

**ENTRY STRATEGIES ADOPTED BY DIAMOND TRUST
BANK LIMITED TO ENTER THE EAST AFRICAN
MARKET**

BY

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DECLARATION

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

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DEDICATION

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

ABSTRACT

In the recent past there has been tremendous growth in the financial sector in Kenya and indeed in the East African region. This tremendous growth has brought with it cut throat competition in the market. As a result a number of the local banks have ventured into the East African region to seek for new markets and expand their businesses. In venturing to foreign markets, organizations choose different modes of entry. The central managerial trade-off between the alternative modes of market entry is that between risk and control. This means therefore the organizations will choose from on the one hand, low intensity modes of entry to minimize risk and high intensity modes to have a greater control. Entry strategies are crucial to the survival of firms as they move to international markets. Appropriate entry strategy means that firms are moving on the correct direction and ensure business success in the foreign market. The selection of an appropriate strategy in a foreign market can have significant and far reaching consequences on a firm's performance and survival. Diamond Trust Bank Limited is among the financial institution in Kenya pursuing regional expansion. The research project sought to identify strategies used by Diamond Trust Bank Limited to enter the East African market. The procedures for conducting the research are discussed in chapter three. The study was a case study on Diamond Trust Bank. Primary data was collected by interviewing four senior Managers of the Bank. The target respondents were four senior managers of the bank. The interview guide contained open-ended questions. The open-ended questions enabled the researcher to collect qualitative data and seek clarifications incase of more information needed. Before processing the responses, the completed interview guides were edited for completeness and consistency. Content analysis was used to analyze the data collected. Finally, the study reveals that Diamond Trust Bank moved into the East African markets by opening Subsidiaries. However, there are a couple of challenges facing the bank ranging from increased competition and government bureaucracy. As part of the recommendation, Diamond Trust Bank needs to explore other foreign market entry strategies and benchmark with the banks that have used them and establish their adoptability. This will assist the bank in having more than one alternative at its disposal. A successful and sustainable entry strategy will require planning, resources and research for successful implementation. The study also recommends further research to establish the reasons why DTB chose to use the establishments of subsidiaries comparative study on the success of the strategy as compared to the other foreign market entry strategies that have been applied by other organizations especially the in the financial sector globally.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK:	Central Bank of Kenya
KBA:	Kenya Bankers Association
DTB:	Diamond Trust Bank
AKFED:	Aga Khan Fund for Economic Development
AKDN:	Aga Khan Development Network
NIC:	National Industrial Credit
FDI:	Foreign Direct Investment

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In recent times, the global business environment has been growing dramatically. We are living in a more-than-ever-interdependent world. Many firms involve in the process of internationalization, engaging their operations outside the boundary of their home country. Multinational organizations have to decide how to enter a foreign economy. The mode of entry decision is a combination of two decisions: the investment mode and the ownership mode. The decision on the investment mode is the decision between establishing a new venture and merging with or acquiring an existing firm, while the decision on the ownership mode is the decision between establishing a wholly-owned affiliate and a joint venture.

According to Kieti (2006) the choice of foreign entry mode greatly impacts on the organizations future decisions and performance in foreign markets. The choice of entry mode also carries with it great implications on the resource commitment levels for a foreign firm, which is difficult to transfer from one to another, especially from high levels of resource commitment (Zhao and Decker, 2004). The advancement in ICT, trade liberalization and intensified international competition are the factors that facilitate and drive such process of economic activities. Yet, it is not sufficient to explain the reason why firms decide to operate their activities abroad.

As the business environment has increased in uncertainty and complexity, firms have to recognize the critical changes and respond to them rapidly to survive in the market place.

It is generally accepted that most important motive of the businesses in the capitalism economy is the profit maximization by either increasing the revenue or decreasing the cost of production. Due to increasing competition, firms not only compete with the rivals in home countries but also the international competitors. Hence, the pursuit of global profit becomes the key motive of the enterprises (Dicken; 1992). Every activity of the firms, including the expansion of their activities across border, is aimed at increasing or protecting the profits.

