment, while others are influenced by the very context in which the decision is being made.

Foreign Direct Investments (FDI) involves ownership and control of a company in a foreign country. In exchange for the ownership, the investing company usually transfers some of its financial, managerial, technical, trademark and other resources to

the foreign country (Groose, 1992). As companies continue to seek better strategies for their businesses in different countries, and as governments change their views on foreign direct investment, the forces shaping the FDI decisions shift over time. Since companies are the central decision makers in FDI, their views on the investment process are considered first.

As business needs become more complex, it has led to the expansion or reorganization of Kenyan-based banks in the East Africa region. Banks have no choice but to evaluate and choose mode of entry that will enable them penetrate and gain competitive advantage in the new market. The banks are employing acquisition, mergers, direct investment (Greenfields) in their regional expansion strategies, Maliti (2008). Often banks fail in foreign markets because of inappropriate entry and operation strategies. A wrong strategy can lead to a bank's failure in foreign markets and at home as well. An appropriate strategy can be an important source of competitive advantage in a new market. An inappropriate strategy on the other hand can be a competitive liability leading to a competitive disadvantage (Pearce & Robinson, 2005).

Nic Bank's entry into the Tanzanian market in 2009 and later into Uganda in 2012 has been very successful and the purpose of this study is to focus on the different strategies adopted by the bank in entering foreign markets and therefore provide useful insights to organizations that might be considering venturing into the regional as well as global market.

1.3 Research Objectives

The objective of this study was to determine which entry strategies have been used by NIC Bank to enter into the East Africa region. The study sought to answer the following question: What are the entry strategies that have been used by NIC Bank to enter the East African Market?

1.4 Value of the study

To research institutions the findings of this study will help them discover the facts about the entry strategies that NIC Bank has used to gain competitive advantage in the East Africa region. This is because in today's highly competitive environment, correct choice of entry strategy permits firms to attain competitive advantage.

To academicians the findings of this study will help them to know the gap, or questions that this study will not have covered and will therefore be able to further this research. The public will be able to understand as stakeholders of those institutions what benefits and challenges of strategies used in East African market.

To NIC Bank and other industries the results of this study will help to know the advantages of choosing a correct market entry as well as the challenges faced by firms in penetrating the East Africa region and global markets at large. The findings on how NIC bank has used different market entry strategies to gain competitive advantage in foreign markets would be beneficial to potential investors seeking to penetrate regional markets.

To policy makers the finding will guide them in enacting laws which will encourage more companies to venture into the East African region. This is because every country

in the world follows its own system of law and a foreign company operating within it has to abide by these laws for as long as it continues to operate there.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter seeks to explain the international business environment as well as the concept of market entry strategy. The strategies used in entering foreign markets will be highlighted in this chapter.

2.2 The concept of International Business

International Business is the performance of trade and investment activities by firms across national borders. Since the most conspicuous aspect of international business is the crossing of national boundaries, international business can also be referred to as cross-border business (Grosse, 1992). Globalization both compels and facilitates companies to pursue cross-border business activities and international expansion. A few decades ago, international business was largely the domain of large, multinational companies. Recent developments have created a more level playing field that allows firms of any size to benefit from active participation in international business.

Entering into a foreign market is like discovering new territory for business owners. Foreign countries have different laws, economies, business strategies and currency. Cultural differences can also impede a country's success. There are several factors exogenous to the home environment of the organization that influences decision-making on resource use and capabilities. Yabs (2007) observes that there are many factors that affect the operating environment of international business in Kenya. The major ones include physical forces, economic forces, social-cultural forces, financial

forces, political forces, legal forces, labor forces, competition within the industry and ecological forces. The political environment in a country influences the legislation and government rules and regulations under which a foreign firm operates. Every country in the world follows its own system of law and a foreign company operating within it has to abide by these laws for as long as it continues to operate there.

The technological environment comprises factors related to the materials and machines used in manufacturing goods and services. The organization's receptivity and willingness to adopt to new technology, as well as the willingness of its consumers to do likewise, influences decisions made in an organization. Economic factors exert huge impacts on firms working in an international business environment. The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses.

