THE EPRG (ETHNOCENTRIC POLYCENTRIC REGIOCENTRIC GEOCENTRIC) MODEL APPLIED TO KCB BANK GROUP AS A MULTINATIONAL CORPORATION

BY:

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NOVEMBER, 2013
DECLARATION

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

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

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I would also like to specially acknowledge my supervisor, Dr. John Yabs, who has guided me tirelessly through the research project and his guidance has been invaluable.
DEDICATION

I dedicate this work to the Almighty God and to my family, friends and colleagues.
ABSTRACT

Kenyan organizations including banks have been eyeing the East African region. KCB Bank Group has been leading in internationalization.

This study sought to establish the EPRG strategy employed by KCB Bank Group in the management of its subsidiaries. The study employed a case study design on KCB Bank Group by way of interviews with managers across different shared functions and executives of KCB Bank Group with each taking approximately 40 minutes.

The findings revealed that KCB Bank Group majorly employs a top-down management approach in executing its organization management function. Further, the KCB Bank Group majorly employs ethnocentric approach in managing the internationalized Bank Group. However, the Bank has neither an internationalization policy nor an EPRG policy.

The researcher found out that the model is unpopular with the subsidiaries as envisaged by a strong push by the subsidiaries for independence from the host country. The respondents suggested that an integrated approach would allow the subsidiaries views, expertise, local understanding and individual competencies, irrespective of the source of a value adding virtue for the bank’s competitiveness.

In the view of the findings, the researcher recommended that KCB Bank Group should adopt an integrated approach. This can enormously tame the resistance from the local subsidiaries as they would feel they are part of decisions making in the organization hence own the responsibilities. In the view of the findings of this research, other local banks eyeing the regional market should adopt an integrated EPRG strategy which should be backed by an appropriately framed internationalization policy.
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<tr>
<td>EPRG</td>
<td>Ethnocentric, Polycentric, Regiocentric, Geocentric</td>
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<td>FDE</td>
<td>Foreign Direct Investment</td>
</tr>
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<td>KCB</td>
<td>Kenya Commercial Bank</td>
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<td>MNC</td>
<td>Multinational Corporation</td>
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<td>MNE</td>
<td>Multinational Enterprises</td>
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<td>TNC</td>
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CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Globalization and advancements in technology and business rivalry has made it necessary for business organizations to internationalize their business operations. Trade agreements and opening up of economies has encouraged international trade (Barlett et al, 2008). Most organizations that have traded locally over many years can easily internationalize their operations. The opened international market has led expansion of business organizations, culminating into giant multinationals. However, the expanded organizational size and the geographical spread present the executives with a myriad of management challenges (Rozkwitalska & Gdańska, 2009). As such, an international business calls for much more attention as compared to a localized entity.

Since internationalization of business organizations is geared towards risk diversification and new market penetration enhancements for corporate success and competitive advantage (Venaik, 1999), the parent company has no option other than jealously manage its subsidiaries so as to enjoy the benefits anticipated from the business diversification (Perlmutter & Heenan, 2000).

It is paramount for the parent company to employ effectual management models and management strategies to mitigate the negative implications of the internationalized business entity. Perlmutter (1969) advanced the EPRG model which is greatly discussed by international management scholars and is highly used to manage an internationalized business. Hence, succinct systems and techniques usable for sourcing and deployment of
both human and physical capital, authorities and structures usable for communications
are vital for any internationalized business entity (Barlett et al, 2008).

The world's international Banking industry has been developing day after the other. Most
Banks have been diversifying into different markets in the fastest rates in the last two
decades (Central Bank of Kenya, 2012). Most international Banks have already
established their operations in the African markets. Within Africa local banks have been
diversifying their operations in the regional markets. Kenyan banks have also been eying
the East Africa region and KCB Bank Group has been in the lead with subsidiaries in all
the East African countries and South Sudan.

1.1.1 Concept of International Business

Rozkwitalska & Gdańska (2009) posited that international management greatly borrows
from both strategic management and cross-cultural management disciplines. This is so
because; an international business is simply a commercial entity which has its operations
across borders (Spencer, 2011). Related to the international business field, international
management derives heavily from the concepts of international trade.

An international business deals with individuals and organizations from different
nationalities. One unique aspect of international business is that people from different
nations with diverse cultures, experiences and expectations are involved. This diversity
and expectations are at the core of the challenges of international business management
(Barlett et al, 2008). Each party involved in the international trade either as staffs or in a
trade transaction brings in their peculiarity in terms of their societal underpinnings. The
management of the organization should be aware of such challenges and establish appropriate mechanisms to manage the international entity amidst the diverse challenges.

1.1.2 The EPRG (Ethnocentric Polycentric Regiocentric Geocentric) Model

Perlmutter (1969) a renown international business evolutionary theorist, advanced the EPRG concept used in enhancing the executives’ understanding of cultural dilemmas related with internationalization. He focused on the evolution of the executives mindsets the way they perceive management of businesses abroad. He noted three primary attitudes as characteristics namely; ethnocentric, polycentric, and geocentric for multinationals executives from the parent company perspective. The three impact the locus of power, performance evaluation and control standards, systems for incentives, flow of information, and executives’ attitudes for the recruitment policy (Rozkwitalska & Gdańska, 2009).