Twelve local banks, which include large players like Equity Bank, Kenya commercial Bank, Co-operative Bank, NIC Bank, CFC Stanbic Bank, and DTB Bank amongst other local banks, have regional operations. Most of them have branches and operate in the East African market. Diamond Trust Bank Limited was established in 1945; currently it has 91 branch outlets across the East African market. 44 branches in Kenya, 27 in Uganda, 16 in Tanzania and 4 in Burundi. DTB is planning to expand its operations in the region including South Sudan, the Democratic Republic of Congo, Madagascar and Mozambique. (<http://www.dtbk.dtbafrika.com>)

1.1.1 Concept of International Business

Daniels, Radebaugh and Sullivan, (2007) describes International Business (IB) as all transactions that take place between two or more regions, countries and nations beyond their political boundaries that are commercial in nature they include private and

governmental, sales, investments, logistics, and transportation transactions. International Business refers to business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc. (Joshi, 2009).

International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations.

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

Many of the concerns of decision-makers in international business have to do with environmental factors such as government policies and economic conditions in different countries (Groose 1992). Deresky, (1997) observes that international management demands a contingency approach to complex and dynamic environment each of which has its own unique requirements. Political environment in a country influences the legislation and government rules and regulations under which a foreign firm operates. Every country in the world follows its own system of law and a foreign company operating within it has to abide by these laws for as long as it continues to operate there.

The technological environment comprises factors related to the materials and machines used in manufacturing goods and services. The organization's receptivity and willingness to adopt to new technology, as well as the willingness of its consumers to do likewise, influences decisions made in an organization. Economic factors exert huge impacts on firms working in an international business environment. The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses. According to (Gilligan, 1989), International business has been going through process of change of the post war period.

1.1.2 Entry Strategies

Once a firm decides to enter a foreign market, it must also decide on the mode of entry and operation in the market. Often firms fail in foreign markets because of inappropriate entry and operation strategies. A wrong strategy can lead to a firm's failure abroad and at home as well. Research shows that a firm's foreign market entry strategy is directly related to the firm's performance. An appropriate strategy can be a source of competitive advantage abroad. A market entry strategy consists of the pattern of moves and approaches devised by an organization to successfully enter and compete in a foreign market. The appropriate market selection and entry strategy is potentially a complex decision, influenced by the extent to which the internationalization process has been triggered by changes in either external or internal factors (Ellis, 1995).

Pearce and Robinson (2007) define strategy as a large scale, future oriented plan for interacting with the competitive environment to achieve company objectives. In a quite simple explanation, strategy is a firm's theory about how to compete successfully, Peng (2009). Regardless of the trigger to the internationalization process, once an organization has taken the decision to become international in its scope, external and internal factors will shape the chosen strategy. The key external factors include political, economic, social and technological and competition at the level of industry. Similarly, the organization's internal factors will include core competencies, organizational learning and administrative heritage. Collectively, external and internal factors will influence the organization's market entry and development strategy. The firm has to carry out a thorough analysis of its competitive advantages and disadvantages relative to rival firms, and choose alternatives that take advantage of its strengths and minimize the impact of its weaknesses.

Strategic alliance is a formal agreement between two or more separate companies in which there is joint contribution of resources, shared risks, shared control and mutual dependence. The relationship between the partners may be contractual or merely collaborative (Thompson, 2007). In a strategic alliance, each company maintains its autonomy while gaining new opportunity. A strategic alliance could help a company develop a more effective process, expand into a new market or develop an advantage over a competitor among other possibilities. Contract Manufacturing is foreign manufacturing by proxy; the firm's product is manufactured or assembled in the foreign market by another producer under contract. The contract covers only manufacturing or

assembly. Marketing and distribution are usually done by the firm giving the contract or by its subsidiary in that foreign country. Contract manufacturing works well if the firm's competitive advantage lies in marketing and distribution rather than in manufacturing.