Businesses rely on a predictable and stable mechanism. A monetary system that acknowledges countries' and economies' interdependence and that fosters growth, stability and fairness at a global level is important for prosperity, and the operation and growth of companies. As firms have no control over the external environment, their success depends upon how well they adapt to it. A firm's ability to design and adjust its internal variables to take advantage of opportunities offered by the external environment, and its ability to control threats posed by the same environment, determines its success.

2.3 Market Entry Strategies

A market entry strategy consists of the pattern of moves and approaches devised by an organization to successfully enter and compete in a foreign market. The appropriate market selection and entry strategy is potentially a complex decision, significantly

influenced by the extent to which the internationalization process has been triggered by changes in either external or internal factors, Ellis J (1995). Regardless of the trigger to the internationalization process, once an organization has taken the decision to become international in its scope, external and internal factors will shape the chosen strategy. Ogot (2008) observes that an appropriate strategy can be an important source of competitive advantage abroad.

Entry strategies are crucial to the survival of new firms as they ensure that firms are moving on the correct track right from the start without deviating from their goals, Parasuraman, (1988). If a firm has an effective strategy in place, internal firm-level variables will be best matched with external environment to achieve superior performance (Green, 1995). Criteria for selecting a market entry method should relate to the organization's overall corporate strategy and the extent, depth and geographical coverage of its present and intended foreign operations. According to Fred (1995) Strategy is defined as a set of goals and policies, which align the firm's strengths and weaknesses with the external (industry) opportunities and threats. The interactive effects of industry structure, strategy and the entrepreneur have a far greater impact on performance than any other variables in isolation (Sandberg and Hofer, 1987).

The selection of an appropriate entry strategy in a foreign market can have significant and far -reaching consequences on a firm's performance and survival (Davidson, (1982); Gatignon and Anderson, 1988). The entry strategy is especially important, as the strategy chosen will restrict the number of strategic and tactical alternatives open to the firm in future. Both strategic and tactical decisions make up a firm's entry strategy. Strategic decisions address what, where, when and why to launch questions. Tactical decisions are made relatively late in the project and can be easily modified. These include all the marketing mix decisions for the new product, like pricing,

distribution promotion and branding and product assortment. The marketing mix decisions are dependent on what the short term goals of the firm are. These goals include profits, market share, growth and sales (Kotler, 2004)

The decision about the choice of foreign entry strategy is of great importance to the international expanding firm. The decision impacts greatly on the scale of resources commitment and has far reaching implications on future performance of the foreign business (Roots, 1994). Often, firms fail in foreign markets because of inappropriate entry and operation strategies (Wech and Luostarinen, 1988). Porter (1990) states that a global strategy must begin with a unique competitive position that results in a clear competitive advantage. Vernon (1997) views competitive advantage as the ability of a country to use its location-bound resources in a way which will enable it to become more competitive in international markets.

2.3.1 Exporting as an Entry Strategy

Exporting is the marketing and direct sale of domestically-produced goods in another country. According to Daniels et al (2002) companies will usually export before engaging other modes of international business because exporting “requires the least commitment of the least risk to their resources”. Since exporting does not require that the goods be produced in the target country, no investment in foreign production facilities is required. Most of the costs associated with exporting take the form of marketing expenses. Sharan (2003) classifies exporting into two types; direct and indirect. “Direct export is where a company takes full responsibility for making its goods available for the target market by selling to end users normally through its own agents” (Sharan, 2003). Direct export works the best if the volumes are small. Large volumes of export may trigger protectionism. The main characteristic of direct exports

entry model is that there are no intermediaries. Direct exports occur in different ways including; Sales representatives who represent foreign suppliers/manufacturers in their local markets for an established commission on sales. They provide support services to a manufacturer regarding local advertising, local sales presentations, customs clearance formalities, legal requirements. Manufacturers of highly technical services or products such as production machinery, benefit the most from sales representation. Importing distributors purchase product in their own right and resell it in their local markets to wholesalers, retailers, or both. Importing distributors are a good market entry strategy for products that are carried in inventory, such as toys, appliances, prepared food.