Perlmutter (1969) argued that the volution of organizations move from ethnocentrism to polycentrism to geocentrism. Later, Wind, Douglas, & Perlmutter, (1973) added another transnational corporation management attitude – regiocentrism, and reoganized evolution of transnationals through EPRG, signifying evolution from ethnocentrism, polycentrism, regiocentrism to geocentrism (Rozkwitalska & Gdańska, 2009). According to EPRG model a new organization highly borrows from the entreprener(s), but with time the expanded organization has to operate cognisance to external parties such as political jurisdiction influences, regions and combinations of the nationality and the region of operation (Rozkwitalska & Gdańska, 2009).
1.1.3 KCB Bank Group

Kenya Commercial Bank Group, also known as KCB Bank Group, is a financial services organization in East Africa. The Group's headquarters are located in Nairobi, Kenya, with subsidiaries in Kenya, Burundi, Rwanda, South Sudan, Tanzania and Uganda (KCB Bank Group, 2013).

The history of Kenya Commercial Bank Limited dates back to July 1896, when its predecessor, the National Bank of India opened a branch in Mombasa to handle the business that the port was attracting at that time. In 1958, Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank.

Upon independence, the Government of Kenya acquired 60% shareholding in National & Grindlays Bank in an effort to bring Banking closer to the majority of Kenyans. In 1970, the Government acquired 100% of shareholding in the Bank to take full control of the largest commercial Bank in Kenya. National and Grindlays Bank was then renamed Kenya Commercial Bank. In 1988, the first 20% of the Government’s shares in the company were sold through a public offering on the Nairobi Stock Exchange. The Government has over the years reduced its shareholding to 23.6%. In the rights issue of 2010, the Government further reduced its shareholding to 17.75%. (KCB Bank Group, July 2013)

The KCB Bank Group network totals to over 231 subsidiaries, with over 170 subsidiaries in Kenya. KCB Tanzania Limited was incorporated in Dar-es-Salaam in 1997. Since then, KCB has opened 11 more subsidiaries in Tanzania. In May 2006, KCB extended its operations to Southern Sudan following licensing of KCB Sudan. This subsidiary now
has 21 subsidiaries. In November 2007, KCB Bank Uganda Limited was opened and now has 14 subsidiaries in Uganda. In December 2008, KCB Rwanda began operations with one branch at Kigali. There are currently 11 subsidiaries spread out in the country. KCB recently opened a new Branch in Burundi (KCB Bank Group, July 2013)

1.2 Research Problem

Business organizations from diverse industries and jurisdictional markets have been going international. As competitions increase, executives tended towards regional markets in pursuit of alternative markets to further their business interests. For example, Banking institutions operating in Kenya are subsidiaries of western, Eastern and African origins, while some Kenyan-born Banks have in the past decade been eyeing regional markets. Amongst these include; Equity Bank Limited, Kenya Commercial Bank Limited, Co-operative Bank Kenya Limited which has opened subsidiaries in East African markets and are continuing to open more.

Many studies have been conducted in the area of international business. International business entails conducting business amidst much more diversities as compared to local trade. Although international business is a key contributor to most organizational and economic success of a society and a country, the legal, social, environmental, and cultural diversities are amongst key challenges encountered when managing cross-borders. Nonetheless, organizations continue to go international. No doubt, this has benefited these organizations.

However, this must have come with some challenges as well. Notably, different organizations have diverse norms, values and cultures enshrined in the way they execute
their business agendas (Rozkwitalska & Gdańska, 2009). Similarly, different market jurisdictions, markets and regions have different legal requirements, regulatory requirements and people cultures. These differences could detour an organization’s international business success. For example, a conflict of an organization’s practices with its host country’s requirements and expectations is lethal to its subsidiary’s success and can be detrimental to the parent company’s foreign strategy and the overall organization’s success.

Perlmutter (1969) advanced the EPRG concept that can be used in enhancing the executives’ understanding of cultural dilemmas related with internationalization. He focused on the evolution of the executives mindsets – the way they perceive management of businesses abroad. He noted three primary attitudes as characteristics namely; ethnocentric, polycentric, and geocentric for multinationals executives from the parent company perspective. The three impact the locus of power, performance evaluation and control standards, systems for incentives, flow of information, and executives’ attitudes for the recruitment policy (Rozkwitalska & Gdańska, 2009).

Perlmutter, (1969) argued that the volution of organizations move from ethnocentrism to polycentrism to geocentrism. The later addition by Wind, Douglas, & Perlmutter, (1973) of regiocentrism, on the concept of evolution of transnationals through EPRG model, signifying evolution from ethnocentrism, polycentrism, regiocentrism to geocentrism (Rozkwitalska & Gdańska, 2009).

Another evolutionary theory explaining the cultural dilemas caused by internationalization is the I/R grid. In this concept, the multinationals are torn between
global integration (I) and local responsiveness (R). Westney & Zaheer (2003) posits that global integration and local responsiveness are external selection forces but internalized by the transnational entities. They comprise of culturally determined market characteristics like customer needs, tastes and preferences. The grid provides the executives with an appropriate strategy and suitable model to employ in the given multinational, international, global, or a transnational in the midst of pressures for integration and local responsiveness (Westney & Zaheer, 2003).