Management Service Contract or simply management contract is a long-term agreement of up to 10 or more years to provide a management service to a firm. Such contracts are more suitable in service businesses than in manufacturing businesses. The business is usually run under the management service provider's internationally recognized name rather than the property owner's name. The management service provider earns management fees often expressed as a % of gross revenues. In addition, the service provider may earn extra profits on any supplies and materials it sells to the managed firm. Most of the middle management and staff usually are local personnel.

Wholly owned subsidiaries are operations in a host country that are fully owned by foreign parent firm (Gillespie, 2011). Establishing a wholly owned subsidiary can be done in two ways. The firm can either set up a new operation in that country often referred to as a Greenfield venture or it can acquire an established firm in that host nation or use it to promote its products (Hill, 2009). Greenfield venture is a foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. Acquisitions and mergers; Merger is a pooling of equals with the new created company often taking a new name. An acquisition is a combination in which one company, the acquirer, purchases and absorbs the operations of another, the acquired, (Thompson, 2007). The resources,

competencies and competitive capabilities of the newly created enterprise end up much the same whether the combination is the result of acquisition or merger.

Joint Venture is a project in which two or more parties invest. It differs from licensing because it affords the international firm an equity position and management voice in the foreign firm. Thus, the international firm shares both in ownership and management of the foreign firm. A JV agreement results in the formation of a new company in which the parties have shares. The international firm has enough equity to have a voice in management but not enough to completely dominate the venture.

1.1.3 Banking Sector in Kenya

Kenya has 44 banks; 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise three banks with significant shareholding by the Government of Kenya and State Corporations, 27 commercial banks and one mortgage finance institution, Housing Finance. CBK (2013) The Companies Act, the Central Bank of Kenya (CBK) Act and the Banking Act are the main regulators and governors of banking Industry in Kenya. These Acts are used together with the prudential guidelines which Central bank of Kenya issues from time to time. In 1995 the exchange controls were lifted after the liberalization of the banking in Kenya. Central Bank of Kenya is tasked with formulating and implementation of monetary and fiscal policies. Central bank is the lender of last resort in Kenya and is the banker to all other banks. The CBK ensures the proper functioning of the Kenyan financial system, the liquidity in the county and the solvency of the Kenya shilling. The Ministry of finance is where CBK

falls. To address issues that affect the Banking industry in Kenya, banks have come together and formed a forum under the Kenya Bankers Association.

Kenyan Banks have realized tremendous growth in the last five years and have expanded to the east African region. The banking industry in Kenya has also involved itself in automation, moving from the traditional banking to better meet the growing complex needs of their customer and globalization challenges. There has been increased competition from local banks as well as international banks, some of which are new players in the country. This has served the Kenyan economy well as the customers and shareholder are the ones who have benefited the most.

The major issues facing the banking industry include: New regulations especially with the passing of the new constitution. CBK requires financial institutions to build up their minimum core capital requirement to Kenya shillings 1 Billion by December 2012. The Terrorist attacks on the twin towers in United States of America emphasized and led to the mandating Acts like Anti-money laundering. Nations are working closely to ensure that proceeds of crime do not get into the financial systems of the world. (www.centralbank.go.ke).

The banking sector in Kenya is by far the vibrant and most developed in the East African region, it has continued to grow in assets, deposits, profitability and products offering. The growth has been mainly underpinned by; an industry wide branch network expansion strategy both in Kenya and in the East African community region, automation of a large number of services and a move towards emphasis on the complex customer needs rather

than traditional ‘off-the-shelf’ banking products. Kenyan banks have slowed national expansion in the past two years, turning to the regional market where financial services are largely underdeveloped. The large market under the East African Common Market Protocol has boosted cross-border trade, with the banks betting on their regional networks to increase earnings from trade, finance, forex and other deals. C.B.K governor (Njuguna, 2012) attributed the regional expansion to innovation within the industry that has helped growth. Open space for innovation has helped sustain growth in the banking industry and the larger financial sector. (www.centralbank.go.ke).