An indirect export is the process of exporting through domestically based export intermediaries. The exporter has no control over its products in the foreign market. There are several types of indirect export; Export trading companies (ETCs), which provide support services of the entire export process for one or more suppliers. This mode is attractive to suppliers who are not familiar with exporting as ETCs usually perform all the necessary work: locate overseas trading partners, present the product, and quote on specific enquiries among others. Export management companies (EMCs); these are similar to ETCs in the way that they usually export for producers. Unlike ETCs, they rarely take on export credit risks and carry one type of product, not representing competing ones. Usually, EMCs trade on behalf of their suppliers as their export departments. Hill (2005) defines EMCs as specialists who act as the export marketing department or the international department for the client firms. According to Sharan (2003) an EMC can act as a distributor, taking title to the goods and selling them on its account and assuming trading risk. The EMC can act as an agent charging commission on sales.

2.3.2 Franchising as an Entry Strategy

The franchising system can be defined as a system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system. Franchising agreements tend to be longer and the franchisor offers a broader package of rights and resources which usually includes: equipment, managerial systems, operation manual, initial trainings, site approval and all the support necessary for the franchisee to run its business in the same way it is done by the franchisor. In addition franchising is limited to trademarks and operating know-how of the business. The key success for franchising is to avoid sharing the strategic activity with any franchisee especially if that activity is considered important to the company. Sharing those strategic activities may increase the potential of the franchisee becoming a competitor due to the knowledge and strategic spill over.

Hill (2005) defines franchising as “a specialized form of licensing in which the franchiser not only sells intangible property (normally a trademark) to the franchisee, but also insists that the franchiser must agree to abide by strict rules as to how it does business”. Sharan (2003) observes that whereas licensing is common in manufacturing industries, franchising is more common in service industries where brand name is more important. Sharan notes that franchising may take either direct or indirect form. Indirect franchising involves sub-franchisers between the original franchiser and the host country units. In direct franchising, the franchiser frames policy, monitors and directs the activities in each host country from its home country base.

2.3.3 Opening Branches and Subsidiaries

As a firm's international activities expand, the inadequacy of exporting as a means for doing foreign business might become progressively evident. The firm will have acquired detailed knowledge of foreign markets and export procedures and thus might be capable of dispensing with export intermediaries. Accordingly the company may set up its own branches and /or subsidiaries, possibly to oversee production operations in other countries. Branches are easy to set up and to dismantle, but complicated tax situation can arise because some nations relate the amounts of tax payable by branches to the world wide profits of their parent companies, Bennett Roger (1999). According to Porter (1998) a competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (Cost advantage), or deliver benefits that exceed those of competing product (differentiation advantage). Kenichi (1998) argues that delivering value to customers worldwide is the overriding goal.

According to Bennett (1999) the difference between a branch and subsidiary is that whereas a branch is regarded in law as direct extension of the parent firm into a foreign country (so that the parent is legally responsible for all the branch's debts and activities, subsidiary is seen as a separate business from the parent company. A subsidiary is responsible for its own debts and (unlike a branch) is subject to exactly the same taxes, auditing, and registration and accounting regulations as any other business.

2.3.4 Foreign Direct Investment (FDI)

FDI is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant and equipment (Cavusgil, 2008). According to Grosse (1992), FDI's involve ownership and control of a company in a foreign country. It involves opening of wholly owned subsidiaries which are operations in a host country that are fully owned by foreign parent firm (Gillespie, 2011). In a wholly owned subsidiary, the firm owns 100% of the stock. Establishing a wholly owned subsidiary can be done in two ways. The firm can either set up a new operation in that country often referred to as a Greenfield venture or it can acquire an established firm in that host nation or use it to promote its products (Hill, 2009). Greenfield investing is usually offered as an alternative to another form of investment, such as mergers and acquisitions, joint ventures or licensing agreements (Slagen & Hennart, 2007). According to Kogut (1996) a firm can obtain wholly owned foreign subsidiaries through acquisition i.e. buying out an existing foreign producer or joint venture or new investment often referred to as Greenfields investment.

