STRATEGIES USED BY INDEGENEOUS KENYAN COMMERCIAL BANKS IN EXPANDING INTO AFRICA

BY

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DECLARATION

This management research project is my original work and has not been presented for a degree course in any other University.

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This management project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This project is dedicated to my wife Carol, Children Fabio and Kayla, parents, brothers and sisters for creating an enabling environment that has seen the success of this project.

May God bless you all.

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Abbreviations

CBK-	Central Bank of Kenya
COMESA-	Common Market for Eastern and Southern Africa
EAC-	East Africa Community
SADC-	Southern Africa Development Community

Abstract

The study is a comprehensive evaluation of the strategies adopted by the indigenous Kenyan banks in expanding into Africa and the challenges faced. Various variables were used to establish the strategies adopted by the banks in regional expansion. The study targeted the eight indigenous commercial banks with regional presence in East Africa, Southern Sudan and Rwanda. Ten out of the sixteen (67%) targeted individuals responded.

The study found that there were several entry strategies including strategic alliances, Joint Ventures, foreign direct investments/ wholly owned subsidiaries, Agencies used by Kenyan banks to enter into foreign market. The study also revealed that most of the banks were planning to use the same strategy to expand to other regions in Africa. The respondent confirmed that the level of political stability and the nature of legal systems are some of the challenges faced when entering new countries. Others were state of local economy, availability of skilled labor and quality of managerial workforce. Most of the banks confirmed to have considered the underlying challenges in various countries before adopting the most appropriate entry strategy.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In a competitive world characterized by stiff competition, innovative companies can leverage on existing opportunities to redefine the competitive landscape to their own advantage. One avenue through which this can be achieved is by expanding into new markets. Expanding into new markets is full of risks because companies are not sure of the outcome, however, it may equally be dangerous for a company to shy away from new markets (Claude-gaudillat & Qu'elin, 2006).

There are various expansion strategies that companies can use to enter foreign markets. These include corporate diversification where a company introduces new products in the foreign market. Secondly, a company can enter a foreign market through acquisition, which involve taking over another company in the new market and adapting it into the company. The third expansion strategy is strategic alliances, which entails doing business in the foreign market by liaising with a company that already exists in the foreign market (Karim and Michelle, 2000).

The study will focus on indigenous Kenyan commercial banks that have capitalized on regional integration to expand their presence in Sudan and East African Community (EAC) Partner States. Kenya Commercial bank became the first indigenous bank to expand in the region. Other indigenous banks followed suit. At present, there are eight indigenous Kenyan commercial banks that have subsidiaries in different countries across the region. These include African Banking Corporation Ltd. (ABC), Commercial Bank of Africa Ltd. (CBA), Equity Bank Ltd., Guaranty Trust Bank (formerly Fina Bank), Imperial Bank Ltd., Investment & Mortgages Bank Ltd. (I & M), Kenya Commercial

Bank Ltd. (KCB), and NIC Bank Ltd. (Central Bank of Kenya, 2013). Cooperative Bank has been excluded from the study because it expanded to Southern Sudan towards the end of 2013.

1.1.3 Concept of Strategy

Various scholars have contributed to the evolution of strategy literature. Specifically, Ansoff (1965) and Andrews (1965) were the pioneer scholars who addressed strategy process and content. Chandler (1962) described the development of big corporations and the changes in their administrative structures to accommodate the increased demand placed on management as a result of business expansion. Chandler (1962) broadly defines strategy as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals." (p. 13). Andrews (1965)defines strategy as "…the pattern of major objectives, purposes or goals…stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be" (p. 28). Andrews (1965, p. 181) explains corporate strategy as "the chief determinant of…the processes by which tasks are assigned and performance motivated, rewarded and controlled…"

According to Ansoff (1965), formulating corporate objectives in itself is not enough in defining a firm`s scope and growth direction. In this regard, Ansoff (1965) defines strategy in terms of a firm`s strategic decisions that "…are primarily concerned with external, rather than internal, problems of the firm and specifically with selection of the product mix which the firm will produce and markets to which it will sell." (p. 95). From these definitions, it is evident that business strategy is primarily concerned with the actions necessary to develop superior customer value in the company`s target markets, with the ultimate goal of achieving superior performance.

1.1.1 Expansion Strategies

Contractual entry mode refers to long-term non-equity associations that involve a domestic company and another company based in the foreign market (Paul, 2009). For non-tangible products, contractual agreements are the best in entering foreign markets. Contractual agreements include franchising, management contracts, licensing, and turnkey projects. Licensing entails international licensing, which combines the advantages of technology and skills of the licensor with the local knowledge of the licensee (Buckley & Ghauri, 1999). Franchising attracts fewer risks and is particularly common in the fast food industry. Franchising is where company A supplies company B with intangible property and other forms of assistance over a given period (Deresky, 2008). Management contracts involve a company supplying another with managerial expertise for a particular period (Wild, Wild and Han, 2010). Turnkey projects are projects implemented by foreign firms based on the principle of ‘Build, Operate and Transfer’ (Paul, 2009, p 337). Although it is less risky, the foreign company executing the turnkey project has no long-term interest in the foreign market.

The investment entry mode on the other hand is characterized by an ownership involvement in the target country. This might be an involvement in form of plants or other production units in the foreign country that perform similar activities (horizontal), upstream or downstream activities (vertical) or unrelated activities (conglomerate).

Two main types of the investment entry mode exist: sole venture and joint venture. These types differ in the degree of ownership and control.

In a sole venture the domestic company has full ownership and control over the foreign subsidiary. A sole venture might be in the form of acquiring an existing company (acquisition) or creating a new company (Greenfield investment). In a joint venture, ownership and control are shared with a foreign company (Paul, 2009). An acquisition is a rapid way of entering a new market. The domestic company (acquirer) enters the foreign market by acquiring an already established company. This way, the acquirer can take advantage of distribution channels, a qualified labor force, management experience, local knowledge and an established brand name (reputation). However, an acquisition is an expensive option and involves high risks. The integration of the acquired company (target) might be hindered by cultural differences. In addition, cultural differences might also lead to communication and coordination problems. Furthermore, the acquisition of a company could cause resistance in the foreign market, especially when the company is regarded as part of the country's heritage (Buckley and Ghauri, 1999).

A Greenfield investment on the other hand is a slow entry mode and requires high investments. However, it allows forming a subsidiary shaped to meet the needs of the domestic company. As a result, operational efficiency might increase. Furthermore, there is no need to find an adequate target, which could prove to be very difficult. Joint ventures are a less costly entry mode because risks and benefits are shared.

In this mode, the domestic company gets access to the expertise and contacts in the foreign market. The foreign partner furthermore contributes with skills and knowledge that is required to manage a business in the foreign country. However, flexibility is low compared to sole ventures as a result of the cooperation (Paul, 2009).

1.1.3 Kenyan Commercial Banks

The banking framework as at 31st December 2013 comprised of 53 financial institutions. 44 of these are banking institutions (43 banks and one mortgage finance institution-Housing Finance) and nine deposit taking micro finance institutions with the Central Bank of Kenya as the regulatory authority (Banking Survey, 2014).