1.1.4 Diamond Trust Bank Ltd

DTB is an affiliate of the Aga Khan Fund for Economic Development (AKFED), the economic development arm of the Aga Khan Development Network (AKDN). Amongst the bank's key shareholders are Habib Bank Limited and Jubilee Holdings Limited, both affiliates of AKFED, and the International Finance Corporation, a subsidiary of the World Bank, and has operated in the East African market for over 60 years. In 1945, DTB was incorporated in Kenya as the Diamond Jubilee Investment Trust.

In 1972, the name was changed to Diamond Trust of Kenya. It acquired a much wider public profile, transforming itself from a community based finance house into a non-bank financial institution (NBFI) serving the general Kenyan public. In the same year, DTB shares were floated on the Nairobi Stock Exchange through an IPO. Currently there are approximately 11,500 shareholders. In 1983, International Finance Corporation (IFC)

took up 10% equity interest in DTK. In 1986, the shares held by the Aga Khan and members of his family in DTK were consolidated under the Aga Khan Fund for Economic Development (AKFED); this shareholding currently stands at 17.3%. In 1995, banking operations in Uganda were revived by injecting capital in the operation. DTK and AKFED increased their shareholding to 27% and 33% respectively.

In Tanzania, similar injection of capital was made with DTK and AKFED taking up 33% and 31% shareholding respectively. More recently, in June 2007 and October 2008, Diamond Trust Bank Tanzania and Diamond Trust Bank Uganda, undertook a US\$4.2million and a US\$3million rights issues respectively. Diamond Trust Bank Kenya took up its rights as well as the shareholding and rights of some other shareholders. Following this development, DTB Kenya now has 55% shareholding in DTB Tanzania and a 51% shareholding in DTB Uganda, making the two DTB Kenya's subsidiaries (the DTB group). After years of operating as a non bank financial institution, in 1997, DTK acquired a license to conduct commercial banking business and changed its name to Diamond Trust Bank Kenya Limited (DTB Kenya). It commenced commercial banking services in July 1997, offering a full range of services targeting principally small and midsized corporate.

In 2004, the bank broadened its banking services by introducing retail banking to optimize on the opportunities in the retail banking market; Retail banking products were rolled out under a phased program in Kenya and from 2008 in Tanzania and Uganda. In late 2008, the DTB group established a commercial banking subsidiary in Burundi,

Diamond Trust Bank Burundi S.A. DTB Kenya holds 67% of the equity in the Burundi operation, which commenced banking business in June 2009.

The Group's branch network in East Africa stood at 91 presently. In Kenya, the bank operates 44 branches whilst in Uganda and Tanzania, DTB has 27 and 16 branches respectively; DTB Kenya's subsidiary in Burundi operates 4 branches. DTB General Manager (Alkarim, 2014) announced plans to start operations in markets outside East Africa; noting that expansion plan has already taken shape, and they are currently readying to go into two of these markets over the next two years. The bank said the plan is part of its Vision 2020 Plan that seeks to see DTB's presence in numerous markets across Sub Sahara Africa, including South Sudan, the Democratic Republic of Congo, Madagascar and Mozambique. (<http://www.dtbk.dtbafrika.com>)

1.2 Research Problem

The global business environment has been growing significantly. Many firms have adopted the process of internationalization, engaging their operations outside the boundary of their home country. The level of involvement of firms in international process can be specified by different types of foreign market entry modes. In the face of a globally increasing competition, firms not only compete with the rivals in home countries but also the international competitors. Countries previously closed to foreign companies open up their markets, as the internet shrinks the importance of geographic distance, and companies race to build stronger competitive positions in the markets of more and more

countries. Major reasons firms expand to foreign markets include the need to gain access to new markets, lower costs and enhance the firm's competitiveness, to capitalize on its core competencies and to spread operational risks (Mwende 2013)

The choice of an entry strategy has been very critical in ensuring a smooth entry into foreign markets, since what works for one organization may not necessarily work for another. Again, strategies used in entering one country may not succeed when an organization uses them to venture into another country. The decision about the choice of foreign entry strategy is of great importance to the international expanding firm. The decision impacts greatly on the scale of resources commitment and has far reaching implications on future performance of the foreign business (Roots, 1994).