Merger is a pooling of equals with the new created company often taking a new name. An acquisition is a combination in which one company, the acquirer, purchases and absorbs the operations of another, the acquired (Thompson, 2007). The resources, competencies and competitive capabilities of the newly created enterprise end up much the same whether the combination is the result of acquisition or merger. Acquisition has become a popular mode of entering foreign markets mainly due to its quick access. Acquisition strategy offers the fastest, and the largest, initial international expansion of any of the alternative. Acquisition has been increasing because it is a way to achieve greater market power. The market share usually is affected by market power. Therefore, many multinational corporations apply acquisitions to achieve their greater market power. Kioi 2003 study on FDIs found out

that benefits derived from FDI's host countries can be quite diverse and the actual effect of FDI on the economic growth of the host countries may vary greatly from one country to another. Cannice (2004) observes that while both international trade and FDI continue to grow, the rate of growth in FDI is more than double than of international trade and attributes this phenomenon to the effectiveness of foreign subsidiaries.

Table 2.3 Advantages and Disadvantages of Entry Modes

Entry mode	Advantages	Disadvantages
Exporting	<p>Minimizes risk and investment.</p> <p>Speed of entry</p> <p>Maximizes scale; uses existing facilities.</p>	<p>Trade barriers & tariffs add to costs.</p> <p>Transport costs</p> <p>Limits access to local information</p> <p>Company viewed as an outsider</p>
Franchising	<p>Low development costs and risks</p>	<p>Lack of control over quality</p> <p>Inability to engage in global strategic coordination</p>
Opening Branches and Subsidiaries	<p>Easy to set up</p>	<p>Complications in tax requirement.</p>
Foreign Direct Investments	<p>Greater knowledge of local market</p> <p>Can better apply specialized skills</p> <p>Minimizes knowledge spillover</p>	<p>Expensive to set up.</p>

Source-Hill (2005)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design used, data collection method, and research instruments and data analysis.

3.2 Research Design.

The research design employed in this study was a case study on strategies used by NIC Bank when entering new markets. Kothari (1990) describes a case study as a form of qualitative analysis that involves a careful and complete observation of social unit which may be a person, family or institution. The study focused on information from managers as well as the staff working at the bank on strategies employed by the bank in its regional expansion and the extent to which this has affected the performance of the bank.

3.3 Data Collection

The study used both primary and secondary data. Primary data is information gathered directly from respondents. Primary data collection was through interviewing staff at NIC Bank. This is because they have first hand information regarding the bank's overall strategy of increased regional presence. An interview also facilitated clarification of unclear issues. Secondary data was obtained from the bank's annual reports, magazines, newspapers and NIC bank's website,

3.4 Data analysis

Data collected was analyzed using content analysis. According to Kothari (1990) content analysis consists of analyzing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can be either spoken or printed. It is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. Content analysis examines the intensity with which certain words have been used. Content analysis systematically describes the form or content and or spoken material (Kombo and Tromp, 2006).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the data findings, analysis and interpretation. The main objective of the research was to determine the market entry strategies adopted by NIC Bank to enter the East African markets.

Three senior managers of the bank were interviewed. One manager was from NIC Bank Kenya, the other one from NIC Bank Tanzania and the last one was from NIC Bank Uganda. Their responses were written down and used for data analysis. Secondary data was also used. This was gotten from World Bank reports, NIC Bank financial reports and annual reports from the banks website. The use of secondary data was necessary to support the data received from interviews with the three senior managers in Uganda, Kenya and Tanzania.

Interview guide was used to obtain information from the informants. The structured interview guide is suitable because it makes the study more interactive hence facilitates the gathering of information from the respondents. The target respondents were three senior managers of the bank in Kenya, Tanzania and Uganda. Data collected was qualitative in nature and therefore analyzed through content analysis.