The banking industry is governed by numerous regulations including the Banking Act, the Central Bank of Kenya Act, the Companies Act, and numerous prudential guidelines published by the Central Bank of Kenya. In 1995, the banking sector in Kenya was fully liberalized and exchange controls abolished. As at December 2013, Kenya had 43 commercial banks of which 26 were local private commercial banks, 14 foreign commercial banks and 3 local public commercial banks (Central Bank of Kenya, 2013). In addition, Kenya had 4 large microfinance banks, 2 medium microfinance banks and 3 small microfinance banks (Central Bank of Kenya, 2013). Local private banks lead in terms of both ownership and asset base as indicated in the Figure 1.1.

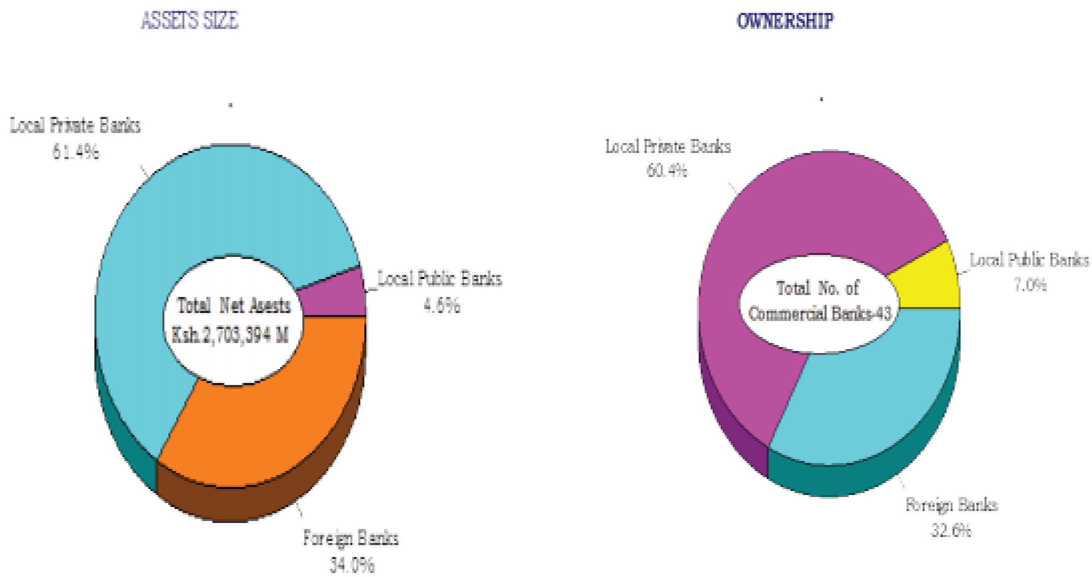


Figure 1.1: Asset base and ownership of commercial banks (%) as at December 2013

Source: (Central Bank of Kenya, 2013).

Commercial banks in Kenya play a significant role in the country`s economic growth by availing funds for investors to borrow as well as promoting financial deepening in the domestic economy. From the turn of the millennium, the financial performance for Kenyan banks has improved significantly. Data from the Central Bank of Kenya indicates significant growth in all major areas of the banking industry, including financial performance (Central Bank of Kenya, 2013). The positive growth partly explains why many local banks have opted to expand to neighboring countries by creating subsidiaries, opening up new branches or taking over established banks in the foreign markets.

The internalization has been further promoted by the liberalization of international financial markets. The industry has also made significant progress in automation; many of the banks have transitioned from traditional banking in order to satisfy the growing complex demands of the 21 century customers and the tackle the challenges of globalization (Central Bank of Kenya, 2013).

1.1.4 Indigenous Kenyan Commercial Banks

At present, there are eight indigenous Kenyan commercial banks that have subsidiaries in different countries across the region. These include African Banking Corporation Ltd. (ABC), Commercial Bank of Africa Ltd. (CBA), Equity Bank Ltd., Guaranty Trust Bank (formerly Fina Bank), Imperial Bank Ltd., Investment & Mortgages Bank Ltd. (I & M), Kenya Commercial Bank Ltd. (KCB), and NIC Bank Ltd. (Central Bank of Kenya, 2013). Kenya Commercial bank became the first indigenous bank to expand in the region. Cooperative Bank has been excluded from the study because it expanded to Southern Sudan towards the end of 2013.

Indigenous Kenyan commercial banks are not the first in Africa to expand outside their home countries. In Kenya, there are several banks from other African countries. These include CFC Stanbic Bank, which belongs to the South Africa based Standard Bank Group and Eco-Bank, a Pan African banking group based in Togo (Central Bank of Kenya, 2012). In 2011, the Kenyan banking industry saw the entrance of two other foreign financial institutions (the FirstRand Bank of South Africa and the HSBC from the UK) that set up their representative offices in the country (Central Bank of Kenya, 2012). In Kenya, the concept of international expansion (internationalization) was first used by multinational commercial banks from the West, including Citibank NA from the United States, and Standard Chartered Bank and Barclays bank from the United Kingdom that dominated the Kenyan banking industry until late 90s. The first indigenous Kenyan bank to expand its operations outside Kenya was the Kenya Commercial Bank (KCB). Other indigenous commercial banks followed suit. The continuing regional integration coupled with the growing competition in the domestic banking sector has seen many domestic banks establishing their presence in East African Community partner states and Southern Sudan (Central Bank of Kenya, 2013).

Competition in the Kenyan banking industry has increased from both local and international banks to the advantage of the economy, customers and shareholders. The Central Bank of Kenya formulates and implements fiscal policy. It also sets the overnight lending rate between commercial banks and serves as the banker of all banks and the lender of last resort. It is the responsibility of the CBK to ensure that the financial system functions properly, ensure adequate liquidity in the economy and ensure the stability of the Kenya shilling.

1.2 Research Problem

The problems of banks moving into new areas is the fact that they experience many challenges which include; qualified staff, regulatory environment in the host country, and political economic instability of the host countries. As a result, different banks choose different methods when expanding into these markets for different reasons. Commercial banks face numerous complexities and challenges expanding in foreign markets because these markets have different and unique operational and regulatory framework, which makes it important to understand the different strategies adopted by the different indigenous commercial banks in Kenya. Previous studies indicate the choice of foreign entry strategy affects a company`s future decisions and performance in the international markets (Kieti, 2006).

The development of innovative financial products, regulatory reforms, adoption of information technology, and growing global trade has driven the evolution of banks within the global financial system (Hejazi & Santor, 2010). As a result, many financial institutions across the globe, including the indigenous Kenyan commercial banks, are increasingly expanding internationally. The international standards and practices created as a result of the internationalization of the financial system can permit countries to develop robust, quality, and efficient financial system (World Trade Organization-World Bank, 2000).

A number of studies have been conducted on foreign expansion strategies. The findings by Cavusgil (2012) indicate that the mode of entry selected is largely determined by the nature of business, the goals of the company and its products. This is particularly common among advertising companies, commercial banks, and market research companies. Lambin (2007) also did a study on foreign market entry strategies. He notes that there are numerous foreign market entry strategies, with each presenting a different level of commitment and risk to the business. Tan (2009) assessed foreign entry strategies and post-entry growth. The focus of the study was on Greenfield investments and acquisitions. The findings by Tan (2009) indicate that managerial resources are a major hindrance to a company`s growth in a foreign market. Entry modes differ in terms of the use of managerial resources. Acquisitions save on managerial resources when there is weak interdependence within the multinational enterprise. On the other hand, Greenfields are best when there is strong and complex interdependence within the MNE. A number of other studies have also been conducted targeting the expansion of specific Kenyan banks in particular foreign markets and the effects of their expansion on performance.