Also, the features of the national cultures influence in a transnational company can be envisaged in Adlers cross-cultural management models. Adler’s models show a relative importance between a multinational’s corporate culture, national culture and organizational culture for the overseas subsidiaries (Venaik, 1999). The first model on cultural dominance assumes the transnational’s corporate culture is superior precedes the national foreign affiliates organizational culture. The cultural coexistence model allow some coexistence of foreign subsidiary’s subcultures but ensure a limited level of interactions. The synergistic culture model assumes that transnational’s culture can draw from foreign subcultures to create effective synergistic whole organization (Rozkwitalska & Gdańsk, 2009).

An MNCs’ strategic attitude may be ethnocentric, polycentric, geocentric, or regiocentric/opportunistic. The entity’s headquarter’s culture, its model (international, multinational, global or transnational), its internal cultural diversity, cross-cultural models, and its Cross-cultural model (cultural dominance, cultural coexistence, synergistic culture model) ought to be carefully co-ordinated since they influence the entity’s cultural effectiveness and the success of the strategy.
KCB Bank Group just like other local Banks have been establishing branches in the East African nations. The success of its strategy in these branches will depend on its EPRG strategy adopted, the headquarters diversity and its culture, its systems and structures as influenced by its external factors. This research will seek to unravel the EPRG strategy adopted by KCB Bank Group and the impact of the organization’s strategy by the external factors and its internal cultural diversity at its headquarters.

i) How does the KCB Bank Group apply the EPRG model?

1.3 Research Objective

This study sought to unravel how the EPRG model is applied to KCB Bank Group in the management of the KCB Bank Group subsidiaries.

1.4 Value of the Study

The Kenyan market has been receiving lots of attention from external investors. Investors have been using the Kenyan soil as the major entry point to the East and Central African markets the Foreign Direct Investments (FDI). This has seen the Kenyan cities become hosts of the regional head-quarters of many international organizations. Most African Banks are either headquartered in Kenya or have their operations within Kenyan markets. Other international commercial Banks operating in Kenya have utilized the Kenyan hub to manage the affairs of the African subsidiaries.

Furthermore, Kenyan born Banks such as Equity Bank Limited, Kenya Commercial Bank Limited and Co-operative Bank Kenya Limited have started branches in the East African regional markets. This is majorly in an attempt to capture new markets as they seek to
Bank to the unbanked hence greater business diversification and corporate profitability. However, diversification into the foreign markets presents these organizations with management challenges. This is due to the expansion in size, and incorporating cultural diversities inherent with operations in new markets and regions which warrants employments of the locals.

In the view of the managerial complexities brought about by internationalization of the Kenyan commercial Banks, an appropriate approach to management ought to be established for the Banks to manage the complications brought about by the increase in size and culture diversity. This study will culminate by providing possible managerial models and methodologies applicable by the internationalizing Banks in managing their foreign subsidiaries as well as curb the possible parent-subsidiary indifferences. The study will also contribute to the literatures from which future researchers can draw from.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides literatures from past researchers and scholars on the implications of EPRG model in managing international business. The chapter examines concept of international business including the factors leading to internationalization of businesses, benefits and challenges of internationalization. Further, it examines the management approaches employed by international businesses and finally narrows down to Kenyan Banks. The study finally examines the EPRG attitude adopted by the organizations and their effects while suggesting solutions from the past literature contributors. By considering the work from diverse authors, the chapter builds on the theoretical and the conceptual framework on the implications of EPRG model in managing international businesses.

2.2 International Business

International business comprises of all commercial transactions between business entities from different political boundaries. It entails business activities involving cross-border transactions of goods and services (Sullivan et al, 2007). While private companies go international for profit, governments engage in such endeavors for a profit and political reason (Barlett et al, 2008). An international business is also called multinational enterprise (MNE), multinational corporation (MNC), and transnational company (TNC). Most large international companies operate in multiple national markets.
In an international environment, entities would deal with issues such as diversity in legal systems, regulatory standards diversities in relation to environments, accounting and reporting, labour standards, different currencies, trade agreements, and cultural diversities amongst other issues. These factors are usually diverse in different countries and markets. Angouri & Glynos, (2009) postulates that the challenges encountered in trading and managing an international business emanate from the diversities of the factors from one region to another. The more an organization operates in diverse markets, the more the diversities and hence the complexities encountered (Reiche & Harzing, 2011).

2.3 Importance of Internationalization

Internationalizing a business plays a big role in enhancing attainment of the objectives of an organization. Business organizations majorly go international to grow their sales volume and hence their profitability (Barlett et al, 2008). Especially where the entity’s big chunk of fixed costs can be tied to its domestic operations, the organization can earn a big amount of growth gain through internationalization. The internationalized business can also capture some specific market or industries which can help the entity to earn a great return from a set of core competencies (Angouri & Glynos, 2009).

An international business is able to generate economies of scale in production by virtue of its expansions in size. This is a competitive advantage to the organization. Importantly, internationalization helps an organization to enhance its competitive advantage locally by paving way to larger, more lucrative customers (Fang, 2006). This is so for situations where an organization engages into international business by directly selling its products.
abroad. Where the organization’s local markets was dwindling, the entity is able to sustain its sales targets from its international markets (Spencer, 2011).