4.2 Market Entry Strategies

The respondents were of the opinion that the strategy of FDI was the best as far as foreign entry is concerned. Though FDI was employed in the banks entry into the two markets of Tanzania and Uganda, the mode of execution in the two markets was very

different. All the managers interviewed in Kenya, Uganda and Tanzania all agreed that if the bank was to move in any other country, then the same method of FDI would be used.

FDI is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant and equipment. FDI's involve ownership and control of a company in a foreign country. It involves opening of wholly owned subsidiaries which are operations in a host country that are fully owned by foreign parent firm, a wholly owned subsidiary, the firm owns 100% of the stock. Establishing a wholly owned subsidiary can be done in two ways. The firm can either set up a new operation in that country often referred to as a Greenfield venture or it can acquire an established firm in that host nation or use it to promote its products. Greenfield investing is usually offered as an alternative to another form of investment, such as mergers and acquisitions, joint ventures or licensing agreements, a firm can obtain wholly owned foreign subsidiaries through acquisition that is buying out an existing foreign producer or joint venture or new investment often referred to as Greenfields investment.

4.2.1 Market Entry Strategy in Tanzania

The manager interviewed from Tanzania indicates that plans by the group to firm its foothold in Tanzania are in line with the group's overall strategy of increased regional presence. In addition the bank moved to Tanzania to follow Kenyan customers operating in this country and their customers. He pointed out that most customers want their service providers especially banks to be with them in all markets they operate. The manager from Tanzania further pointed out during the interview that,

Tanzania is perceived to be a difficult market and acquisition was seen as the best strategy.

NIC acquired a 51 per cent stake in Savings & Finance Commercial Bank in Tanzania, which it later renamed in line with the group's brand. He was quick to observe, during the interview, that the Tanzania subsidiary has been very successful in terms of expansion, although it had registered low performance. As opposed to the Greenfield strategy adopted in Uganda, the bank opted to acquire an existing bank. The manager also pointed out that the Tanzania subsidiaries had reported weak performance and this was as a result of historical cases and bad debts that were acquired when the business was purchased by the bank.

An acquisition is a combination in which one company, the acquirer, purchases and absorbs the operations of another, the acquired, the resources, competencies and competitive capabilities of the newly created enterprise end up much the same whether the combination is the result of acquisition or merger. Acquisition has become a popular mode of entering foreign markets mainly due to its quick access. Acquisition strategy offers the fastest, and the largest, initial international expansion of any of the alternative. Acquisition has been increasing because it is a way to achieve greater market power. The market share usually is affected by market power. Therefore, many multinational corporations apply acquisitions to achieve their greater market power. Benefits derived from FDI's host countries can be quite diverse and the actual effect of FDI on the economic growth of the host countries may vary greatly from one country to another

4.2.2 Market Entry Strategy in Uganda

The senior manager interviewed from Uganda explained that bank moved into Uganda in line with the group's overall strategy of increased regional presence. The same observations were noted by the manager interviewed from Kenya who, just like his counterpart from Tanzania, noted that the banks entry into Uganda was in line with NIC Bank's critical success factor of "increased regional presence". The manager was quick to observe, during the interview that the Uganda subsidiary had been very successful with breakeven within one year.

NIC bank moved to Uganda through a Greenfield. The bank started by establishing a single branch in Kampala. As opposed to the acquisition strategy adopted in Tanzania, the bank opted to start its operations through opening its own branches. The interviewed manager from Uganda recommended the same approach of NIC Bank opening its own branches to be adopted by the bank to move into other new markets, he however observed that it would be necessary to buy an existing 'outfit' should the market be an already existing market. This, he noted would reduce the costs associated with expansion.

4.3 Challenges Facing Foreign Markets

Just like in the home market, Kenya, it was noted that NIC Bank was facing a lot of competition in both Uganda and Tanzania market. All the managers interviewed confessed of even a tougher market abroad. The manager interviewed from Kenya noted that legal and regulatory frameworks are a major challenge to foreign businesses, he added that in order to get all approvals to either acquire an existing bank or set up new operations, many approvals are required.