Many scholars and researchers have done a lot of work in the field of international market entry strategies adopted by multinational enterprises and financial institutions in particular. Mogire (2010) did a research on Strategies used by Kenya Commercial Bank when entering international markets. Mwende (2013) conducted a study on entry strategies adopted by National Industrial Credit (NIC) bank in Kenya to enter into other East African markets. Kang'ethe (2013) did a survey study on Adoption of mergers and acquisitions as a strategic Approach by CFC Stanbic holdings in Kenya; also Muchina (2011) did research on Foreign Market Entry Strategies used by Ecobank Kenya Limited to enter the Kenyan Market.

However, despite this massive research into entry strategies adopted by various banks and other MNCs in venturing into the foreign markets, none of these studies, both local and international, has focused on the entry strategies used by the Diamond Trust Bank Limited in entering the Eastern African Region. The research will focus on the entry strategies used by DTB Limited to enter the Eastern African region

1.3 Research Objectives

The objective of this project was to determine the entry strategies used by Diamond Trust Bank limited to enter the East African market. The study sought to answer the question: what entry strategies have been used by DTB Ltd to enter the East African market?

1.4 Value of the Study

To the policy makers and government in particular; the study will assist in formulation of laws and regulations covering business operations of foreign firms planning to open and expand their operations into the country

To the Kenyan banks most of whom are now planning to expand into the foreign markets and East African market in particular, and multinational enterprises, the study is invaluable to management in that it will provide an insight into the various strategies used when entering a new market for effective and successful marketing strategy and business

expansion. It will also expound on the importance and significance of the market entry strategy adopted

DTB are planning to expand to other countries like South Sudan, the Democratic Republic of Congo, Madagascar and Mozambique. This study will aid in decision making on the viable options of market entry strategy to choose.

To the academicians, the study will provide a useful basis upon which further studies on market entry strategies could be conducted. The study will add to the existing pool of knowledge and form part of literature on not only the entry strategies by multinationals but also its significance

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature reviewed on international business and modes of entry used by firms to venture into foreign markets. Major source of information include books and journals from various authors and academicians. The strategies adopted in entering foreign market will be highlighted in this chapter

2.2 Theoretical Foundation of the study

Internationalization theory

Internalization theory also known as Market imperfections approach seeks to explain why firms often prefer foreign direct investment over licensing while engaging in international business and as a strategy for entering foreign markets. The theory is based on the study of Buckley and Casson in 1976. According to the theory licensing has three major drawbacks as a strategy for exploiting foreign market opportunities.

First, licensing may result in a firms giving away valuable technological know-how to a potential foreign competitor. By investing in a foreign subsidiary rather than licensing, the company is able to send the knowledge across border while maintaining it within the firm, where it presumably yields a better return on the investment made to produce it. Secondly, licensing does not give a firm the tight control over manufacturing, marketing, and strategy in a foreign country that may be required to maximize its profitability. With

licensing, control over manufacturing, marketing and strategy is granted to a licensee in return for a royalty fee. However, for strategic and operational reasons, a firm may want to retain control over these functions. A third problem with Licensing arises when the firm's competitive advantage is based not as much on its products as on the management, marketing and manufacturing capabilities that produce those products. The problem is such capabilities are often not amenable to licensing. While a foreign licensee may be able to physically reproduce the firm's product under license, it often may not be able to do so as efficiently as the firm could itself. As a result, the firm may not be able to fully exploit profit potential in the foreign market (Hill, 2011)