Internationally, international businesses create jobs, grow productivity and enhance wealth creations for nations (Goodall et al, 2006). Further, international trade enhances the pie for potential investors since business organizations relies each other in conducting business. Perlmutter & Heenan, (2000) observes that were it not for international business, businesses activity in the entire world would remain as small as it was during industrialization. However, international trade has helped insulate seasonal domestic trade by expanding potential markets for excess production capacity in different parts of the world, while ensuring continued supplies to seasonal productions in other parts of the world (Barlett et al, 2008).

International trade also helps organizations exercise cost leadership strategy through global outsourcing from the markets where factors of production are relatively cheaper. This reduces excessive reliance on the existing markets. Furthermore, most multinational establish production centers inputs are readily available and cheap. In some situations, multinationals have been able to capitalize on low taxation in some markets (Spencer, 2011).

2.4 International Business Management

International business management is the act of executing the management functions in an organization trading across countries (Hofstede, 1991). It includes directing, organizing, staffing, and controlling functions to achieve high results in financial and human resources to attain effective market campaigns for better sales. But, because of the
diverse cultural contexts involved in international business management, a succinct understanding of cultures, customs and histories of the local environments where the business is practiced can immensely impact the executives performance and the organization as whole (O'Reilly, 2005).

According to Rozkwitalska & Gdańska, (2009) international management is simply directing the performance of an enterprise across national borders. In managing an international business, Perlmutter & Heenan, (2000) posits that understanding the cultural management dimensions play a dominant role for the success of an international business. International management entails building an effective international strategy, designing an appropriate organization structure, and management of people in a cross-cultural environment (Hofstede, 1991). These tasks are all influenced by the cultural differences.

Indeveloping an international business strategy a succinct analysis of the environment including a stakeholders such as possible clients, regulators, competitors, contractors, and labor is necessary. The manager must be aware of the national cultures in relation to convictions, beliefs, basic assumptions, values and the artefacts which affect the behavior, needs and expectations of the locals from the organization (Venaik, 1999). Cultural dimensions such as individualist-collectivist, masculine-feminine, power distance index, the relative need for the avoidance of uncertainty, and long-term versus short-term orientation to life as advanced by Hofstede, (1994) are often used.

The MNCs’ attitudes Ethnocentism Polycentrism Geocentrism Opportunism National cultures in host countries and opportunistic Cultural Dilemmas of International
Management can also be used. An analysis can reveal the extent to which an organization ought to respond to local pressures. However, only the MNCs that have polycentric, regiocentric or opportunistic attitudes exhibit sensitivity to such pressures. It is worth to note that building an international strategy entails solving certain problems related to geographic spread, local adaptation, global integration, and multi-country, multi-business, and multi-firm (Perlmutter & Heenan, 2000). The local adaptation play a critical role in fitting the foreign manager and the entity into the local environment.

In order to implement a successful international strategy, a thorough structuring process is needed. Multinational executives a multinational strategy while transnationals execute a transnational strategy. While the multinationals employ a ‘hub-and-spoke’ model with MNC’s home-country as the hub, the transnationals use an integrated network of interdependent subsidiaries (Westney, Zaheer 2003). This means that multinationals seek to coexist with the cross-cultures, the transnational strategy is to manage the cultural problems in a synergistic manner. Since international business activities include managing human resources, marketing, finance, production, research and development, EPRG model is quite appropriate especially for human resources and marketing management which are culturally sensitive. This will in effect influence other functions.

According to Perlmutter & Heenan, (2000) in the ethnocentric attitude the home country management usually makes all the decisions and most top positions are held by the parent country nationals. In the polycentric approach, the foreign subsidiary has the control over the business functions, although the headquarter may make key strategic decisions. As such, the host country nationals are employed in the top positions in the subsidiary. In a geocentric attitude, the firm selects the staffs for positions based on performance in
disregard of their nationality. In regiocentric philosophy, both polycentric and geocentric attitudes are involved. As such, staffs can come from any region competencies and performance are the key parameters (McFarlin & Sweeney, 2006)

Whether to standardize or to adapt is the principal problem in an international marketing strategy. In an ethnocentric approach, the executives perceive international customer’s needs as being homogenous across nationalities and markets. This is not a true reasoning and ignoring the market diversities is lethal to the success of a marketing strategy (Hofstede, 1991). In a polycentric attitude, markets are viewed differently, hence a local adaptation marketing-mix is employed. Regiocentrism seeks to reconcile the homogeneity of regional markets. This way, marketing is standardized in accordance to the countries within similar regions. In geocentric attitudes, international marketing has both the poly and the regiocentric characteristics for transnationals in an opportunistic manner (Perlmutter & Heenan, 2000).