One manager noted that with the signing of the East Africa Community (EAC), it now means being part of the trading block imposes many challenges. Instead of having an exclusive playground, the competition is opened up such that the fittest is the one who survives. Resources will be flowing where they will be utilized. The manager was also quick to point out that it was difficult to replicate the exact NIC bank financial model into two markets. This was attributed to the environmental factors such as culture, political stability and generally the economy of the foreign market.

One manager noted that getting the right talent is an issue in both markets and that market acceptance has also been a challenge as the bank is seen as a Kenyan foreign bank. The Kenyan manager also pointed out that getting work permits for expatriate staff still remains a major challenge. He further added that small branch network is also seen as an issue by companies that operate in the region. With all these challenges, it is, therefore, a preoccupation of banks to be efficient to be able to compete favorably.

The interview with a manager in NIC Bank Kenya revealed that most of the challenges have created opportunities and can be dealt with through collaboration, training of resources, setting up shared service centers and marketing one stop shop. He was also quick to note, during the interview that, deploying latest technology and working towards poverty eradication by providing credit to businesses can help to achieve greater milestones in all the three countries. Every business has its difficulties and presents its own challenges when it comes to operating successfully. For example, the nature of business may not be accepted openly in the targeted country because of cultural differences. Also, international businesses face several restrictions like acceptance, usability, application of the product locally and customer service issues.

Political expertise is a must for everyone but it becomes all so vital when working at global stage. If some plans were appropriate for your trade, a change in ruling government can bring strong changes in those plans. Political disarray will bring down the financial system and that can affect your business. To safeguard business from such unhelpful bangs, you need to make sound political decisions. Another main problem in international business is market competition in host country; if best global companies enter the markets, the competition goes intense and accordingly inefficient companies have to close their shops.

The political uncertainties and war like situation are blockages to growth of trade various multinational businesses have to countenance severe opposition by some environment friendly organizations. Citizens are more worried about water and air pollution these days as it is becoming a severe danger to their health. Some natural calamity such as earthquake and floods or some kind of civil war breaking out in the host nation is also in the catalogue of potential challenges. A fresh challenge that a global trade business has to bear these days in some specific nation is the danger of bombing, violence or terror campaigns.

The very first challenge for a global enterprise is to formulate an international approach and then execute it. The administrators and those at decision-making positions often find it hard to alter their thought pattern, which is not good to work in international paradigm. There are numerous worldwide businesses but only a few of them have really accepted a good international approach. Though the situation is improving with more and more professionals and trained graduates taking on the management positions. Nevertheless, global business management needs additional ordinary management, foreseeing and control talents. Another main problem in

International Business is Domestic Forces; the government or social restrictions imposed on commerce and industry become hurdle in a company going global

4.3.1 Challenges Facing NIC Tanzania and the Bank's Response

The interview with a manager in NIC Bank Tanzania revealed the bank had registered low performance owing to historical issues and bad debts that were acquired when the bank purchased the business. The manager observed that many businesses lose revenue and waste operating time on the roads due to massive traffic jams by poor roads hence limiting the ability to meet consumer's demands on time. Although Tanzania was perceived to be a difficult market, the bank was optimistic that the people of Tanzania will accept the bank; the manager also expressed his confidence in the way Tanzania was making great strides towards infrastructure to make the country a conducive operating environment for foreign investors.

The interviewed manager from Tanzania observed that there are various forms of corruption in Tanzania. He stated that one major business constraint is inefficient government bureaucracy. Bribes have to be paid to get things done, making it time intensive and cumbersome dealing with permits and licenses. He noted that this kind of environment scares away investors hence reducing industrialization and development.

4.3.2 Challenges Facing NIC Uganda and the Bank's Response

The interview with a manager in NIC bank Uganda pointed out that the biggest challenge was penetrating the already established market. Multinational banks such as Stanbic, Barclays and Standard Chartered Bank had already set their foot and captured a substantive market share. He was quick to clarify that NIC Bank had

unique products and it was only a matter of time before Uganda people embraced the bank's products.