Thus far, it appears that there is no study that has been conducted to comprehensively analyze the types of expansion strategies adopted by indigenous Kenyan commercial banks entering African markets. This study seeks to bridge this gap by addressing the research question: what foreign market expansion strategies have been used by indigenous Kenyan commercial banks in expanding to Africa? And what were the challenges that these banks faced in implementing these strategies?

1.3 Research Objectives

The study seeks to attain the following objectives;

i. To determine the strategies adopted by indigenous Kenyan commercial banks in entering the African market.

ii. To identify the factors that influenced the choice of entry strategies.

1.4 Value of the Study

To practitioners, the results of the study is expected to benefit the management of the various commercial banks in Kenya, particularly the indigenous banks as it will identify and analyze the various expansion strategies adopted by Kenyan banks in expanding to

Africa. It will also highlight the implementation challenges and their remedies. It will therefore serve as reference point with regard to international expansion strategies in the African market.

To researchers, the study will comprehensively analyze the choice(s) of foreign market entry strategy adopted by the different banks and as a result offer valuable secondary data for future studies.

To policy makers, the study will highlight useful information that may inform policy formulation and implementation in the area of trade agreements, particularly among partner countries in three trading blocs that exist in the region (East Africa Community (EAC), Southern African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA).

CHAPTER II: LITERATURE REVIEW

2.1 Introduction

This chapter reviews previous studies that have been done on foreign market entry strategies. The literature review includes a review of theoretical framework of expansion strategies, modes of foreign market entry and why firms choose to go abroad.

2.2 Theoretical Foundation of the Study

Andersen (1997) defines Internationalization as the process of adapting exchange transaction modality to international markets. This definition includes both entry mode strategy and international market selection. Anderson's (2000) the internationalization mode from an entrepreneurial perspective; Uppsala model (Hansson, Sundell & Ohman, 2004) and Driscoll's (1995) foreign market entry modes choice framework provide the theoretical foundation for this study.

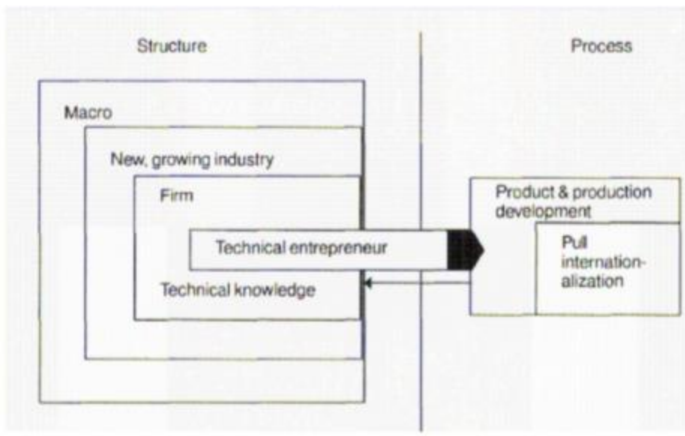
2.2.1 The Internationalization Mode from an Entrepreneurial Perspective

In 2000, Anderson established Internationalization modes from an entrepreneurial perspective; he was the first analyze and explain the relationship between entrepreneur and internationalization process. He makes an explanation for how entrepreneur influence internationalization process. There are three types of entrepreneur as shown in figure 2.1; technical entrepreneur, marketing entrepreneur and structure entrepreneur.

The Technical Entrepreneur Pull strategy

The technical entrepreneurs mainly focus on technology. The most important is products and production development. Internationalization is not the main interest but the new product can be known through the international network and a request from abroad can lead to exports or licensing agreement. These international activities do not acquire fully owned subsidiaries and the industry structure for markets with new products is mainly emergent or growing. The markets entered depend on which countries are making the inquiries as illustrated in Figure 2.1

Figure 2.1: The Technical Entrepreneur and International Pull strategy

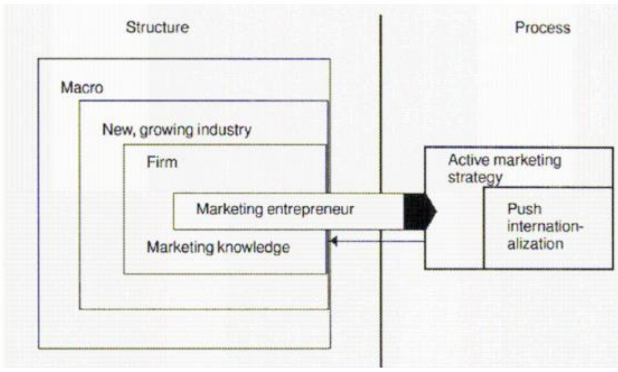


(Source: Anderson, 2000)

The Marketing Entrepreneur Push strategy

This marketing entrepreneur has found a need in the market and has ideas of how to fill this demand. They considered the market channels and brands are more important than the products. He is proactive in internationalization process and willing to develop new international ventures and choose establishment model, such as Greenfield establishment which need a lot of resources. These establishment models make it possible to penetrate markets more quickly. Marketing choose are depending on the personal preference and network is important.

Figure 2.2: The Marketing Entrepreneur and International Push strategy

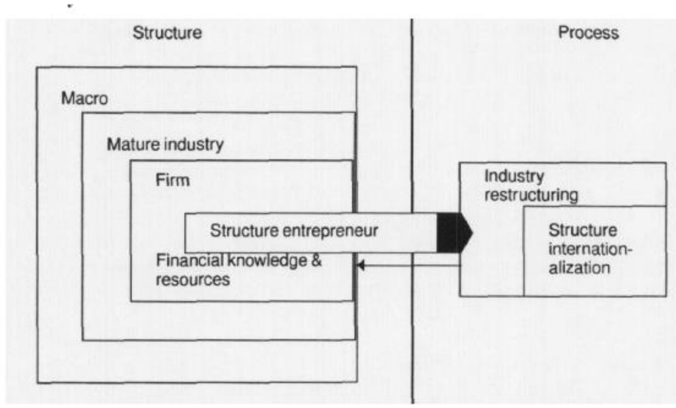


(Source: Anderson, 2000)

The Structure Entrepreneur Industry Restructuring Strategy

The structure entrepreneur acts in mature industries and his strategy is implemented at cooperate level which means his not direct intervene in operational matters. He is trying to restructure the company and industry by combing organizations. From this perspective, the internationalization is not separate but a consequence of the overall strategy. He prefers acquisition and mergers to reduce the capacity in the industry. Marketing chosen in accordance with the competitive acquisition and markets without attractive acquisition or merger are not entered.

Figure 2.3: The Structure entrepreneur and industry restructuring strategy



Source: Anderson (2000).