Resource –Based View of the firm theory

Resource-Based View of the firm is an important framework for conducting internal analysis. It improves on SWOT analysis by examining a variety yet specific types of resources and capabilities any firm possesses and then evaluating the degree to which they become the basis for sustained competitive advantage. Its underlying premise is that firms differ in fundamental ways because each firm possesses a unique bundle of resources-tangible and intangible assets and organizational capabilities to make use of those assets. Each firm develops competencies from these resources, and, when developed well, these become the source of the firm's competitive advantage. These resources are defined in three distinct basic resources

Tangible assets which are the most easily identified assets, often found on the firm's balance sheet. They include production facilities, raw materials, financial resources, and computers. They are the physical and financial assets a firm employs and uses to provide

value to its customers. Second category is the Intangible assets. These are the firm's assets that you cannot touch or see but that are very often critical in creating competitive advantage. Includes brand names, company reputation, organizational morale, technical knowledge, patents and trademarks, and accumulated experience within the organization. Finally, the third category is organizational capabilities. These are the skills-the ability and ways of combining assets, people, and processes-that a firm uses to transform inputs into outputs (John Et al, 2004).

2.3 Concept of International Business

International business is carrying business activities beyond national boundaries. It normally includes the transactions of economic resources such as goods, capital, services (comprising technology, skilled labour, transportation etc.) and international production. Production may either involve production of physical goods or provision of services like banking, finance, insurance, construction, trading and so on. Sharan (2010)

Expanding into a foreign market is a way of looking for new markets for Multinational organizations. There are challenges and opportunities which come with this venture. The major advantage is the ability to attract and retain new customers. When you add new products to your portfolio or move into new markets, you can bring in previously untapped customer markets. Again, economies of Scale will always accrue when you expand your business to new markets; you often spread the risks of doing business and reduce the potential of one product or one poor decision damaging your business. Operating in multiple markets or in many product areas also allows companies to spread

the costs of doing business across more markets or customers. This makes the costs of doing business less on a per-customer basis, which improves the potential to profit by adding new customers.

The challenges on the other hand are many, Foreign countries have different laws, economies, business strategies and currency. Cultural differences can also impede a country's success. Yabs (2007) observes that there are many factors that affect the operating environment of international business. The major ones include physical forces, economic forces, social-cultural forces, financial forces, political forces, legal forces, labor forces, competition within the industry and ecological forces. The political environment in a country influences the legislation and government rules and regulations under which a foreign firm operates. Every country in the world follows its own system of law and a foreign company operating within it has to abide by these laws for as long as it continues to operate there.

Economic environment relates to all factors that contribute to a country's attractiveness for foreign businesses. A monetary system that acknowledges countries' and economies' interdependence and that fosters growth, stability and fairness at a global level is important for prosperity, and the operation and growth of businesses. Organizations have no control over the external environment, their success depends upon how well they adapt to it. A firm's ability to design and adjust its internal variables to take advantage of opportunities offered by the external environment, and its ability to control threats posed by the same environment, determines its success. Technological environment relates to the materials and machines used in manufacturing goods and services. The organization's receptivity and willingness to adopt to new technology, as well as the willingness of its

consumers to do likewise, influences decisions made in an organization. These factors exert huge impacts on firms working in an international business environment. Mwende (2013)

2.4 Foreign Market Entry Strategies

Market entry strategy consists of the pattern of moves and approaches devised by an organization to successfully enter and compete in a foreign market. The appropriate market selection and entry strategy is potentially a complex decision, significantly influenced by the extent to which the internationalization process has been triggered by changes in either external or internal factors, Ellis (1995). International market entry modes can be classified according to level of control, resource commitment, and risk involvement (Anderson and Gatignon, 1986; Erramilli and Rao, 1993; Hill, Hwang and Kim, 1990). Therefore, modes of foreign market entry and operation can be classified according to any one of the three frameworks. Level of involvement in foreign market; Involvement in manufacturing for foreign market and whether the modes involve manufacturing in the foreign market

2.4.1 Foreign Direct Investment (FDI)

FDI is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labour, land, plant and equipment (Cavusgil Et al, 2008). Grosse (1992) observes that FDI's involve ownership and control of a company in a foreign country. In exchange for the ownership, the investing company usually transfers some of its managerial, financial, technical,

trademark and other resources to the foreign country. The foreign company may be created as a new venture by the investor or it may be acquired from an existing owner.