The manager interviewed from Uganda also noted that credit risk too was a big hindrance, whereby not all clients that banks lend to, pay back in time or pay at all; this increases the cost of loans to the clients. As such, uptake and disbursement of loans were slow hence the increase in interest was gradual. On this, he noted that Credit Reference Bureau (CRB) which is already in place would result in reduced risk.

Ugandan banks are facing a sharp rise in non-performing loans for three months period ending this month, dashing any hopes of a profitable year. This underlines the pain that businesses and households are suffering under a high interest rates regime. Borrowers continue to battle the high cost of living in the wake of a slowdown in economic activity. The bank of Uganda in its latest lending survey said that half of the banks (50.9 per cent) expect default rates on loans to households and individuals to increase over the quarter. Another 30.1 per cent of the lenders expect default rates to remain the same while 19 per cent expect a drop in defaults. Faced with high default rates, many banks are eyeing loan recoveries to shore up their revenues in a rather difficult year.

The defaults are expected to rise further in the quarter ending December 2013, hurting the profitability of the banks. A loan is considered non-performing if it remains un-serviced for more than three months. Factors cited for the increase in default rate (on loans to households and individuals) are delayed salary payments for civil servants in the case of salary loans, joblessness coupled with increasing rates of employee layoffs and high cost of living. Uganda's year-on-year inflation surged to the highest in a year

last month, on the back of high food and fuel prices, leaving borrowers prone to loan default. Inflation rose to 7.3 per cent in August from 5.1 per cent the previous month. Banking executives said while they are likely to continue easing lending to households in the coming months, businesses will face relatively stricter loan appraisals. This means that businesses may be exposed to relatively expensive loans for the remaining part of the year, denying them funds for expansion.

But the demand for loans is expected to edge higher in the coming months. The key factors given for these credit demand expectations are a further reduction in interest rates; anticipation of increase in working capital requirements following a likely rise in business activities as traders stock up for the festive season; alignment of credit products to customers' needs, continuous improvement in the economic outlook, and payment of school fees.

4.4 Discussion of Findings

The study found out that NIC bank used FDI as a market entry strategy in both Tanzania and Uganda market although the mode of execution was different in the two countries. Acquisition strategy was adopted in Tanzania and this resulted to losses due to historical issues and bad debts that were acquired when the bank purchased the business. Since Tanzania was perceived to be a difficult market, this was considered the best strategy. NIC bank moved to Uganda through a Greenfield. The bank started by establishing a single branch in Kampala. As opposed to the acquisition strategy adopted in Tanzania, the bank opted to start its operations through opening its own branches. The Uganda subsidiary has been considered very successful with break even within one year. This approach of Greenfield was recommended if NIC Bank was to move into other new markets.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings of the research and draws conclusions from the major findings. The study was a case of NIC Bank. The main objective of the research was to determine specific market entry strategies adopted by NIC Bank in Uganda and Tanzania. The study also sought to find out challenges faced by the bank in execution of its market entry strategies in Uganda and Tanzania. This chapter seeks to bring out the main findings of the research and offer recommendation based on the results of the study.

5.2 Summary

The study found out that NIC bank used FDI as a market entry strategy in both Tanzania and Uganda market although the mode of execution was different in the two countries. On the issue of challenges in Tanzania, the study established that poor infrastructure, corruption and government bureaucracy as the main challenges. He noted that this kind of environment scares away investors hence reducing industrialization and development.

On the issue of challenges facing Uganda, the study established that credit risk was high; and costs of operations were high. The other challenge was penetrating in a market where multinational banks such as Barclays, Standard Chartered and Stanbic had already established themselves.

The study also revealed the need to assess a foreign market before deciding on whether to enter that particular foreign market and what strategy to employ. This is because a strategy used in entering one country may not necessarily work in another country. The study reveals that, there are other potential African countries where NIC bank can venture into; such as DRC Congo, South Sudan and Somalia where bulk of the population is not banked and many Kenyan companies are operating.