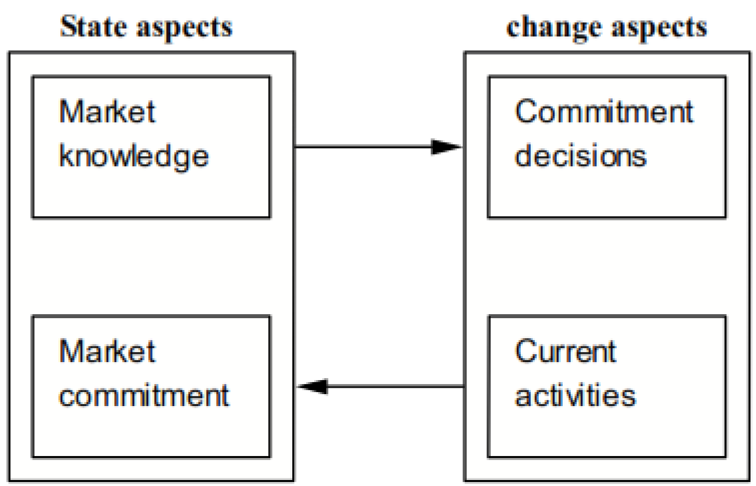
2.2.2 The Internationalization Process Mode: The UPPSALA Model

To explain the sequence of development, it was hypothesized by Johanson & Vahlne (1977) that firms would enter new markets associated with successively greater psychic distance. Psychic distance was defined as the factors preventing or disturbing the flow of information between a firm and its markets, including factors such as language, culture, etc.

To explain the incremental nature of the process, Johanson & Vahlne (1977) further formulated a dynamic model, in which the outcome of one cycle of events is seen as providing the input for the following cycle. They established four stages of firm internationalization process. They posited that first are preoccupied with home market at initial stages and no regular export activities. After consolidated their presence in the home front, they extended their activities across border through exporting via independent representative or agents. The third stage involved firm committing their resource in the international market by establishing oversea sale subsidiary, while the final stage entailed establishment of foreign manufacturing/ production facilities.

This preposition has been improved upon and integrated in their work in 1990 which is presented below. The basic structure of the model is provided by the distinction between state and change aspects of internationalization. The former include foreign market commitment (that is resource commitment) and knowledge about foreign markets and activities. The change aspects include the decisions to commit resources and engage in foreign activities, as described below. The basic assumption is that market knowledge and market commitment affect both commitment decisions and the way current activities are performed which, in turn, affect market knowledge and entry strategy (commitment) (Andersen, 1993). The model basic concept is shown in Figure 5.

Figure 5: The model basic concept



Source: Johanson & Vahlne (1977)

2.3 Modes of Foreign Market Entry

Depending on the regulations in the host country, foreign banks choose a wide range of entry modes when expanding into a host country (Clarke et. al. 2003). The choice of ownership structure for a foreign bank subsidiary is determined by a wide range of factors that can be grouped into two distinct, but interacting categories. One set of factors influences the type of ownership structure the bank entering the new market adopts. These factors may include the capabilities of the foreign bank, the bank`s strategic goals, its international experience and the transactional costs associated with the different methods of transferring capabilities.

The other set of factors deals with what a foreign bank can get, depending on the conditions in the target market, which includes regulations and the preferences and goals of the local authorities in the host market. In countries with high levels of government control such as China, the ownership structure of a foreign subsidiary is often determined through a negotiation process between government authorities and the foreign bank. In such processes, the relative bargaining strength of the parties influences the outcome (Gomes-Casseres, 1990 and Pan, 2002). The entry strategy selected is often viewed as a good indication of the level of commitment by the foreign bank in the host country, because to the parent bank, the different modes of entry represent different degrees of control, risk, and equity commitment. As a result, they serve as an indication of the willingness of the foreign bank to make long-term and often costly investment (Slager, 2004; Tse, Pan and Au, 1997 and Blandon, 1998).

The following modes of entry are widely discussed in literature: Creating a representative office, setting up foreign branches, joint ventures and wholly foreign-owned banks (subsidiaries).

A representative office represents not only the most limited type of entry mode, but also the easiest to establish. It allows a foreign bank to establish its presence in a host market at a relatively low cost (Uiboupin, 2005; Clarke et. al., 2003). A representative office does not attract deposits and does not extend loans; however, it serves as an intermediary between its parent bank and the bank's customers without actually processing financial transactions. Moreover, a representative office may facilitate the creation of new business opportunities and transmit information to and from the host market where it is located. A representative office is normally best positioned to gather and interpret information required by a domestic customer or by its parent bank because it is located in the host country and is highly familiar with the situation in the host market (Naaborg, 2007; Slager, 2004 and Clarke et. al., 2003).

Setting up a foreign bank branch often involves a higher level of commitment compared to a representative office and often entitled to provide a broad range of services. Unlike a subsidiary, a foreign branch does not have an independent legal status, but operates as an integral component and legal extension of the parent bank in the host country. This implies foreign bank branches usually depend on the capital base of the parent bank and provides the parent bank with the highest possible level of supervision and control over its operations in the foreign market. However, it also exposes the parent bank to risks because the parent bank is legally responsible for all commitments that the foreign branch enters into in the host market (Clarke et. al., 2003; Slager, 2004 and Naaborg, 2007).

Joint venture banks are often funded jointly by one or several foreign banking institutions and one or several companies in the host country. It involves sharing risks, assets, profits and participating in the ownership (equity) of the joint venture. In most cases, employees or part of existing organizations within the parent banks may be brought into the joint venture (Slager, 2004). Generally, banks created through joint ventures are independent legal entities that share equity registered under the laws of the host country. Supervision and control over the joint venture is shared by the joint venture partners (Julian, 2005). There are many reasons as to why a bank may choose joint venture as its entry mode. These include reducing their investment risks, capturing growing markets or facilitating host market operations of their joint venture partner (Tse, Pan, and Au, 1997).

Foreign bank subsidiaries are independent legal entities incorporated under the laws of the host country. However, the parent bank still has a majority or controlling stake in the subsidiary. Unlike other entry modes, subsidiaries require the highest levels of resource commitment from the parent bank. Foreign bank subsidiaries are usually allowed to participate in a wide range of financial services activities. In most countries, foreign bank subsidiaries engage in nearly all activities that domestic banks engage in and must follow the same legal requirements (Slager, 2004 and Clarke et. al., 2003). The best alternative to creating a subsidiary is acquiring a local bank.

Instead of setting up from scratch an institutional representation of a bank in a host country, banks may prefer to enter foreign banking industries through acquisitions. Acquisition of an institution could be possible through using funds to buy the stocks of an existing domestic bank (Clarke et al., 2003). This form of entry may be preferable, especially when barriers to entry stand in the way of a bank`s plans to enter a profit-promising banking sector. One of the benefits of entry through acquisition is that banks may better understand the domestic financial system and can establish relations with market participants faster than in the case of a new establishment. However, a possible disadvantage of acquisition may be the difficulty for foreign entrants to turn a failing bank into a success (Crystal et al., 2001). Difficulties such as loan quality and the problem of accommodating a foreign entrant's managerial conduct may act as a constraint on improving the performance of the target bank

2.4 Why Companies Expand Internationally

There are numerous reasons that explain why banks expand beyond their domestic borders. One of the leading motives is that foreign banks follow their clients (Buch, 2000; Moshirian, 2001, and Green et al., 2004).

The second motive why a bank may choose to expand to foreign markets is the attractiveness of the host market. This is determined by the characteristics of the host market that include its size, the country`s stability and the characteristics of the local banking industry. Several studies conducted in the past support the view that banks are attracted by profitable opportunities in the host countries. For instance, Claessens et al. (2000) modeled foreign bank presence in 80 different countries, including several transition economies over the period 1988 to 1995. Their findings indicate that the presence of low tax regimes and high per capital incomes in the host markets tends to attract foreign banks.