2.4.2 Mergers and Acquisitions

A merger happens when two firms, often of about the same size, agree to go forward as a single new company rather than remain separately owned and operated. In a merger, two organizations join forces to become a new business, usually with a new name. Because the companies involved are typically of similar size and stature, the term “merger of equals” is sometimes used. A company under consideration by another organization for a merger or acquisition is sometimes referred to as the target. Acquisition strategy offers the fastest, and the largest, initial international expansion of any of the alternative. Acquisition has been increasing because it is a way to achieve greater market power. The market share usually is affected by market power. Therefore, many multinational corporations apply acquisitions to achieve their greater market power by buying a competitor, a supplier, a distributor, or a business in highly related industry to allow exercise of a core competency and capture competitive advantage in the market.

Acquisition success can be hindered. In that integrating two organizations can be quite difficult due to different organization cultures, control system, and relationships; by applying acquisitions, some companies significantly increase their levels of debt which can have negative effects on the firms because high debt may cause bankruptcy and too much diversification may cause problems.

2.4.3 Exporting Products

Exporting is the marketing and direct sale of domestically-produced goods in another country. According to Daniels et al (2002) companies will usually export before engaging other modes of international business because exporting “requires the least commitment of the least risk to their resources”. Companies will usually export before engaging other modes of international business because exporting “requires the least commitment of and least risk to their resources. Sharan (2003) classifies exporting into two types: direct and indirect export. Direct export is where a company takes full responsibility for making its goods available for the target market by selling to the end users normally through its own agents. On the other hand indirect exporting is where the exporting company sells its products to intermediaries who in turn sell the same products to the end users in the target market.

2.4.4 Establishing Subsidiaries and Opening Branches

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

This is a strategy where a firm establishes a new wholly owned subsidiary. Wholly owned subsidiaries and expatriate staff are preferred in service industries where close contact with end customers and high levels of professional skills, specialized know how,

and customizations are required. Greenfield investment is more likely preferred where physical capital intensive plants are planned (Hill, 2009). According to Barret (2009) this strategy is attractive if there are no competitors to buy or to transfer a competitive advantage that consists of embedded competencies, skills, routines, and culture. Barret (2009) argues that Greenfield investment is high risk venture due to the costs of establishing a new business in a new country. Some of the costs include acquiring knowledge and expertise of the existing market by third parties such as consultants, competitors, or business partners. This entry strategy takes much time due to the need of establishing new operations, distribution networks, and the necessity to learn and implement appropriate marketing strategies to compete with rivals in a new market.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter consists of the research methodology used in the study. This includes the research design, data collection method, and research instruments and data analysis.

3.2 Research Design

The research design employed was a case study on strategies adopted by Diamond Trust Bank Ltd to enter into the Eastern African Market. Case study should be defined as a research strategy, an empirical inquiry that investigates a phenomenon within its real-life context. Wikipedia (2012) Kothari (1990) describes a case study as a form of qualitative analysis that involves a careful and complete observation of social unit which may be a person, family or institution. The study focused on information from managers as well as the staff working at the bank on strategies employed by the bank in its regional expansion and the significance it has on the performance of the bank

3.3 Data Collection

Primary data collection was through interviewing staff at DTB Bank. Four top level management staff were interviewed. An interview facilitates clarification of unclear issues. Secondary data is from the bank's annual reports, magazines, newspapers and DTB bank's website

3.4 Data Analysis

The data was analyzed using content analysis. Content analysis enables researchers to sift through large volumes of data with relative ease in a systematic fashion. It can be a useful technique to discover and describe the focus of individual, group, institutional, or social attention. It also allows inferences to be made which can then be corroborated using other methods of data collection (Weber, 1990). According to Kothari (1990) content analysis consists of analyzing the contents of documentary materials such as books, magazines, newspapers and the contents of all other verbal materials which can be either spoken or printed. It is a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends.

