FOREIGN MARKET ENTRY STRATEGIES USED BY ECOBANK KENYA LIMITED TO ENTER THE KENYAN MARKET

BY:

PETER MUCHINA

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DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and has never been submitted for a degree in any other university or college for examination/academic purposes.

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

PETER MUCHINA **D61/9051/2006**

SUPERVISOR

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

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

Dr. John Yabs

Lecturer:

Department of Business Administration

School of Business

University of Nairobi

DEDICATION

I dedicate this work to my Wife, the whole family and all those who supported me in the completion of this project.

ACKNOWLEDGEMENTS

I take this opportunity to give thanks to the Almighty God for seeing me through the completion of this project.

The work of carrying out this investigation needed adequate preparation and therefore called for collective responsibility of many personalities. The production of this research document has been made possible by invaluable support of many people. While it is not possible to name all of them, recognition has been given to a few. I am greatly indebted to my supervisor Dr. John Yabs for his professional guidance, advice and unlimited patience in reading through my drafts and suggesting workable alternatives, my profound appreciation to you.

Thank you all. May the Almighty God bless you abundantly.

ABSTRACT

Entering new markets, despite the huge potential that it provides, does involve big risks. Foreign market entry mode is an institutional arrangement that makes possible the entry of a firm's products, service, know-how, management and other resources into a foreign market. A firm can set up an entry to a foreign market in only two ways, it export its products to a foreign market or it can transfer its resources such as technology, capital, know-how, brand name to a foreign market in which those resources can be sold directly to customers or combined with resource in the host country to manufacture product for that market.

The further opening up and liberalization of the Kenyan banking market has increased the opportunities for foreign investments and market entry in the banking sector. The markets in transition have many opportunities but also face threats for foreign investments, strategies for entering these markets or further increasing investments in these markets are seen to be more complex and the ones determining the entrants' survival on the market. This study sought to investigate the foreign market entry strategies used by Ecobank to enter the Kenyan market.

56% of the respondents were middle level managers followed by top level management staff at 33% while lower level managers were represented by 11% of the respondents. The top and middle level managers were chosen upon because of their critical role in formulation and implementation of strategies such as new market entries and forms of entry which is the subject of this study.

The Bank considered several strategies in its assessment of entry strategies into the Kenyan financial market including: direct investment by entering the market as a new organization and start building its market share. Acquisition strategy was effective as it enabled the Bank to receive warm reception on the market from the customers to the acquired bank as the Bank was struggling in terms of performance on the market and as a result of the acquisition, customers received a sigh of relief especially considering the fact that the acquiring Bank was a Pan African Bank operating in more than four African countries.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTRER ONE: INTRODUCTION

1.1 Background of the study

In the recent years, the world business environment has changed dramatically through the globalization of economies and liberalization of markets, resulting in a new, furious business setting for firms (Jansson and Sandberg, 2008).Political and economic changes since the late 1980s along with the technological revolution and advancement in communications, transportation and information technology has resulted in the removal of trade barriers that have shaped the world as a global village (Griffin and Pustay, 2007; Hill,2008). Dicken (1992) has argued that globalization is the result of the behaviour and expansion strategy of multinational corporations (MNCs).

According to Werner (2002), the international entry modes (entry modes) represent the third most researched field in international management, behind foreign direct investment and internationalization. Due to the increase in international capital flows, foreign direct investments and international trade at that time, active development of international banking also began. In the transition countries, international banks have operated only since the beginning of the 1990s, after a significant liberalization of the financial market and elimination of entry barriers. The growing foreign ownership in the banking sector raises several interesting questions about the entry process of foreign banks into transition economies. There are no generally accepted theories to explain the internationalization process of banks in the transition economies and its implications. The main reason for this gap in the literature is that foreign bank entry into emerging market has been actual only with the third wave of international banks' activities during the second half of 1990s (Herrero and Simón, 2003).

The importance of the foreign market entry strategy decision has been well documented (Tallman and Shankar, 1994). The entry mode chosen has a major impact on the level of control the Multinational enterprise has over the venture (Root, 1994). Some entry modes, such as exporting and licensing, are associated with low levels of control over operations and marketing, but are also associated with lower levels of risk. In contrast, other entry modes such as joint ventures and full ownership of facilities involve more control, but entail additional risk.

Since reversing an inappropriate entry strategy choice can be difficult, it is important that well thought out decisions be made. To date, however, very little research has focused on how Commercial banks make entry mode choices in Kenya. The purpose of this paper is to examine the factors that foreign Commercial banks in Kenya consider in making the choice among alternative entry modes when entering a foreign Kenyan Banking industry market.

1.1.1 Market Entry Strategy

The issue of market entry strategy continues to be of great interest to international business academics and practitioners (Malhotra, *et al.*, 2003; Mayrhofer, 2004). The chosen market entry strategy is important as it determines the manner in which multinational enterprises (MNEs) develop and implement marketing programs, coordinate business activities both within and across markets, and ultimately the MNEs' success in foreign markets (Malhotra *et al.*, 2003). From a market entry strategy standpoint, one of the greatest challenges for MNEs investing abroad is overcoming the liability of foreignness (LOF), i.e. the liability associated with foreign operations (Mezias, 2002).

The theoretical foundation of LOF is the work of Hymer (1976), who indicated that foreign firms face additional costs, not incurred by local firms. Hymer argued that these additional costs arise from: a MNE's unfamiliarity with the foreign environment in which it engages in operations; discriminatory attitudes of customers, suppliers, government agencies, among other factors; and additional costs associated with operating internationally. The literature indicates that the additional costs incurred by a foreign firm due to LOF, ceteris paribus, diminish its competitive advantages over domestic counterparts (Luo and Mezias, 2002, Luo *et al.*, 2002). Although a great deal of research has focused on LOF (Luo and Mezias, 2002, Luo *et al.*, 2002; Zaheer, 1995) significant gaps remain in the literature hampering academic understanding and managerial action.