The third reason for foreign market entry is the existing regulations in the host county that generally work to limit competition and protect inefficient domestic commercial banks (Clarke et al., 2003). The findings by Foccarelli and Pozzolo (2001) indicate that foreign banks prefer to invest in economies that have fewer regulatory restrictions.

Lensink and De Haan (2002) find that entry of foreign banks in transition economies positively responds to economic reform initiatives. In addition, their findings indicate that economic reforms significantly impact foreign bank entry through the efficiency of the financial sector and by boosting domestic investment.

2.5 Factors Influencing the Choice of Entry Mode

Available literature on entry mode or the organizational form that banks adopt when expanding to foreign markets often separates between parent bank specific factors and host country specific factors that influence the choice of entry mode of foreign banks. Cerutti, Dell'Ariccia and Martínez Pería (2005) conducted a study to examine the factors that influence the organizational form under which foreign banks operate in foreign markets. Activities of 100 largest banks in the world were examined. With respect to the bank`s motives and customer focus, the authors found that establishing subsidiaries is the most preferred mode of entry by commercial banks that enter the market to create large retail operations, because it permits easier penetration of the host market. Similar findings were found by Konopielko (1999) and Naaborg (2007); both studies investigated entry of foreign banks in Eastern and Central European countries.

According to Konopielko (1999), foreign banks in the Czech Republic, Poland and Hungary that look for foreign market opportunities appear to prefer subsidiaries, which allow them to build their branch networks in the host market. Similarly, Naaborg (2007) notes that for foreign banks in 21 Eastern and Central European countries, their focus on retail customers is also linked to using the subsidiary format. On the contrary, Di Antonio, Mariotti and Piscitello (2002) indicate that for Italian banks, when they follow their customers in foreign markets, they tend to adopt internal forms (representative offices and/or branches) that operate on the basis of the parent company`s capital and reputation.

International experience and the size of the bank are also parent-specific factors that influence the choice of entry mode. Both Blandon (1998) who studied foreign banks in Spain, and Ursacki and Vertisky (1992), who investigated foreign banks expanding into Japan and Korea, show that the size of the parent bank and their experiences in other markets influence the entry mode they choose, with bigger and more experienced banks preferring organizational forms that require higher commitment levels. On the other hand, branches are the most preferred if the foreign operations are small in size (Cerutti, Dell'Ariccia &Martínez Pería, 2005). For foreign banks in the Chinese market, Leung and Young (2002) show that existing linkages to Asia and the size of the bank increase the probability of a bank participating in China`s RMB market that calls for stronger commitment in the country. For Italian banks expanding into foreign markets, the findings by Di Antonio, Mariotti and Piscitello (2002) also indicates that banks that are larger in size and possess more international experience have a higher likelihood of adopting higher levels of commitment.

In terms of host country factors, the regulatory environment has been shown to be a major factor that influences the choice of entry mode by foreign banks (Konopielko, 1999; Slager, 2004; Cerutti, Dell'Ariccia and Martínez Pería, 2005, and Naaborg, 2007). Cerutti, Dell'Ariccia and Martínez Pería (2005) indicate that foreign banks are highly likely to operate as branches in foreign markets that have higher corporate taxes and in countries with lower regulatory restrictions on bank entry, particularly on foreign branches.

In economies with high corporate taxes, banks prefer to establish branches as their entry mode because this gives them advantage in repatriating profits to the bank`s home country (Cerutti, Dell'Ariccia and Martínez Pería, 2005). Konopielko (1999) concludes that the choice of entry mode adopted by foreign banks reflect available opportunities and country-specific regulations on foreign bank entry. From a study of 44 banks from the United Kingdom, United States, Germany, Japan, Spain, France, Netherlands and Switzerland, Slager (2004) argues that the regulatory and legal framework (such as differences in taxes, regulations on capital requirements, and the desired legal liability structure) both in the host and home market are major factors that influence a foreign bank`s choice of entry strategy in the host market. According to Di Antonio, Mariotti and Piscitello (2002) in countries that have regulations on foreign banks, Italian banks only set up representative offices.

Political and economic risks in the host market is yet another factor that influences a foreign ban`s choice of entry mode. Cerutti, Dell'Ariccia and Martínez Pería (2005) argue that given that the parent bank is responsible for the liabilities of its subsidiaries and branches in foreign countries, the political and economic risks in the host country influence the choice of entry mode. The authors make the assumption that generally, parent banks are fully responsible for their branches, however, for subsidiaries, the exposure of parent bank to the equity invested in the subsidiary.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the overall methodology that will be used in the study, the population studied, and how the data was be collected and analysed.

3.2 Research Design

This study adopted a survey design. The study was cross-sectional in nature in that the respondents were interviewed only once .The survey design was used to collect data from members of the population by asking the targeted senior managers relevant questions using structured questionnaires. This design was used because the targeted population was relatively small and manageable.

3.3 Population

According to Burns and Grove (1993), a population is defined as all elements that meet the sample criteria for inclusion in a study. The population studied comprised of the eight commercial banks that have regional presence by 2013. These are Kenya Commercial Bank, Equity Bank, Investment and Mortgage bank, National Industrial and Credit bank, Imperial bank, Commercial bank of Africa and Guaranty trust bank.

3.4 Data Collection

The researcher used of both primary and secondary data. Primary data was be collected through the use of structured questionnaire. On the other hand, secondary data was collected through desk search techniques from published reports and documents. The secondary data included the banks` publications, periodicals, journals and information sourced from the internet and the banks` websites. The questionnaire comprised open-ended questions that allowed the researcher to gather qualitative data. This was used to gain a better understanding and possibly allow insightful interpretation of the findings from the study. The questionnaire included two sections. The first section included the operational and demographic characteristics. The second section focused on the entry strategies and the factors that influence the choice of these strategies. Those interviewed for this study are individuals in senior management positions in the respective banks that include managers from different departments.

3.4 Data Analysis

After conducting the interviews, the questionnaires were edited for completeness. The qualitative data gathered was analyzed using conceptual content analysis, which is the most appropriate for this type of study. Nachmias& Frankfort (1976), define content analysis as a method of drawing inferences through systematic and objective identification of specific message characteristics and applying the same approach to relate trends. Content analysis was used in analyzing the interviewees` responses on the factors that influenced their choice of entry mode and also on the strategies adopted by the banks in entering the foreign markets. The data was then analyzed by use of descriptive statistics such as mean variance and standard deviation.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1Introduction

This chapter discusses the data analysis, results and interpretations sought from the research. The purpose of the study was to establish the strategies used by indigenous Kenyan commercial banks in entering into Africa and the underlying challenges. A total of sixteen questionnaires were distributed to the senior management of the eight banks with regional presence.

4.2 General Information

In this part, the researcher wanted to establish the positions held by the respondents in their institutions, the number of years target banks have been in business and the number of year the banks have been in international business.

4.2.1 Current position

The researcher obtained the responses from four senior managers in the strategy and administration departments and six senior managers from marketing department and Diaspora business departments depending on the structure of the target banks. These respondents were knowledgeable on matters dealing with expansion strategies adopted by their bank and the challenges faced by these institutions when expanding into the African region. Data from the respondents was collected and analyzed using Microsoft Office Excel. The positions of respondents are represented in percentages in Table 4.1.