5.3 Conclusion

The findings of the research indicate that FDI as a market entry strategy was employed by NIC Bank, though different approaches were used. It was established that NIC Bank used FDI as a market entry strategy into both Tanzania and Uganda markets. In case of Tanzania, it acquired 51% stake in Savings & Finance Commercial Bank in Tanzania and this resulted into losses due to high operational costs and bad debts acquired after the business was purchased. On the other hand, NIC Bank has registered good results in Uganda where it started by opening its own branches, with break even within the first year.

5.4 Recommendations

The findings of the study indicate that there ought to be a thorough analysis of the business environment of the foreign market that a firm is planning to enter. This is because any firm, whether indigenous or exotic is faced with a myriad of challenges most of which are environmental and beyond the firm's control as was established from the respondents. From the findings of this research, there is a lot of potential in Tanzania especially with improved infrastructure and it may be advisable for firms to venture into that market.

There is also need to have a clear strategy on foreign entry that is based on a company's both long term and short term objectives. NIC Bank adopted FDI but the approach was different, hence the results are different with Uganda breaking even faster than Tanzania. NIC Tanzania might make more profits in the future due to its large branch network in Tanzania than in Uganda. Hence firms moving into foreign markets and employing FDI as an entry mode must know what approach to take given the varying short term and long term results.

Finally, banks need to move to foreign markets with a clear understanding of the foreign legislation, culture, social values, politics and economic drivers of that specific market. As it was pointed out by the manager interviewed from Tanzania, poor infrastructure, corruption and government bureaucracy are the main challenges facing businesses there. He noted that this kind of environment scares away investors hence reducing industrialization and development.

5.5 Limitations of the Study

It was difficult to collect all data given the short time managers set for the interviews. In some instances, the meeting had to be rescheduled owing to the tight schedules that some managers had.

Given the nature of banks operations, bank managers were not quite comfortable with revealing all information during the interview.

5.6 Suggestions for Further Research

The research focused on just NIC bank and specifically its entry strategies into Tanzania and Uganda. However there are areas which need to be researched further.

Further study needs to be done on the impact of market entry strategies to the short term and long term performance of the firm. This may be critical in explaining which strategies are better in the short run and which are better in the long run. As it is the case for NIC, starting wholly owned subsidiaries in Uganda paid off with the bank breaking even within one year. The acquisition for Tanzania resulted in losses as a result of historical costs and bad debts acquired after the purchase of business.

There are other organizations which are not in the banking industry and are not financial institutions but have ventured into the East African market; they include media industry, manufacturing industry, processing industry etc. Further study is recommended on the market entry strategies these organizations have employed.

There is also need to study other organizations that have used other strategies such as mergers and joint ventures. A good example is Standard bank of South Africa and CFC bank of Kenya to form CFC Stanbic.

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APPENDIX 1

INTERVIEW GUIDE

1. Do you consider NIC Bank's entry into the East African market a success and why?
2. What factors contributed to the success?
3. What are the major strategies that the bank has used to enter into the countries it operates in?
4. Why do you think the NIC opted for those market entry strategies?
5. What challenges do you think the bank faced in choosing the market entry strategies?
6. Has the implementation of the expansion strategy improved bank's financial standing?
7. Apart from financial performance, what other advantages have been gained by the bank from the adoption and implementation of the regional expansion strategy?
8. How have the following factors challenged / influenced NIC's business;
 - a) Political factors
 - b) Economic factors
 - c) Social factors
 - d) Technological factors.
9. How is the bank dealing with these challenges?
10. Would you advice the bank to move to other African countries and why?
11. NIC bought 51% stake in a Tanzanian bank, do you think that was the best strategy and why?

12. If NIC was to move to another African country, would you advise it to buy another bank and why?
13. What are some of the reasons why organizations expand to foreign markets?
14. Do you think an organization's internal competencies affect the choice of entry strategy?
15. What are some of the benefits of adopting the correct market entry strategy?