First, prior research investigating LOF has primarily focused on the sources of LOF (Zaheer, 1995). For example, Zaheer (1995) classified sources of LOF into the following categories: spatial distance between home and host countries; lack of roots in a local environment; host country environment; and home country environment.

Market entry strategies are inherently difficult. A firm's managers need to consider the influence of numerous factors both internal and external to the firm in deciding when and how to enter a market with a new product (Lieberman and Montgomery, 1991). Firms face a particularly difficult decision of planning when it is best to enter a market with a new product in response to a market introduction of a pioneering new product by a major competitor. Given that pioneering is no longer an option, is it better for the firm to enter the market quickly with a competitive new product or is it better for the firm to delay market entry for strategic reasons? When the competitive stakes are high, it is clearly in a firm's best interest for its management to plan carefully such a market entry timing decision by giving careful consideration to a broad array of information including information on the competitor, the competitor's product offering, the market, and the firm's internal resources and product offerings.

In Kenya, there have been an increasing number of multinational enterprises which target both local and foreign market. Some of the known multinational enterprises in Kenya are believed to contribute a good percentage of African trade and a relative small amount in the global market.

1.1.2 The Banking industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Ministry of Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2008 there were forty six banking and non bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. Kenya has over 40 banks, most of which are small or medium sized. The industry is as such dominated by three large banks, two of which are foreign owned. The government is strongly pushing the industry towards privatization and is also focusing on financial sector reforms to improve the soundness of the Kenyan financial system.

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 growth 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. (Price Waterhouse Coopers, 2007). An appropriate banking environment is considered a key pillar as well as an enabler of economic growth (Koivu, 2002). With the continuously emerging wave of information driven economy, the banking industry in Kenya has inevitably found itself unable to resist technological indulgence. The need for convenient ways of accessing financial resources beyond the conventional norms has seen the recurrent expansion and modernization of banking patterns. Due to the huge demand for finance oriented services, institutions beside the historical banks have joined the fray in an attempt to grab a piece of the perceived cake of opportunity within the banking industry. According to Financial Sector Deepening Kenya (FSD Kenya), the most recent data available indicates that only 19% of adult Kenyans reported having access to a formal, regulated financial institution while over a third (38%) indicated no access to even the most rudimentary form of informal financial service. This leaves a percentage of more than 80% outside the bracket of the reach of mainstream banking.

The increased demand for an affordable and reliable way of holding funds while ensuring that risk levels are consigned to a minimum is consistently unfolding. A system with the potential to obliterate the historical hurdles of cost and free access which have for a long time stood in the way of willing partakers of banking services evokes immediate attention and interest. The unprecedented uptake of mobile phone banking services in Kenya is a testament to this fact.

Mobile banking started with the creation of services by banks which could be accessed through the mobile phone. These facilities aimed to enable customers' access information relating to their accounts. Subsequent innovations have seen the mobile banking phenomena continue to grow steadily. Mobile banking takes several dimensions of execution all representing a new distribution channel that allows financial institutions and other commercial actors to offer financial services outside traditional bank premises.

1.1.3 Ecobank Kenya Ltd

ETI, a public limited liability company, was established as a bank holding company in 1985 under a private sector initiative spearheaded by the Federation of West African Chambers of Commerce and Industry with the support of ECOWAS. In the early 1980's the banking industry in West Africa was dominated by foreign and state-owned banks. There were hardly any commercial banks in West Africa owned and managed by the African private sector. ETI was founded with the objective of filling this vacuum. ETI commenced operations with its first subsidiary in Togo in March 1988. Today, the Ecobank Group is a full-service regional banking institution employing over 11,000 staff in over 746 branches and offices in thirty (30) west, central and east and southern African countries namely Benin, Burkina Faso, Burundi, Cape Verde, Cameroon, Central African Republic, Chad, Congo Brazzaville, Democratic Republic of Congo, Côte d'Ivoire, Gabon, The Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Sao Tome & Principe, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Zambia and Zimbabwe.

Ecobank Kenya Limited provides banking and related services in Kenya. The company was formerly known as EABS Bank Limited and changed its name to Ecobank Kenya Limited in June 2008. Ecobank Kenya is based in Nairobi, Kenya. Ecobank Kenya Limited is a subsidiary of Ecobank Transnational Incorporated. It provides financial services and products for individual and corporate clients in Kenya. It offers retail products, such as mortgage finance, fixed and recurring deposit accounts, borrowing facilities, and term loans, as well as loans for salaried employees. The company provides corporate products, which include call deposits, current accounts, and overdraft facilities; small business products that include personal current accounts, performance guarantees.

1.2 Research Problem

The further opening up and liberalization of the Kenyan banking market has increased the opportunities for foreign investments and market entry in the banking sector. The markets in transition have many opportunities but also face threats for foreign investments, strategies for entering these markets or further increasing investments in these markets are seen to be more complex.

Studies that have been done on foreign market entries strategies include: Mulongo (2008) did a study on change of foreign entry strategies for global firms: a case of Eriksson Kenya. Kieti investigated the determinants of foreign entry strategies: A case of Kenyan firms venturing into Southern Sudan. Muriuki, (2001) did an empirical investigation of aspects of culture and their influence on marketing strategies in the beverage industry in Kenya while Mukule, (2006) studied retail marketing strategies adopted by commercial banks in Kenya.