2.5 Challenges of International Business

Immediately an organization starts to operate internationally, the diverse market place introduces exceptional challenges the entity has experienced in the past (Sagepub, 2002). One such challenge is the political and economic diversity. The difference in political play-fields and in economic fluctuations usually most transnationals (Hofstede, 1991). Sagepub, (2002) advances that before going international, an organization ought to be aware of regional diversities the diversities that exist across the markets. Such diversities are related to wealth and population, culture and language, country demographic features and developmental diversity.
Further, the world is ever changing and so is the market place. This creates uncertainties to the transnational corporations. Such uncertainties relate to politics, economic orientations, cultural orientations, and financial uncertainties (Sagepub, 2002). According to Mbaire, (2012) an organization’s capacity in managing these change and uncertainties proves successful it will be. Of course, all organizations going to international business has an intent to succeed and build a global brand (Porter & Kramer, 2006). But due to intense global competitions and diversities and inherent uncertainties, most interantional organizations’ strategies fail. Grandys & Andrzej, (2010) observes that the failure affects the internationalized firm in a great way due to the fact that internationalization involves huge cost implications.

Westney & Zaheer, (2003) posits that international business challenges are many. Barlett et al, (2008) just like Sagepub, (2002) enumerates these challenges as owing to differential in political systical systems, legal policies, language barriers, corporate and local cultures, environmental standards, export and import procedures, foreign exchange issues, and trade agreements. He further observes that such issues affects all enties including countries, local firms and global industries. It is due to the challenges that managers concern themselves with such factors that affect the international business entities amidst the myriad of challenges.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides the methods and procedures which were employed by the researcher to conduct the study. The chapter discusses the research design of the study, data collection methods and techniques employed to analyze the collected data.

3.2 Research Design

A research design refer to an arrangement of the procedures, factors and the tools used in the collection and analysis of the data so as to meet the study objectives in the most economic and effective manner. Kothari, (2004) posits that a research design provides a plan that acts as the guide to the researcher so that the he/she can collect, analyze and interpret the collated data in a coherent manner.

This study adopted a case study research design. A case study design helps the researcher to more succinctly establish the characteristics of the object being studied specifically. Then, the findings can be used to explain the phenomenon including in the other organizations accurately incorporating individual characteristics of the objects being studied. By following a case study design in which an organization will be studied, the findings can be used to explain phenomenon in other related entities concerning when, what, where, who, and how of the subject of the study (Kothari, 2004).

In this study, a case study design was applied to describe the present state of affairs in relation to what EPRG strategy is being applied by the KCB Bank Group in managing its
subsidiaries and subsidiaries and revealed the implications of the practice. This helped to identifying the best approach. Furthermore, the case study design was preferred for this study since was easy to administer with respect to time and cost constraints (Mugenda & Mugenda, 2003). Further, it achieves reliability, validity and generalizability desired in any research due to its duality in collecting and in the analysis of both quantitative and qualitative data.

3.3 Data collection

This study employed primary data sources. Primary data is the first-hand information obtained by the researcher (Mugenda & Mugenda, 2003). It advantageously provides the information of a phenomena as it currently is. This was necessary as this study sought to understand the implications of the EPRG model in managing subsidiaries.

In this study, the researcher conducted interviews with 10 middle level managers across different shared functions of KCB Bank Group, 5 senior level managers and 3 top executives. The study targeted the managers who interact with and support the subsidiaries in their operations and those managers involved in the setting up and formulating policies and strategies for the subsidiaries. Interviews are an effective way of getting first-hand information and also perceive attitude of the interviewee. It is ideal for qualitative research and the researcher is able to seek and get clarifications. Furthermore, interviews are cost effective and convenient, an attractive data collection method for this kind of a study.

The researcher conducted interviews with middle management, senior management and top executives at KCB Bank Group. The interviews were conducted using an interview
guide. The interview guide was pilot tested with a few KCB Bank Group managers before the actual data collection to ensure its understandability, appropriateness, validity and reliability and a pertinent revisions as the test would warrant. The researcher scheduled interviews with respondents depending on their availability.

3.4 Data Analysis

The responses (qualitative data) were organized into themes depending on their contents and used to answer the research question. The findings from the analysis were organized, summarized and presented appropriately to clearly depict the results.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter provides the data analysis, results and the conclusion as per the study questions and objectives. The data for this study was collected by way of interview. The study sought to unravel how the EPRG model is applied to KCB Bank Group in the managing its subsidiaries. The researcher conducted approximately 40 minutes interview sessions each, with 10 middle level managers across different shared functions of KCB Bank Group, 5 senior level managers and 3 top executives. All the respondents had worked with KCB for five years and above and are substantially involved in KCB Bank Group business development and management.

4.2 Challenges Faced in KCB Bank Group’s Internationalization

The researcher established that that the major challenges affecting KCB Bank’s Group internationalization strategy include: differences in staff work ethics, strong local competition in the new markets, a strong desire for independence from the home country management by the subsidiaries, difficult in harmonization of standards across same functions and difficult economic conditions that slow uptake of financial services in the ill-structured management structure across borders.

Most of the respondents said that the challenges facing internationalization are both normal challenges and others related to unpreparedness by the Bank in managing the emerging subsidiaries. The researcher found out that the Bank’s un-preparedness had cost
it profits and staff turnover, slowed learning and sharing of best practices, inefficiencies and unnecessary conflicts amongst the staff.

Further, the effects of internationalization challenges are majorly felt at the particular subsidiary facing the challenge and at the home country management and rarely do they spread to other subsidiaries. A few respondents observed that there are clear strategies in subsidiaries management emanating from a good understanding of the different cultural orientations. However, majority (75%) of the respondents felt that the Bank has not fully thought through their subsidiaries strategy specifically with respect to governance as most functions operate in country silos, with some financial, human resource, audit and other challenges not being well addressed.