Table 4.1: Current Position

Current Position	Respondents	Percentage
Executive Director	4	40%
General Manager/Senior Manager	6	60%
Total	10	100%

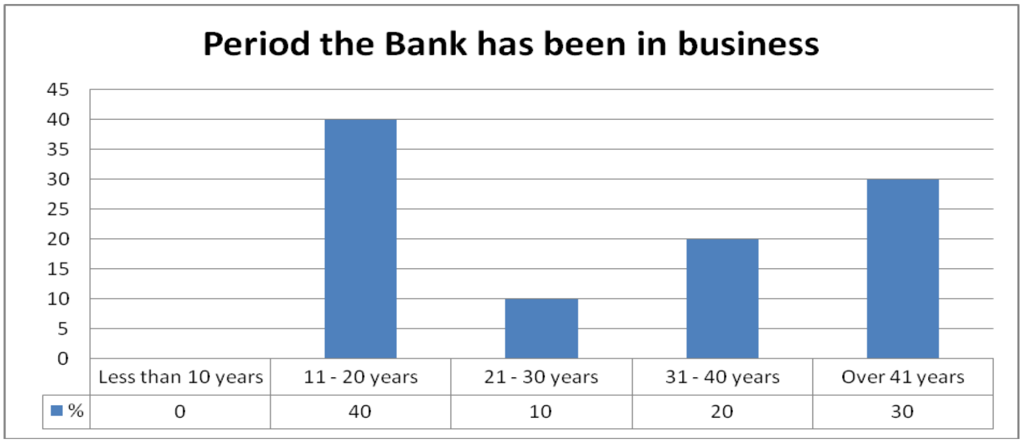
Source: Survey data

The researcher noted that that the respondents were influential in crafting expansion strategies since all of them held senior and crucial positions in their banks.

4.2.2 Years in banking Business

The organizations surveyed have been offering financial services for a period of time as represented in Figure 4.1. This means that these indigenous financial institutions have been in operation for over ten years. 30%(2) of the surveyed banks have been in business for over 41 years, 20%(2) for a period of between 31 to 40 years, 10% (1) for a period of between 21 to 30 years while 40% (3) of the banks have been providing financial services for a period of between 11 and 20 years. This according to the researcher meant that the banks were experienced in their business and therefore making informed expansion decision. The information is graphically represented in figure 4.1.

Figure 4.1: Period the bank has been in business

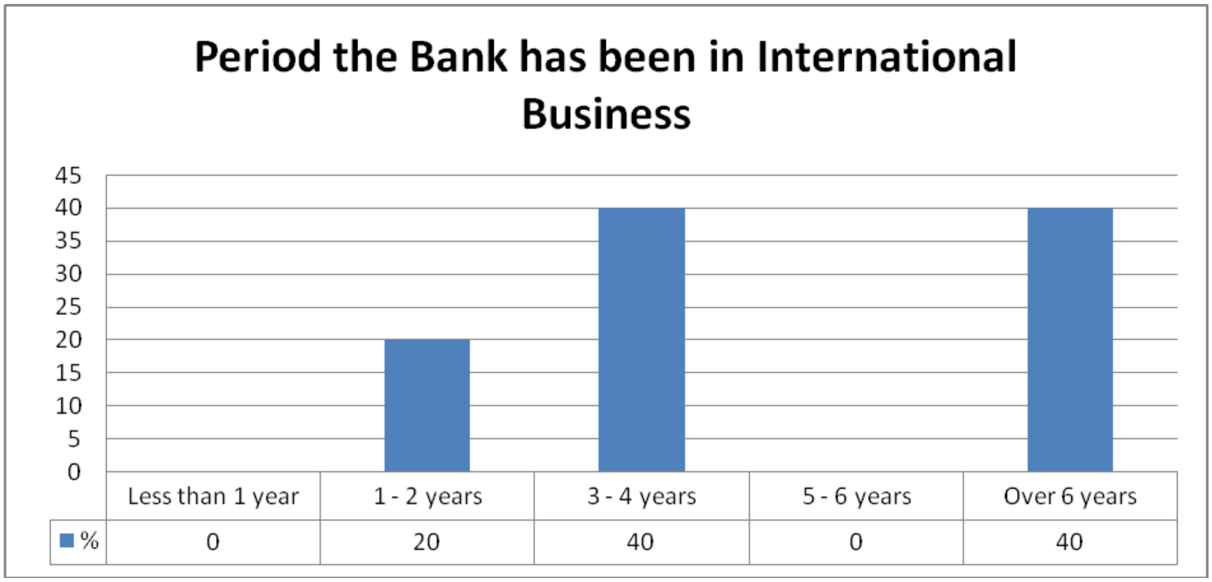


4.2.3 Experience in international business

In this area the researcher wanted to establish the period the banks have been in international business. Figure 4.2 summarizes the length in time that the surveyed banks have been in international business or when these financial institutions internationalized. The year that the indigenous Kenyan banks started internationalizing confirmed the response offered by the respondents on the duration their banks have been in international business. Two financial institutions have been in international business for over 6 years, two have been doing business beyond Kenyan borders between 3 to 4 years and one indigenous bank has been in international business between 1 to 2 years. This according to the researcher meant that though Kenyan banks have not been international business for a long period of time, more banks have been internationalizing in recent past. The researcher also noted a lag in regional expansion after the first two banks internationalized. This meant that the banks choose to learn from the experience of the pioneers first before internationalizing.

This information is graphically represented in figure 4.2.

Figure 4.2: Period the bank has been in international business

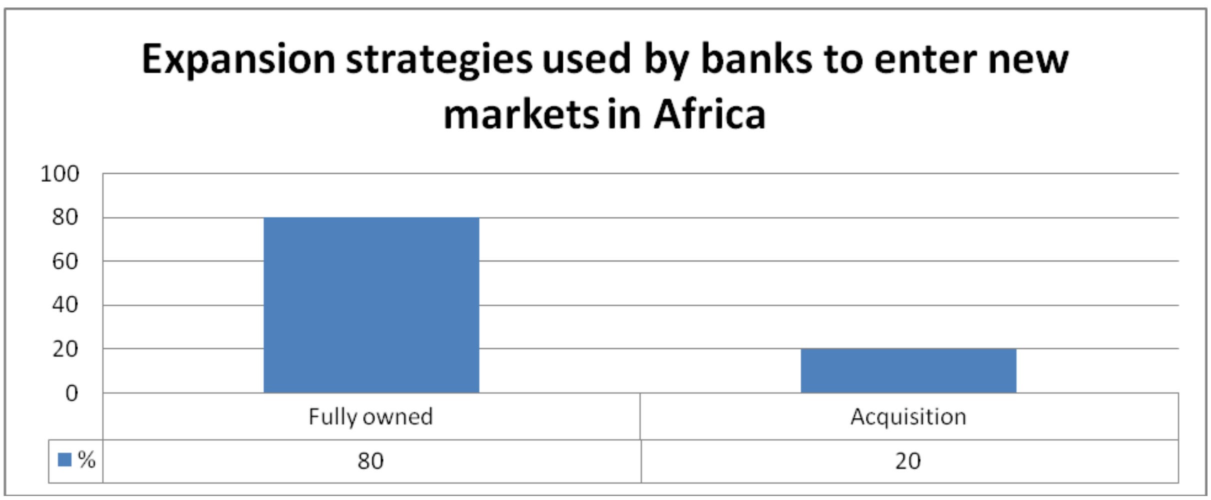


4.3 Strategies Used by Indigenous Commercial Banks in Expanding to Africa

The second objective of the research was to establish the strategies adopted by indigenous Kenyan commercial banks in expanding into the African region. The respondents were presented with a list of expansion strategies for them to identify their strategy. These strategies include strategic alliances, joint ventures, foreign direct investments (wholly owned subsidiaries), and agencies/franchising/contracts. The respondents also had the option of mentioning any other strategy not in the list.