Galac and Kraft (2000) discussed the consequences of foreign banks' entry for Croatian banking system. Experience of foreign banks' entry into Bulgaria was studied by Bitzenis (2004). Kahla (2009) did a study on effects of institutional constraints to foreign market entry strategies of Finnish ICT-companies in sub-Saharan Africa. Mushuku (2006) investigated the modes of market entry strategies for South African companies doing business in Tanzania. Etokova (2006) did a case study on Foreign Capital Entry to Banking Systems of Economies in Transition: Prospects for Ukraine.

However, research has not found that no study has been done on the foreign market entry strategy adopted by Eco bank Kenya Ltd. This research sought to fill the gap by empirically examining the foreign market entry strategies adopted by Eco bank Kenya Ltd.

1.3 Research Objective

The study sought to investigate the foreign market entry strategies used by Ecobank to enter the Kenyan market.

1.4 Value of the Study

The study is valuable to various stakeholders including the government through it regulatory agent: the Central Bank of Kenya in formulating policies and guidelines on licensing of financial institutions in Kenya.

To the academicians and researchers, the study will provide a useful basis upon which further studies on market entry strategies in the banking sector and foreign market entry strategies in general. The study will also suggest areas for further studies on which researchers and scholars can research further.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The literature review focuses on entry mode, choice of entry mode, bargaining power theory, foreign market entry strategies, firm specific resources and strategic issues, firm specific capabilities, company reputation, nature of the product, business experience and pattern entry strategy. The study also provides empirical review, chapter summary and research gaps.

2.2 Market Entry

There are various reasons that companies choose to enter a new market. According to Kotler and Keller (2006) there are five reasons as to why companies choose to enter a new market including: discovery that a foreign market presents higher profit opportunities than the domestic market; need for a larger customer base to achieve economies of scale; reducing the dependency on any one market; counterattack against companies that have entered the home market; and customers that go abroad and therefore need international servicing.

Entering new markets, despite the huge potential that it provides, does involve big risks. Many companies therefore do not enter a new market until they for various reasons are triggered do so. The trigger might be an external request to sell abroad or that the company feels that it can’t survive without entering new markets (Kotler & Keller, 2006). With the risks included in the internationalization process, the strategy to enter a new market is crucial. Douglas and Craig, as quoted by Ellis (2000), argue that market entry decisions are among the most critical made by a firm relative to international markets: “What country to enter constitutes a commitment that lays a foundation for the future expansion and it also signals the company’s intentions to competitors”. This indicates that a strategic move to enter a new market should be carefully planned and researched.

Ellis (2000) further argues that there are plenty of empirical studies indicating that foreign market entry decisions are ad hoc, made for non-rational reasons and that market research often is ignored.

2.3 Foreign Market Entry Strategies

According to Root (1998), foreign market entry mode is an institutional arrangement that makes possible the entry of a firm's products, service, know-how, management and other resources into a foreign market. A firm can set up an entry to a foreign market in only two ways, it export its products to a foreign market or it can transfer its resources such as technology, capital, know-how, brand name to a foreign market in which those resources can be sold directly to customers or combined with resource in the host country to manufacture product for that market. There are three foreign market entry modes used by firms to access foreign markets. These include: Export; joint venture and establishment of a wholly owned subsidiary.

Export entry mode is the lowest level of commitment to the foreign market which involves any sales activity on international markets. This is achieved by use of international agents or distributors, who enable a firm to get affordable access to exclusive market knowledge without self analyzing the country, culture, national politics, laws and local customer. The co-operation with foreign based agents or distributors is favorable for firms committed to direct export but inexperienced in doing outside known markets (Albaum, 1998). The easiest way for companies to enter international markets is through export of their services and products manufactured for domestic markets. Bradley (2005) describes several circumstances that are typical for firms using export as an entry strategy. The company size is rather small and these companies lack enough resources for more cost intensive entry strategies. In addition, intensive commitments are inadvisable because potential markets are uncertain, unattractive or involve some kind of political risks or there may not be pressure to produce abroad.

A joint venture (often abbreviated JV) is an entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity by both contributing equity, and they then share in the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship. This is in contrast to a strategic alliance, which involves no equity stake by the participants, and is a much less rigid arrangement. The phrase generally refers to the purpose of the entity and not to a type of entity. Therefore, a joint venture may be a corporation, limited liability Company, partnership or other legal structure, depending on a number of considerations such as tax and tort liability.

A joint venture has a number of advantages to the firm seeking to enter a new market (Hill, 2007). The investing company benefits from its local partner's market knowledge of the host country in the field of competitive conditions, culture, language, political system and business system. In addition, the investor and its local partner will share the costs and risks of the development of the firm. Besides, the joint venture also helps the firm to reduce risk of being subject to nationalization or other forms of adverse government interference because local equity partners, who may have some influence on host government policy.

A wholly owned subsidiary entry is made when the firm owns 100 percent of the stock. Establishing a wholly owned subsidiary in a foreign market could be done in two methods. One of the ways is by the firm installing a new operation unit in the host country (a Greenfield venture), and the other by acquiring an established firm in that country and use that firm to promote its products (Hill, 2007). There are several major strong points of wholly owned subsidiary. Firstly, when competitive advantage of the firm is based on technological competence, it will prefer this entry mode because it can reduce the risk of losing control over that competence. Secondly the entry mode helps the firm tight control over operation in different countries.

Absolutely, wholly owned subsidiary also causes some difficulties to the firm. It is the most costly method in market penetration. Secondly, the firm would suffer from high risk, interference of the host government (Hill, 2007).