The respondents opined that the Bank ought to adopt regional best practices while appreciating the different environments and formulate internationalization policies which take into account the local situations. Also, the results found that KCB Bank Group should have better planning, preparation and training prior to subsidiary establishments. They also suggested that a central coordinating unit for the international business should be set up.

4.3 KCB Internationalization and its EPRG Strategy

Although most respondents noted that an internationalization policy would help to create a harmonized brand while building capacity for the local talents and ensuring the subsidiaries have a local touch to increase acceptance, they noted that there has not been an internationalization policy in the Bank.
The Bank’s key concerns in internationalization in order of priority have been subsidiary self-sustainability and growth, business competitiveness, profitability enhancement, subsidiaries liquidity management and subsidiary longevity.

On the EPRG strategy adopted by KCB Bank Group, the respondents opined that the management strategy is majorly Ethnocentric although there are some instances when polycentric approach is followed under the staffing function of management.

The researcher further established that the locus of power (staff seniority), designing systems of control and standards, systems for incentives, recruitments are done at the home country, while the implementation of systems of control and performance evaluations are handled at the subsidiary level. Overall, the respondents said that KCB Bank Group employs a top-down approach in managing its subsidiaries. The respondents suggested that in developing KCB Bank Group internationalization strategy, the Bank should employ an integrated approach by collaborating efforts between the home country management and the regional subsidiaries and not apply ethnocentric strategy as is currently the case.

4.4 Factors Affecting KCB Bank Group’s EPRG Strategy

The researcher noted that the Bank has employed the ethnocentric EPRG strategy in directing, planning, and control functions of management in order to retain control over subsidiaries and have a unified brand. On the other hand, the bank has employed a mix of ethnocentric and polycentric strategies in the staffing function so as to gain acceptance in the subsidiaries. Although diversity in political pressures and legal systems in the
regions is an important factor to consider, most respondents said that it hardly ever influences the Bank’s EPRG strategy hitherto in place. The respondents advised that the bank should consider the following factors in designing its EPRG strategy: diverse world marketplace, cultural and linguistic diversity, the economic diversity, regional diversity in wealth and in populations, and developmental diversity. Notably, the KCB EPRG strategy should take into account the diversities of the host countries.

In assessing the influence of the changing world and market place uncertainty on the Bank’s international business management strategy, the respondents said that economic, cultural and financial uncertainties ought to be key considerations when designing the Bank’s international business management strategies. According to the respondents, political uncertainties though rarely considered in designing the international business strategy for the Bank so far, are perceived to be an important factor to consider.

4.5 Effective EPRG Strategy for KCB Bank Group

The researcher found out that a minority of the respondents thought that the current KCB Bank Group’s strategy was effective as shown figure 1 below. Those of the opinion that KCB Bank Group strategy is effective cited the Bank’s success by noting its robust balance sheet and profitability. Those of the opinion that the Bank’s EPRG strategy is ineffective cited the following reasons: lack of a internationalization policy, unpreparedness to handle possible challenges in subsidiary establishment, inconsistency of operations across various subsidiaries and the fact that the big expansion efforts though good, are not well structured hence best practices are not shared across the group.
Furthermore, the top-down approach should be lessened and an integrated approach emphasized.

**Figure 4.1: Current KCB Bank Group EPRG Strategy**

![Pie chart showing response on current KCB Bank Group EPRG strategy effectiveness (61% effective, 39% ineffective).](source)

**Source: Researcher 2013**

The respondents stated that the internationalization has helped to increase the Bank’s presence in the region and its profitability. However, failure to adopt and share the best practices across the group and the consistent push for independence by the subsidiaries from the center has curtailed the bank’s ability to reach its maximum potential. There is need therefore, to adopt regional best practices while increasing subsidiary involvement. The respondents were of the view that an effective EPRG strategy should help the Bank to take advantage of the synergies of its international presence but to an extent address local needs and cultural differences.

The respondents suggested that KCB Bank Group should involve the group functional and regional functional heads in all matters that touch the subsidiaries. Also, they
suggested a Regiocentric (both host and global oriented) EPRG strategy in managing KCB Bank Group’s internationalized business. Essentially, best practices should be adopted and then modified only to extent required to suit local conditions. The results could be appropriately summarized as one respondent clearly put is, “Don’t export Kenyan-ness; keep Africa and the region in focus”.

4.6 Discussion

In an international business environment, an organization would deal with issues such as diverse legal systems, regulatory standards, accounting and reporting, labour standards, different currencies, trade agreements, and cultural diversities amongst other issues. Angouri & Glynos (2009) postulates that the challenges encountered in trading and managing an international business emanate from the diversities of the factors from one region to another. The more an organization operates in diverse market environments, Reiche & Harzing (2011) noted that, the more upsurge in management diversities and hence the complexities encountered in an organization.

In this study the researcher established that the major challenges affecting KCB Bank Group internationalization strategy include: differences in staff work ethics, strong local competition in the new markets, and unusual desire for independence from home country management by the subsidiaries, difficulties in harmonization of standards across same functions and an inappropriate management structure to handle the diversities.