Out of the 10 respondents, 8(80%) banks had fully owned subsidiaries while 2(20%) banks had identified acquisition as their strategy. This form of entry may be preferable, especially when barriers to entry stand in the way of a bank`s plans to enter a profit-promising banking sector. (Clarke et al. 2003). The researcher used secondary data to validate the information and noted that the acquisition strategy was used by Equity bank when entering the Ugandan market. This therefore means all the indigenous Kenyan banks used fully owned subsidiary strategy to expand regionally. This information is in line with the study done by Cerutti, Dell'Ariccia and Martínez Pería (2005) to examine the factors that influence the organizational form under which foreign banks operate in foreign markets. Activities of 100 largest banks in the world were examined. With respect to the bank`s motives and customer focus, the authors found that establishing subsidiaries is the most preferred mode of entry by commercial banks that enter the market to create large retail operations, because it permits easier penetration of the host market. The findings are presented is in Figure 4.3.

Figure 4.3: Expansion strategies used by banks to enter new markets in Africa



4.4 Challenges Facing Internationalization

The third objective of the research was to establish the challenges facing internationalization of Kenyan indigenous banks and the measures undertaken to address those challenges. Respondents provided information on the challenges their organizations faced when internationalizing. Their attitudes were measured by a five point scale where:1 = “Strongly disagree”, 2 = “Disagree”, 3 = “Uncertain”, 4 = “Agree” and 5 = “Strongly agree”. Data was collected, coded and analyzed using Excel. The responses are presented in Table 4.2.

Table 4.2: Challenges Facing Internationalization

Challenges	N	Minimum	Maximum	Mean	Std. Deviation
Political stability	5	2	4	2.80	1.095
Liability to foreignness	5	1	4	2.20	1.095
Extent of bureaucracy and red tape	5	1	4	3.00	1.225
Transparency and corruption	5	1	4	3.00	1.225
Extent of regionalization and free trade	5	1	4	3.00	1.414
State of local economy	5	2	5	3.40	1.140
Stability of currency	5	4	5	4.20	.447
Financial resources	5	2	5	4.00	1.225
Inflation level	5	3	5	4.00	1.000
Taxation level	5	2	5	3.20	1.304
Liability to infrastructure	5	1	4	2.80	1.304
Target market	5	1	4	2.80	1.304
Customers	5	1	4	3.00	1.414
Entry mode	5	2	5	3.60	1.140
Timing of entry	5	1	3	2.00	.707
Size and growth of national market	5	1	4	2.40	1.140
Size and growth of regional market	5	1	4	2.20	1.304
Quality of marketing and distribution	5	2	4	3.00	.707
Language	5	1	5	2.40	1.517
Religious belief	5	1	4	2.40	1.140
Attitude towards business	5	2	5	3.40	1.342
Multicultural organization	5	2	5	3.60	1.140
Organizational changes	5	3	5	4.00	.707
Availability of skilled labor	5	1	5	3.40	1.517
Quality of managerial workforce	5	1	5	3.60	1.673
Involvement of labor unions	5	1	5	2.80	1.483
Employment regulations	5	1	4	3.20	1.304

Nature of legal systems and laws	5	3	5	4.20	.837
Core banking	5	1	4	2.40	1.140
Mobile banking	5	1	4	2.40	1.140
ATM network	5	1	5	2.80	1.643

Source: Survey data

The survey revealed that political stability and nature of legal systems received the highest mean score of 4.2. The standard deviations for these two challenges were 0.447 and 0.837 respectively. From the indigenous Kenyan banks surveyed, the respondents agreed that these were the main challenges faced during internationalization of their firms due to less variability of scores in the distribution. Inflation levels in line with Saimee (1999), financial resources, and organizational changes are challenges that the respondents faced when internationalizing with a mean score of 4.0 but a standard deviation of 1.000, 1.225 and 0.707 respectively. Organizational changes had less variability compared to financial resources and inflation levels, justifying that the firms agreed on the organizational changes more than the inflation levels and financial resources.

The mean scores from entry mode, multicultural organization and quality of managerial workforce was 3.6, but the respective standard deviations were 1.140, 1.140 and 1.673. This implies that the organizations surveyed agreed that entry mode, multicultural organization and quality of managerial workforce are challenges they faced when internationalizing. This notwithstanding, the attitude scale on agreement was widely spread from the average score. The surveyed financial institutions had a mean of 3.0 on the extent of bureaucracy and red tape, transparency and corruption, extent of regionalization and free trade, customers and the quality of marketing and distribution.

These challenges had varying levels of variability. It is evident from the data that generally, the respondents had less measure of variability on the quality of marketing and distribution with a standard deviation of 0.707 as compared to the other four challenges. Cuervo-Cazurra et al. (2007) acknowledged that new customers are a challenge to internationalized institutions.

Having mean scores of 3.4 and a widely spread variability, state of local economy, attitude towards business and availability of skilled labor are challenges that indigenous Kenyan banks surveyed had levels of uncertainty. Other challenges that had measures of uncertainty with an average score of 2.8 and high levels of variability from the respondents are political stability, liability to infrastructure, target market, involvement in labor laws and ATM network. Taxation level and employment regulations are challenges of internationalization that organizations face, but the data analyzed reported a level of uncertainty on the attitude measurement scale. The timing of entry had the least attitude of agreement score of 2.0 and a small spread of variability with a standard deviation of 0.707. From the data analyzed, indigenous Kenyan banks had a high level of disagreement that timing of entry was a challenge they faced when internationalizing. Challenges of internationalization that include size and growth of regional market and liability to foreignness also received a high level of disagreement with a mean of 2.2. Other challenges faced by the indigenous Kenyan banks that had least levels of agreement on the attitude measurement scale are size and growth of national market, language, religious beliefs, core banking and mobile banking

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter covers five major sections. These are the summary of the findings, conclusion of the study, limitations encountered during the study, suggestions for future research and recommendations for policy formulation and practice.

5.2 Summary

The study examined the choice of entry strategies used by indigenous Kenyan commercial banks in expanding into the African region. The study found that there were several entry strategies including strategic alliances, Joint Ventures, foreign direct investments/ wholly owned subsidiaries, Agencies/franchising/contracts used by Kenyan banks to enter into foreign market. These banks have been motivated to move to the international marketing by intense competition in the local market, availability of market in other countries and a niche which existed in other countries especially those in Africa region. Commercial banks in Kenya still have plans to enter into other international markets in Africa region. The banks intend to use strategic alliances and foreign direct investments/ wholly owned subsidiaries, agencies/franchising/contracts strategies to achieve their objectives.