2.4 Market Entry Mode

There are several ways in which a firm can enter a new market. The term used for this is market entry mode or foreign market entry (FME) mode. Each method provides for different degrees of commitment, risk, control and profit potential, it is very important that companies seeking to expand to a new market understand the differences. Agarwal and Ramaswami (1992) noted that the entry mode decision is a critical strategic decision since the initial entry mode choice can be difficult to change without considerable loss of time and money. In order to lay the foundation for success in a new market the assumption is that the best entry mode is one that aligns the entrant's strengths and weaknesses with the local market's environment as well as with the firm's structural and strategic decisions" (Brown, Dev, and Zhou, 2003).

Kotler and Keller (2006), identify four primary market entry modes including exporting (indirect and direct); Licensing; joint venture, and direct investment.

2.4.1 Exporting Strategy

According to Kotler and Keller (2006), exporting is the normal way to get involved with a new market. Ellis (2000) identifies four ways that this exchange may be initiated including seller-initiated; buyer-initiated; broker-initiated; and initiated as a result of a trade-fair or chance encounter. Once the relationship is initiated the company may choose to engage in either indirect or direct exporting.

Direct exports, as the name implies, involve direct marketing and selling to the client without use of intermediaries. In a reasonably accessible market such as Kenya, direct exporting of products or services may be a viable option especially for African origin companies (Kotler and Keller (2006). But in less familiar markets, with different legal and regulatory environments, business practices, customs and preferences, direct exporting may not be an option. A local partner, for example, may be better able to manage these complexities and serve your potential clients better.

Indirect exporting is frequently used to enter new markets where businesses selling products enter into an agreement with an agent, distributor or a trading house for the purpose of selling (or marketing and selling) the products in the target market. Due diligence is critical when selecting an agent or distributor for indirect exporting.

2.3.2 Licensing Strategy

Licensing is a contractual transaction where the firm, the licensor, offers some proprietary assets, such as technical innovation, manufacturing process, trademark, patent, trade secret and brand or corporate image, to a foreign company, the licensee, in exchange for royalty fees.

The advantage of licensing is that it allows the licensor to enter a new market at little risk. In addition, the licensee can gain production expertise or a well-known product or brand name. But licensing also has its disadvantages in that some control is lost, and that a potential competitor may have appeared when the license terminates. Profits have also been given up if the licensee is very successful (Kotler and Keller, 2006).

Some of the most common ways to use licensing include management contracts, contract manufacturing and franchising. In a management contract, a company charges a fee to manage a foreign business; in contract manufacturing local manufacturers are hired to produce a product; in franchising the complete brand concept and operating system is offered to the franchisee and in return for this the franchisee invests in setting up the franchise and pays certain fees. (Doole & Lowe, 2004)

2.3.3 Joint Venture Strategy

In a joint venture the company partners with a foreign company or investor in a new company where ownership and control is shared which may be either out of necessity or desire. The company may be limited in terms of funds, know-how or resources to engage in the venture alone or the host country may have rules and regulations that require a joint venture to be formed if the market should be entered (Walter, Peters and Dess, 1994).

The disadvantages of a joint venture include disagreements between the owners and difficulties for a multinational company to carry certain policies on a worldwide basis. A closely related investment form is the formation of an alliance, but whereas a joint venture means that a new legal entity is formed, an alliance does not (Kotler & Keller, 2006).

2.3.4 Direct Investment Strategy

According to UNCTAD (2007) foreign direct investment is defined as investment involving long-term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of foreign direct investor. This can happen either by buying part or full interest in a local company or by building its own facilities. If the ownership is complete this is referred to as sole venture or wholly owned subsidiary.

Establishing a subsidiary abroad comes along with high investments in new properties, marketing and human resources (Bradley, 2005). Differences in language, culture taste, logistics and laws need to be analyzed in order to start and conduct successful business on foreign market especially when FDI is chosen as an entry strategy (Verwaal and Donkers, 2002). The set up of foreign subsidiaries demand huge investments. First, the necessary knowledge about a country, culture, national politics, law and local customer preference has to be gained. This process of information takes time and money, the hours for a manager to analyze potential markets represents valuable and costly working hours. In this case external consultants are entrusted with collection of data the cost move from manager salaries to consultant fees. Second, the gained information about the potential market has to be used when establishing sales subsidiaries and investing in different areas like the local bureau and new employees (Lu and Beamish, 2006). However, there is limited control over international operations as the firm is present on the market the protection proprietary assets is complicated. Not only patent infringement but also other standard and other regulation on foreign market can develop into non tariff trade barriers which are hard to control for exporters (Bradley, 2005).

Lu and Beamish (2006) stated that the potential for feedback learning is higher for FDI than for export. It is likely that a company first collects information about the potential market, by operating on the foreign market the firm gains knowledge about the country and gets an insight into local knowledge and preferences. The degree of flexibility for FDI is low compared to export.

According to UNCTAD (2007) investing in local subsidiaries is only advisable if there are plans on a market for a long period. Establishing subsidiary abroad implies a certain commitment to the particular country and this does not only slow down the process of withdrawal from a market but also bonds the firm to the country and hinders the ability to react on changes. As the degree of flexibility decreases, the level of risk in doing things direct investment abroad arises. Due to the financial commitment on foreign market, a firm cannot easily withdraw from unstable business environment without losing at least a part of investment (Lu and Beamish, 2006).Establishing a subsidiary on a foreign market raises the firms influence enormously, since the firm has direct access to a market and is not dependent on intermediaries, it can develop, conduct and control its marketing and business strategy to the highest degree possible thus the firm has control over its reputation and performance on the foreign market (Bradley, 2005).

2.4.5 Strategic alliance Strategy

Kotabe et al (2005) defined strategic alliance as partnership between businesses with the purpose of achieving common goals while minimizing leverage and benefiting from those facets of their operations that complement each other. It comes in all shapes and sizes and can be based on a simple licensing agreement between partners, or it may consist of a thick web of ties. They are based on cooperation between companies.