A MNC’ Ethnocentrism, Polycentrism, Geocentrism, Regiocentrism cultures in host countries can be used to analyze and reveal the extent to which an organization ought to respond to local pressures. Polycentric and regiocentric attitudes exhibit sensitivity to
such pressures. Building an international strategy entails solving certain problems related to geographic spread, local adaptation, global integration, and multi-country, multi-business, and multi-firm diversities (Perlmutter & Heenan, 2000). The local adaptation play a critical role in fitting the foreign manager and the entity into the local environment.

In this study, the researcher established that the locus of power, designing systems of control and standards, systems for incentives, recruitments are done at the home country, while the implementation of systems of control and performance evaluations are handled at the subsidiary level. Overall, the study revealed that KCB Bank Group employs a top-down approach in managing its subsidiaries. The suggestion by the respondents; that KCB Bank Group internationalization strategy should employ an integrated approach by collaborating efforts between the home country management and the regional subsidiaries and not to merely apply ethnocentric strategy as is currently the case upholds the study of (Perlmutter & Heenan, 2000).

According to Perlmutter & Heenan (2000) in the ethnocentric attitude, the home country management usually makes all the decisions and most top positions are held by the parent country nationals. In the polycentric approach, the foreign subsidiary has the control over the business functions, although the headquarter may make key strategic decisions. As such, the host country nationals are employed in the top positions in the subsidiary. In a geocentric attitude, direction, control, planning and staffing functions of a firm are based on performance in disregard of nationalities. In regiocentric philosophy, both polycentric and geocentric attitudes are involved hence, the staffs come from any region with competencies and performance as the key parameters (McFarlin & Sweeney, 2006).
The researcher found out that a minority of the respondents thought that the current KCB Bank Group’s strategy was effective citing the Bank’s success as is supported by its robust balance sheet and profitability. On the other hand, those of the opinion that the Bank’s EPRG strategy is ineffective cited the lack of an internationalization policy, unpreparedness to handle possible challenges during and after subsidiary establishment, inconsistency of operations across various subsidiaries and the fact that the big expansion efforts though good, are not well structured hence best practices have not been shared across the group. Furthermore, the top-down approach should be minimized and an integrated approach emphasized.

The Bank could take the advantage of the subsidiary management’s understanding of the local environment by involving them in key strategic decisions that relate to local subsidiaries. As such a Regiocentric EPRG strategy, which is host and global oriented, in managing KCB Bank Group’s internationalized business is the most appropriate model.

Essentially, home country practices and products should not merely be prototypes for the local subsidiaries simply because the home country management began before the subsidiary. The creativity and innovations by the subsidiaries should be encouraged so that the local talents can be applied to grow the bank locally. As such, the subsidiaries innovations, if good enough for other subsidiaries or even the home country management and the entire Bank group should be acceptable by the entire group.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study sought to unravel how the EPRG model is applied to KCB Bank Group in the management of the KCB subsidiaries with a view of establishing the appropriate international business management strategy for the Bank. This chapter provides a summary of findings as well as the conclusions and recommendations according to the objectives of the study.

5.2 Summary

Using a 40 minutes interview session for each respondent who included; 10 middle level managers across different shared functions of KCB Bank Group, 5 senior level managers and 3 top executives; the researcher sought to establish how the EPRG model is applied to KCB Bank Group in the management of the KCB subsidiaries.

The researcher found that KCB Bank Group majorly employs a top-down management approach in planning, directing, controlling and staffing the organization. Having taken lead in the East African market where it provides a diverse banking and investment products, the Bank majorly employs Ethnocentric approach in managing its subsidiaries. However, the Bank has neither an internationalization policy nor an EPRG policy. There is no evidence of a predetermined plan on which EPRG strategy to employ in the coming years by the Bank.

A minority (39%) of the respondents opined that the current KCB Bank Group’s strategy is effective citing the bank’s robust balance sheet and profitability. Conversely, a
majority (61%) viewed it that the Bank’s EPRG strategy is ineffective citing the lack of an internationalization policy, unpreparedness to handle challenges inherent in subsidiary establishment and in the future, inconsistency of operations across various subsidiaries and that the big expansion efforts though good, have not been well structured hence best practices have not been shared across the group. Consequently, the respondents were of the opinion that top-down approach should be minimized and the integrated approach emphasized owing to the uniqueness of the different circumstances and markets.

Although the Bank’s internationalization strategy has helped it to expand in across borders and has strengthened its balance sheet, the study unveiled that best practices aren’t shared across the group. The push for independence from the home country management calls for a need to increase subsidiary involvement in key decision making. Notably, an effective EPRG strategy should help the Bank to take advantage of the synergies of its international presence while amicably addressing the local needs and cultural differences.

As such, KCB Bank Group should involve the group functional and regional functional heads in making resolutions that touch on the subsidiaries. Respondents also suggested a Regiocentric (both host and global oriented) EPRG strategy as appropriate in managing KCB Bank Group’s internationalized business. In essence, home country practices and products should not be obvious templates for the local subsidiaries. Instead, best practices from any country should be adopted but modification to the local conditions is essential. The results could be suitably abridged as a respondent advanced, “Don’t export Kenyan-ness; keep Africa and the region in focus”.