Similarly, the study aimed at establishing the challenges facing Kenyan indigenous banks when they internationalize. From the analyzed data, these financial institutions responded that they face a number of challenges during internationalization. These challenges include levels of political stability, employment regulations and inflation levels. Others were state of local economy, availability of skilled labor and quality of managerial workforce. The extent of bureaucracy and red tape, transparency and corruption, the extent of regionalization and free trade, customers and the quality of marketing and distribution are some of the challenges facing internationalization that had high levels of uncertainty from the respondents. With respect to the responses given, nature of legal systems and laws, stability of the currency, extent of regionalization and free trade, target market and multicultural organization had levels of uncertainty. Other challenges which had respondents were neither agreeing nor disagreeing were extent of bureaucracy and red tape, quality of marketing and entry mode.

On the other hand, various challenges of internationalization were insignificant to the indigenous Kenyan banks that have ventured beyond the national borders. ATM network, liability of foreignness, financial resources and religious beliefs were not important when these Kenyan firms internationalized.

5.3 Conclusion

These Kenyan banks benefit immensely from internationalization when venturing into new markets, expanding their businesses by tapping cross border transactions, hence facilitating regional integration. This in turn leads to growth in market share and growth of deposit base that leads to profitability. The indigenous Kenyan banks expand their brand identity and gain competitive edge by providing solutions to businesses in the region. These financial institutions gain reputation as a regional bank by providing greater customer reach across countries that in turn enables risk diversification. By operating across countries, these banks leverage foreign exchange and contribute to the communities where they operate.

The indigenous Kenyan financial institutions face a number of challenges when going beyond borders. To overcome some of these challenges, these banks obtain feedback survey from clients, offer tailor-made products to meet clients' needs across borders and have partnership agreement with local banks or buying out an existing bank. Other measures to overcome internationalization challenges are co-opting local shareholders in the host country and staff exchange programs. These banks adhere to the local laws and regulations, fostering good relations with government and regulators, and actively working with the regulator in order to improve business environment and address emerging issues. Some of the institutions have overcome the challenges of internationalization by employing experienced staff from multinationals organizations.

5.4 Limitations of the Study

The researcher encountered limitations when undertaking the study. Non-response from six out of the sixteen respondents was a drawback for the census survey. One of these non-respondents, though willing to respond on a personal level was kind enough to explain the company policy for not responding to the questionnaire. The other five non-respondents were not willing to offer any response. The researcher had no control of the population under study despite the non-response rate representing thirty-seven percent of the total population.

Generalization of the data analyzed provided information required for the study. Indeed the challenges facing internationalization of indigenous Kenyan banks had quite a number of uncertain responses. This implies that some of the respondents were either unwilling to give their feelings or were not conversant with the challenges, hence the high level of uncertainty with respect to the measure of attitude.

5.5 Suggestions for Further Research

The growth of businesses beyond borders prompts the need to research the indigenous Kenyan firms that have internationalized. This research can be replicated on the indigenous Kenyan institutions in other industries that have internationalized. This should provide knowledge on the expansion strategies and challenges faced by other companies outside the banking sector and the measures to overcome the challenges encountered in order to propel the Kenyan firms to succeed in the global economy. Further research can be done to establish the expansion strategies and challenges faced by foreign companies expanding to Kenya or the East African region. The findings from the present study will enrich the Kenyan firms to up their ways of doing business by ensuring that they have a competitive edge locally with the prospect of replicating the same beyond the national borders.

5.6 Recommendations for Policy and Practice

Trade agreements between trading blocs precipitate growth and development. Having a tripartite agreement between EAC, COMESA and SADC, the Kenyan Government and indeed the regional governments should formulate policies to increase the pace of internationalization of indigenous firms. These policies would leverage the homegrown institutions to take advantage of the vast free trading area. The indigenous Kenyan institutions in the banking industry and other industries as well should be given incentives by the home government to internationalize. This will enable the firms gain competitive edge while expanding their businesses, hence improving their ventures both locally and internationally. In order to have a vibrant economy as envisioned in the Vision 2030, the Kenyan government needs to promote internationalization of the homegrown firms while at the same time attracting investors.

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APPENDICES

Appendix 1: LETTER OF INTRODUCTION

Appendix 2: Questionnaire

PART A: GENERAL INFORMATION

1. Name of bank:
2. Your current position in the bank:
3. How long has your bank been in business?
   - ☐ Less than 10 years
   - ☐ 11 – 20 years
   - ☐ 21 – 30 years
   - ☐ 31 – 40 years
   - ☐ Over 41 years
4. How long has your bank been in international business?
   - ☐ Less than 1 year
   - ☐ 1 – 2 years
   - ☐ 3 – 4 years
   - ☐ 5 – 6 years
   - ☐ Over 6 years
5. Which year did your bank start internationalizing?

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PART B: EXPANSION STRATEGIES USED BY YOUR COMMERCIAL BANKS IN EXPANDING TO AFRICA

6. There are numerous entry strategies including strategic alliances, joint ventures, foreign direct investments (wholly owned subsidiaries), and agencies/franchising/contracts. What entry strategies does/did your bank use in entering new markets in Africa?

7. If your bank was to move to another country, would you advise it to use the same strategy (strategies) and why?

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PART C: CHALLENGES FACING REGIONAL EXPANSION

8. Which challenges did your bank face during internationalization?

Use a scale of 1-5, where

1 = Strongly Disagree, 2 = Disagree, 3 = Uncertain, 4 = Agree, 5 = Strongly Agree

Challenges	**1**	**2**	**3**	**4**	**5**
Political stability					
Liability to foreignness					
Extent of bureaucracy and red Tape					
Transparency and corruption					
Extent of regionalization and free trade					
State of local economy					
Stability of currency					
Financial resources					
Inflation level					
Taxation level					
Liability to infrastructure					
Target market					
Customers					
Entry mode					
Timing of entry					
Size and growth of national Market					
Size and growth of regional Market					
Quality of marketing and Distribution					
Language					
Religious belief					
Attitude towards business					
Multicultural organization					
Organizational changes					
Availability of skilled labor					
Quality of managerial workforce					
Involvement of labor unions					
Employment regulations					
Nature of legal systems and					
Core banking					
Mobile banking					
ATM network					

9. For the challenges in 8 above that you *agree* or *strongly agree*, what measures were undertaken by your bank to overcome them?

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Appendix 3: Branches of indigenous Kenyan Banks in the region

Table 1: Branches of indigenous Kenyan banks in the region

Institution	**Uganda**	**Tanzania**	**Rwanda**	**Burundi**	**South Sudan**	**Total**
African Banking Corporation Ltd	2	**-**	**-**	**-**	**-**	**2**
Commercial Bank of Africa	1	11				**12**
Equity Bank	38	6	8	-	9	**61**
Guaranty Trust Bank	7	-	18	-	-	**25**
Imperial Bank	4	-	-	**-**	**-**	**4**
Investment & Mortgages Bank Ltd		6	13			**19**
Kenya Commercial Bank Ltd	14	12	11	1	21	**59**
NIC Bank Ltd	1	6	-	-	-	**7**
TOTAL	**67**	**41**	**50**	**1**	**30**	**189**

Source: (Central Bank of Kenya, 2013).