A strategic alliance is a contractual, temporary relationship between companies remaining independent, aimed at reducing the uncertainty around the realization of the partners' strategic objectives (for which the partners are mutually dependent) by means of coordinating or jointly executing one or several of the companies' activities. Each of the partners is able to exert considerable influence upon the management or policy of the alliance. The partners are financially involved and share the costs, profits and risks of the strategic alliance (Douma, 1997).

(Bernadette Soares, 2007) identifies four potential benefits that international business may realize from strategic alliances, these are: Ease of market entry where entering into a strategic alliance with an international firm, will enable a firm achieve the benefit of rapid entry while keeping the cost down. Choosing a strategic partnership as the entry mode may overcome the remaining obstacles, which could include entrenched competition and hostile government regulations; Risk sharing is another common rationale for undertaking a cooperative arrangement when a market has just opened up, or when there is much uncertainty and instability in a particular market. Competitive nature of business makes it difficult for business entering a new market or launching a new product, and forming a strategic alliance is one way to reduce or control a firm's risks; Shared knowledge and expertise whereby forming a strategic alliance can allow ready access to knowledge and expertise in an area that a company lacks. The expertise and knowledge can range from learning to deal with government regulations, production knowledge, or learning how to acquire resources. A learning organization is a growing organization.

2.4.6 Franchising Strategy

A franchise is an ongoing business relationship where one party ('the franchisor') grants to another ('the franchisee') the right to distribute goods or services using the franchisor's brand and system in exchange for a fee. More sophisticated franchise arrangements specify a precise business format under which the franchisee is expected to carry on business and ensuring a common customer experience throughout the network. McDonalds is an obvious example (Mockler, 1999).

According to Brickley and Dark (1987) Franchising is seen as a means of obtaining scarce capital as the franchisee is generally required to make a substantial investment in the business. Franchisees share risk with the franchisor. Franchising is also identified as a way of addressing the agency problem, specifically, the issue of monitoring managers. Franchisees with substantial investments are more motivated to maximize revenues through administrative efficiency and protection of the franchise brand while minimizing operational costs.

Retail franchising allows firms to achieve the expanded reach and efficiencies associated with internationalization more rapidly and effectively than the firms could accomplish on their own. Dana, Etemad and Wright (2001) developed an Interdependence Paradigm to explain these franchise marketing networks using examples of firms in South Korea and the Philippines. In their paradigm, franchising involves a network of franchisees under the guidance of a parent firm, the franchisor. Franchisors that are well established can achieve greater efficiencies by incorporating smaller franchisees from emerging markets into international franchise networks. Importantly, the authors point out that franchising can help overcome local ownership requirements in regulated sectors. Therefore, franchising enhances the competitiveness of franchisors, while contributing to the development of emerging markets. Dana, Etemad and Wright (2001) view the consequences of this paradigm shift from independence to interdependence to be far reaching and having a major impact on the way business is handled internationally.

2.5 Choice of Entry Mode

The interest in foreign market entry mode choice originates from, among other things, the theory of multinational enterprises. Many economists and marketing experts have studied it as a crucial issue in international marketing. Wind and Perlmutter (1977), for instance, argue that the choice of market entry mode has a strong impact on international operations, and it can be regarded as a “frontier issue” in international marketing. Root (1994) claims entry mode choice is one of the most critical strategic decisions for multinational enterprises (MNEs). It entails a concomitant level of resource commitment that is difficult to transfer from one level to another, especially from a high commitment level to a low level (Zhao and Decker, 2004). Kumar and Subramaniam (1997), Chung and Enderwick (2001), as well as Nakos and Brouthers(2002) emphasize that the choice of an optimal entry mode is a critical strategic decision for companies intending to conduct business overseas.

It has been suggested that organizational capabilities provide the richest explanation and prediction of entry mode choice in foreign markets (Madhok, 1997). The resource-based theory views firm-specific resources (assets and capabilities), as the drivers of a firm's business strategy. But despite agreement among scholars that the resource-based view promises to be the richest theory of strategy (Aaker, 1989; Amit and Schoemaker, 1993; Barney, 1991; Bharadwaj *et al.*, 1993; Conner, 1991; Grant, 1991), application of the theory to international market entry mode strategies has been primarily conceptual and descriptive. Systematic empirical research on entry mode choice, using the resource-based perspective, is lacking despite the recognition that firm-specific resources drive successful business strategy.

2.3.1.1 Quantitative Entry Mode Choice Models

The quantitative models dominating the existing literature are game theoretical. There are two prominent branches of these game theoretical models. One branch is represented by Grossman and Hart (1986) and their followers, who motivate their models with the transaction cost theory of Coase (1937) and others. Buckley and Casson (1998) and followers represent the other branch, which bases its models mainly on internalization theory. Grossman and Hart (1986) developed a two-period, two-player model to explain vertical and lateral integration as a problem of ownership allocation efficiency based on the assumptions that asset specificity and ownership are the purchase of non-contractible rights. Optimal ownership is determined by equating the marginal benefits of one party’s increased control with the marginal costs of the other party’s loss of control. Later, many papers, such as Hart and Moore (1990),Feenstra (1998), and Feenstra and Hanson (2004), suggested fruitful models by referring to the ideas of the previously mentioned authors.