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5.3 Conclusion

The specific study question of this study was; how does the KCB Bank Group apply the EPRG model? The study objective was to establish how the EPRG model is applied to KCB Bank Group in the management of the KCB subsidiaries.

The current KCB Bank Group Ethnocentric EPRG strategy, and the top-down organization management model is inappropriate and unpopular with a majority (61%) of the employees. Inherent internationalization challenges may have arisen and may not be amicably solved due to a lack of a policy. The challenges of internationalization and management of international businesses can be exacerbated by a lack of internationalization policy.

Therefore, failure to draft an internationalization policy in advance before implementing international expansions strategies could lead to inappropriate international expansion strategies and difficulties in implementing the strategies. Further, an integrated EPRG management model can help an international business to include its subsidiaries’ views, expertise, local understanding and individual competencies to participate in positive value addition in an organization. Involving the subsidiaries can help tame their push for independence from the home country management, hence increase oneness, focus and enhanced output in the organization.

5.4 Recommendations

In the view of the findings, the researcher recommends that KCB Bank Group and other regional Banks should employ an integrated approach taking cognisance of the unique circumstances surrounding of the subsidiary.
Also, the researcher recommends that there should be increased local involvement in making decisions that affect the subsidiaries. The study recommends an adoption of a regiocentric (host and global oriented) opportunistic EPRG strategy which can enormously tame the resistance from the local subsidiaries as they would feel part of decisions and hence own up the responsibilities leading to higher output.

Further, planning, directing, control and staffing functions should be designed and enforced in such a way to support and incorporate the local people’s awareness and abilities of the subsidiaries and their awareness to the local environment opportunities as an incentive to grow the Bank.

In the view of the findings of this research, other local banks eyeing the regional market should adopt an integrated EPRG strategy, backed by an appropriately framed internationalization policy.
REFERENCES


APPENDICES

Appendix 1: Letter of Introduction
Appendix 2: Interview Guide

1. For how long have you been working with KCB Bank Group?

2. What is your involvement in KCB Bank Group’s subsidiary establishments/development, policy/strategy making or in operational support.

3. KCB Bank has recently got into the regional markets through establishing operations in the East African region, in your opinion, what do you think are the major challenges the Bank is facing in managing these international business subsidiaries/subsidiaries?

4. Are the internationalization challenges related to the unpreparedness or are they normal challenges?

5. Are the internationalization challenges majorly felt at the branch/subsidiary level or they tend to escalate to other subsidiaries and whole Bank group?

6. Do you feel there was/have been mechanisms to address the above challenges before the actual commencement of the subsidiaries? (Please explain).

7. What impact do you think the preparedness/unpreparedness to manage the possible issues brought about by internationalizing the business has caused the KCB Bank Group?
8. What managerial aspects do you think the Bank should have employed to avoid/manage the challenges the entity is experiencing?

9. In your opinion, how does the structure adopted by KCB Bank Group affect its subsidiaries management effectiveness? Please explain.

10. Are you aware of the KCB Bank Group’s International business management policy?

11. What is the KCB Bank Group’s International management policies majorly concerned with?

12. What are the fundamentals of these policies that ensure effective international subsidiary management?

13. What level of importance is attached to the following changing world and market place uncertainties in influencing KCB Bank Group’s international subsidiary management strategy and policy?
   i) Political uncertainties
   ii) Economic uncertainties
   iii) Cultural uncertainties
   iv) Financial uncertainties
14. In your opinion, how effective are KCB Bank Group’s policies in managing international Subsidiaries/subsidiaries? Are they very ineffective, Ineffective, Effective, Very effective or Not at all.

15. How often does KCB Bank Group revise/review its international subsidiaries/subsidiaries management policy?

16. In your opinion, who should be involved in developing KCB Bank Group’s subsidiary management strategies and policies? Please explain.

17. To what extent would you rate your company as Ethnocentric (Headquarter/parent country centered), Polycentric (Host country centered), Regiocentric (Blocks regions and assumes they have similar requirements) and Geocentric (geographic centered)?

18. In your opinion, does KCB Bank Group employ a top-down (Headquarters to Subsidiaries) or Bottom-up (subsidiary to headquarters) approach? Please explain

19. Who is currently involved in developing KCB Bank Groups’ EPRG strategy for subsidiaries Management? Is it: Headquarter Managers, Local/Host country Managers, Group top Executives, A Special Designate Committee or A collaborated effort between the Home country management and Subsidiaries?
20. In your opinion, what factors should be considered in KCB Bank Group’s EPRG strategy development?

21. What is the extent to which the following diversity factors are considered for the purpose of KCB Bank Group’s EPRG strategy development?
   i) Political Diversity
   ii) Economic Diversity
   iii) Regional diversities in wealth and populations
   iv) Cultural and Linguistic Diversity
   v) Country size and population
   vi) Developmental Diversity

22. What is the impact of the Bank’s current EPRG strategy in managing its subsidiaries?

23. In your opinion, how effective is KCB Bank Group’s current EPRG strategy in subsidiary management?

24. In your opinion which EPRG strategy would suit the Bank and why?

25. Finally, do you feel that KCB Bank Group is prepared in terms of strategy choice to manage the challenges of its future expansions/subsidiaries? Please explain.

Thank you for your time!