Buckley and Casson (1998) formulated a theoretical model investigating the choice between export, licensing, joint venture (JV), and wholly owned foreign venture (WOFV) in a two-firm economy. The optimal entry mode is selected by eliminating the dominated strategies, i.e., those higher in cost and lower in profit. Görg (1998), inspired by Buckley and Casson (1998), constructed a Cournot model to investigate the influence of market structure on entry mode choice in a three-firm economy. Müller (2001) constructed a two-period model for a two-firm economy. In the first period, the MNE decides to enter either by acquisition or by Greenfield investment or not to enter at all. In the second period, the MNE competes in price with the local firm in the host country if entering by Greenfield investment or it operates as a monopolist in the host country if entering via acquisition. Eicher and Kang (2002) expanded on Müller (2001) to allow for international trade and transport costs.

2.3.1.2 Qualitative Entry Mode Choice Models

Qualitative models are, to some extent, applications of or parts of a multinational enterprise theory that intends to explain why and how firms internationalize their economic activities. However, there is no established multinational enterprise theory (Buckley and Casson, 1991). The inefficiency of existing MNE theory induces the inefficiency of existing entry mode theories. Zhao and Decker (2004) indicated this idea by analyzing the strengths and weaknesses of existing models of entry mode choice.

Entry modes can be divided into equity and non-equity entry modes according to different resource commitment levels. Equity entry modes, for their part, can be classified into JVs and WOFVs, whereas non-equity entry modes can be classified into contractual agreements and exporting. Following the H model, a decision maker first chooses between an equity and non-equity entry mode, then selects a specific alternative at the sub-level. However, the authors themselves suggested that future research should be directed to determining how managers actually come to an entry mode decision (Kumar and Subramaniam, 1997). In particular, the H model does not provide an adequate answer to the question as to what kind of decision rules a decision maker might apply to make his choice at the individual level.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology that was used in gathering, analyzing the data and reporting the results. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Specifically the following subsections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

3.2 Research Design

The study adopted a case study design which was the most appropriate in the investigation of the foreign market entry strategies used by Ecobank to enter the Kenyan market. According to Yin (1994) a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Interviews when conducted appropriately usually provide in-depth responses. They also allow for probing thus increasing chances of accuracy in responses. This gave the required observation of the foreign market entry strategies used by Ecobank to enter the Kenyan Banking market.

3.4 Data Collection Method

The researcher used both primary and secondary data. Primary data was collected using an interview guide with open ended questions. The open ended questions enabled the researcher to collect qualitative data. The respondents comprised of nine management staff that included Administration manager, customer service, Finance; Human Resource; Information Technology; Business Development manager, Procurement Manager, Corporate Communications Manager, International Business Manager. Secondary data was collected by use of desk research from published reports and other documents. Secondary data included the Bank's publications, annual financial reports, journals and periodicals.

The interview guide was divided into two sections. Section one collected the general information about the respondents while section two collected information on foreign market entry strategies by Ecobank Kenya ltd.

3.5 Data Analysis

The data collected was analyzed using content analysis which was used to analyze the data by grouping it according to the responses obtained. The analyzed data was then presented in frequency distribution tables for easy interpretation. Data presentation was done by the use of tables. This ensured that the gathered information was clearly understood. Inferential statistics was used in drawing conclusions.

CHAPTER FOUR:

DATA ANALYSIS, INTERPRETATION AND DISCUSSIONS

4.1 Introduction

This chapter presents data findings from the field, its analysis and interpretations there-of. The data was gathered through interview guide and analyzed using content analysis. The data findings were on the foreign market entry strategies used by Ecobank to enter the Kenyan market.

The study targeted nine key managers in the Bank consisting of Administration manager, customer service, Finance; Human Resource; Information Technology; Business Development manager, Procurement Manager, Corporate Communications Manager, and International Business Manager. All the nine respondents targeted to be interviewed were interviewed which gave a response rate of 100%. The commendable response rate was achieved after the researcher made frantic effort at booking appointment with the interviewees beyond working hours through an internal correspondent despite their tight schedules and making phone calls to remind them of the interview. The response rate was as shown in the table 4.1 below:

Table 4.1: Response rate

Target Population	Respondents Interviewed	Response Rate
9	9	100%

Source: Research Data, 2011

4.2 Demographic Information

4.2.1 Management level of the respondents in the bank

The study sought to establish the management levels of the respondents who took part in the interview. From the findings, most respondents (56%) were middle level managers followed by top level management staff at 33% and finally lower level managers at 11%. The top and middle level managers were chosen upon because of their critical role in formulation and implementation of strategies such as new market entries and forms of entry which is the subject of this study.

Table 4.2: Management Levels of the Respondents in the organization

Management Level	Frequency	Percent
Top Management	3	33%
Middle Level Management	5	56%
Lower Level Management	1	11%
Totals	9	100%

Source: Research Data, 2011

4.2.2 Length of service with the Bank

The researcher sought to establish the period the respondents had worked with the Bank. From the findings, 3 respondents had worked with the original bank (EABS) that was acquired by Ecobank Kenya Limited in 2008, 2 respondents had joined the bank from the acquiring banks operations in other countries, 4 respondents joined the bank after the acquisition of EABS by Ecobank Kenya Limited. The analysis of the total period the respondents had worked with the banks showed that 6 respondents had worked with the bank for more than three years while the remaining three had worked with the bank for less than two years.

4.2.3 Level of Education

The study sought to establish the level of education of the managers in the Bank. From the findings, there was no respondent who had primary and secondary level of education. Most respondents, 56%, held a masters level of education followed by 33% of the respondents who had a first degree. The PhD level had 11% which was only one respondent.

Table 4.3: Level of Education of the Respondents

Level of education	Frequency	Percent
Primary	0	0%
Secondary	0	0%
First degree	3	33%
Masters	5	56%
PHD	1	11%
Total	9	100%

Source: Research Data, 2011

4.3 Reasons for Considering Movement in the Kenyan Market

The study sought to establish the market entry strategies considered by Ecobank in assessing market entry strategies into the Kenyan market. First, the study sought to establish the motivations for Ecobank in entering the Kenyan market. From the findings, there were several motivators for Ecobank to want to come into the Kenyan market. This drove the researcher to seek a brief history about the Bank. From the findings, it was established that the bank's holding company in 1985 under a private sector initiative spearheaded by the Federation of West African Chambers of Commerce and Industry with the support of ECOWAS under the name Ecobank Transnational Incorporated (ETI). The bank has expanded rapidly to comer most of African Nations including Nigeria, Ghana and many other nations.

The reasons for the Bank to target the Kenyan market were many and varied. Some of the reasons cited by the respondents included the networking of existing clients from countries where they operated in and the Kenyan market. The bank wanted to network its existing customers with Kenya as Kenya was considered as the hub and gateway for East and South of Africa. Another motivation for considering the Kenyan market was the Bank's need to look for new business opportunities so as to increase its clientele base and spread its risk. The Bank also wanted to strengthen the partnership with its clients by supporting trade relations thereby smoothing the transaction hiccups encountered by its customers when transacting with Kenyan businessmen. Another reason cited by the respondents as the reason for the Bank's attraction to Kenyan market was due to increased competition and declining profitability in the markets where the Bank operated in. In a quest to expand its revenue base and diversify its investment, the Bank sought to invest in the Kenyan market. The Bank also wanted to increase its competitiveness on the market mainly dominated by foreign markets especially considering the fact that this was an African Bank with an African touch. The management felt that the customers would be proud to be associated by the bank as it is an effort of one of their own. Further, the Bank wanted to have a firsthand experience on the Kenyan market and follow up on their customers expanding their businesses to Kenya.

4.4 Market Entry Strategies

The study sought to establish the market entry strategies that the Bank considered for its entry into the Kenyan market. From the findings, the Bank considered several strategies including: direct investment by entering the market as a new organization and start building its market share. The Bank evaluated the advantages and disadvantages of entering the market directly on its own as a new institution on the market. Some of the factors considered included the treatment from the host government especially considering that the Bank was to set up its new offices from zero. Another factor considered included the risk of rejection by clients on the market as for the bank to acquire clients, it needed some local face and backing. However, the advantages included full control on decision making on matters concerning the Bank's operations.

The other strategy considered by the Bank was Acquisition of an existing financial institution in the Kenyan market. By so doing, the bank knew it would ride on the goodwill of the institution in growing its market share and acceptability on the local market. However, with this strategy, the Bank was clear that some control of the institution had to be surrendered to the local investors owning the institution to be acquired. However, this strategy posted less risk than private entry of the bank on its own. Besides loss of some control, the Bank knew that it would ride on the existing customers of the local institution to grow its presence and market share in the Kenyan market.

4.5 Effectiveness of the strategy adopted

The study sought to establish the effective of the strategy adopted by the Bank in entering the Kenyan financial market. From the interviews, it was clear that the strategy was effective as it enabled the Bank to receive warm reception on the market from the customers to the acquired bank as the Bank was struggling in terms of performance on the market and as a result of the acquisition, customers received a sigh of relief especially considering the fact that the acquiring Bank was a Pan African Bank operating in more than four African countries. This strengthened the faith of customers in the Bank and thus customer base started to grow immediately the bank was acquired.

The Strategy was also effective in that it facilitated warm reception by the host government. The Bank received the best treatment on the local market as some of the employees for acquired financial institution were retained by the Bank which boosted the Bank's relationship with the government of Kenya. The government through its regulator supported the bank by granting it authority to acquire the local bank and to conduct their business in Kenya.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key research data findings, conclusion drawn from the findings highlighted and recommendation made there-of. The conclusions and recommendations were drawn in quest of addressing the research objective which is to investigate the foreign market entry strategies used by Ecobank to enter the Kenyan market.

5.2 Summary of Findings

56% of the respondents were middle level managers followed by top level management staff at 33% while lower level managers were represented by 11% of the respondents. The top and middle level managers were chosen upon because of their critical role in formulation and implementation of strategies such as new market entries and forms of entry which is the subject of this study. Further analysis showed that 3 respondents had worked with the original bank (EABS) that was acquired by Ecobank Kenya Limited in 2008, 2 respondents had joined the bank from the acquiring bank's operations in other countries, while 4 respondents had joined the bank after the acquisition of EABS by Ecobank Kenya Limited. In terms of period the respondents had worked with Bank, 6 respondents had worked with the bank for more than three years while the remaining three had worked with the bank for less than two years.

Academic qualification indicated that there was no respondent who had primary and secondary level of education. 56% of the respondents held masters level of education followed by 33% of the respondents who had first degree. The PhD level had 11% which was only one respondent.

The reasons for the Bank to target the Kenyan market were many and varied. Some of the reasons cited by the respondents included the networking of existing clients from countries where they operated in and the Kenyan market. The bank wanted to network its existing customers with Kenya as Kenya was considered as the business hub and gateway for East and South of Africa. Another motivation for considering the Kenyan market was the Bank's need to look for new business opportunities so as to increase its clientele base and spread its risk. The Bank also wanted to strengthen the partnership with its clients by supporting trade relations thereby smoothing the transaction bottlenecks encountered by its customers when transacting with Kenyan businessmen. Another reason cited by the interviewees as the reason for the Bank's attraction to Kenyan market was the increased competition and declining profitability in the markets where the Bank operated in. In a quest to expand its revenue base and diversify its investment returns, the Bank sought to invest in the Kenyan market. The Bank also wanted to increase its competitiveness on the market mainly dominated by foreign markets especially considering the fact that this was a Pan African Bank with an African touch. The management felt that the customers would be proud to be associated by the bank as it is an effort of one of their own. Further, the Bank wanted to have a firsthand experience on the Kenyan market and follow up on their customers expanding their businesses to Kenya

The Bank considered several strategies in its assessment of entry strategies into the Kenyan financial market including: direct investment by entering the market as a new organization and start building its market share. The Bank evaluated the advantages and disadvantages of entering the market directly on its own as a new institution on the market. Some of the factors considered included the treatment from the host government especially considering that the Bank was to set up its new offices from zero. Another factor considered included the risk of rejection by clients on the market as for the bank to acquire clients, it needed some local face and backing. However, the advantages included full control on decision making on matters concerning the Bank's operations. Entering independently by opening their own branches was found to be too costly and as such, the bank shelved this strategy.

The other strategy considered by the Bank was acquisition of an existing financial institution in the Kenyan market. By so doing, the bank knew it would ride on the goodwill of the institution in growing its market share and acceptability on the local market. However, with this strategy, the Bank was clear that some control of the institution had to be surrendered to the local investors owning the institution to be acquired. However, this strategy posted less risk than private entry of the bank on its own. Besides loss of some control, the Bank knew that it would ride on the existing customers of the local institution to grow its presence and market share in the Kenyan market.

Acquisition strategy was effective as it enabled the Bank to receive warm reception on the market from the customers to the acquired bank as the Bank was struggling in terms of performance on the market and as a result of the acquisition, customers received a sigh of relief especially considering the fact that the acquiring Bank was a Pan African Bank operating in more than four African countries. This strengthened the faith of customers in the Bank and thus customer base started to grow immediately the bank was acquired. The Strategy was also effective in that it facilitated warm reception by the host government. The Bank received the best treatment on the local market as some of the employees for acquired financial institution were retained by the Bank which boosted the Bank's relationship with the government of Kenya. The government through its regulator supported the bank by granting it authority to acquire the local bank and to conduct their business in Kenya.

5.2 Conclusion

From the study findings, the researcher concludes that the bank considered several foreign market entry strategies into Kenya including direct investment which the bank found to be too costly and too risky. This was especially so because the bank was to set up its distribution network and offices and it would take longer for the bank to reach out to the customers. Direct investment was found to be carrying the risk of rejection by customers which would mean that the bank was to close their business and leave the market. This was found to have resulted in negative impact on its existing operations in other countries. Based on these reasons, the direct independent entry into the Kenyan market was shelved and an alternative sought.

The other alternative sought by Ecobank in entering the Kenyan market was acquisition of a local bank. This involved weighing the advantages and disadvantages of losing some control to the acquired shareholders. However the advantages assessed showed that this strategy would be more viable than direct investment by the Bank. The advantages included warm reception by the customers and regulators on the financial industry in Kenya. As opposed to direct investment, acquisition posted the advantage of local acceptability and riding on the existing bank's market share. As a result, the advantages of this strategy outweigh the disadvantages. The bank therefore picked on this strategy to enter the Kenyan financial market.

5.3 Recommendations

From the findings and conclusions in this chapter, the study recommends that the multinationals Corporations (MNCs) should critically analyze the various strategies at their disposal in entering a new market before making decisions on how to enter the selected market. Market entry strategy plays a very important role in determining the successfulness of the multinational corporations on the local market. This is true especially considering the acceptability of the MNC by the local customers and how the MNC is treated by the host government.

The study also recommends that MNCs should consider the advantages and disadvantages the different strategies before selecting on a given strategy. They need to assess the options available for their market entry and be able to select the strategy with more advantages and one that will ensure successful market entry and acceptability by the local market regulators.

5.4 Limitations of the Study

Being that this was a case study on one bank the data gathered might differ from market entry strategies adopted by other banks in entering different markets. This is because different banks adopt different market entry strategies that differentiate them from their competitors. The study however, constructed an effective research instrument that sought to elicit general and specific information on the market entry strategies for new markets.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on market entry strategies adopted by Ecobank in entering the Kenyan financial market.

The other limitation included a very busy schedule run by the targeted respondents in this study. The researcher had to limit the effects of this limitation by aggressively contacting the intended interviewees and booking appointments for the interview.

5.5 Suggestions for Further Research

The study recommends that further research should be done on the foreign market entry strategies adopted by Multinational corporations including other banks in the Kenyan financial market to allow for generalization of foreign market entry strategies adopted by commercial banks in Kenya since each employs a different market entry strategy. The researcher further recommends that a similar study be done on other institutions for the purposes of benchmarking.

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APPENDIX I: INTERVIEW GUIDE

Demographic Information

1. Your Name____

2. Please indicate your Position level in the bank

   Top Management ( )

   Middle Level Management ( )

   Lower Level Management ( )

3. Number of years worked with the bank

   ____

4. Level of Education

   Primary ( )

   Secondary ( )

   First degree ( )

   Masters ( )

   PHD ( )

B. Evaluation of market entry strategies

5. What were the motivations for Ecobank in entering the Kenyan market?
   a) Networking existing clients from home and other market ( )
   b) looking for new business opportunities ( )
   c) supporting trade relations ( )

d) following the home market competitors ( )

e) meeting the competition of other foreign banks ( )

f) meeting the competition of Kenyan banks ( )

g) leading existing clients to Kenya ( )

h) other, ________________________________

6. Did the bank evaluate the entry strategy to use in entering the Kenyan market? How was the evaluation done?

7. Please mention a few strategies that the bank considered for entry in the Kenyan market.

8. Which of the above strategies did the bank choose in entering the Kenyan Market?

9. Why did the bank choose on the strategy named in (9) above to enter the Kenyan market?

10. How effective was this strategy to the bank?