CHAPTER FOUR:

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the data findings, analysis and interpretation. The objective of the research was to determine the market entry strategies adopted by Diamond Trust Bank limited to enter the East African market. Four senior managers of the bank were interviewed. Their responses were written down and used for data analysis. Secondary data was also used. This was gotten from the bank's annual and financial reports, magazines, newspapers and DTB bank's website. The use of secondary data was necessary to support the data received from interviews with the four senior managers. Interview guide was used to obtain information from the informants. The target respondents were four senior managers of the bank. Data collected was qualitative in nature and therefore analyzed through content analysis.

4.2 Market Entry Strategies

It was established from the respondents that The Group's branch network in East Africa stood at 91 presently. In Kenya, the bank operates 44 branches whilst in Uganda and Tanzania, DTB has 27 and 16 branches respectively; DTB Kenya's subsidiary in Burundi operates 4 branches. DTB bank used the mode of FDI in establishing subsidiaries in Uganda, Tanzania and Burundi, which are the countries the Bank is operating in East Africa currently. The respondents were of the opinion that the strategy was the best as far as foreign entry is concerned.

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

DTB banking operations in Uganda were revived by injecting capital in the operation. DTK and AKFED increased their shareholding to 27% and 33% respectively. In Tanzania, similar injection of capital was made with DTK and AKFED taking up 33% and 31% shareholding respectively. More recently, in June 2007 and October 2008, Diamond Trust Bank Tanzania and Diamond Trust Bank Uganda, undertook a US\$4.2million and a US\$3million rights issues respectively. Diamond Trust Bank Kenya took up its rights as well as the shareholding and rights of some other shareholders. Following this development, DTB Kenya now has 55% shareholding in DTB Tanzania and a 51% shareholding in DTB Uganda, making the two DTB Kenya's subsidiaries (the DTB group).

In late 2008, the DTB group established a commercial banking subsidiary in Burundi, Diamond Trust Bank Burundi S.A. DTB Kenya holds 67% of the equity in the Burundi operation, which commenced banking business in June 2009.

4.3 Challenges faced by DTB in Foreign Markets

Competition from other financial institution in the host countries came out as a major challenge. All the respondents agreed that just like in the home market DTB was facing a lot of competition. All the managers interviewed agreed of even a tougher market abroad. The other challenge noted was that of legal and regulatory frameworks when setting up and establishing your business in the foreign market. They added that in order to acquire an existing bank or set up new operations, many approvals are required; these approvals are costly and time consuming

One of the managers brought out the issue of PESTEL factors in the foreign market. This was attributed to the environmental factors such as culture and the economy of the foreign market. One manager noted that getting the right talent is an issue in both markets and that market acceptance has also been a challenge as the bank is seen as a foreign bank.

In Tanzania for example one of the managers observed that poor state of the roads leads to lose of revenue and waste operating time on the roads due to massive traffic jams. He also noted that one major business constraint is inefficient government bureaucracy. Bribes have to be paid to get things done, making it time intensive and cumbersome dealing with permits and licenses. He noted that this kind of environment scares away investors.

In Uganda the biggest challenge was penetrating the already established market. Multinational banks such as Barclays and Standard Chartered Bank had already established their operations and captured a substantive market share. In all the markets the credit risk came out as affecting banking operations. This affected cost of loans in terms of high interest rates and increased in non-performing loans leading to huge provisions in the balance sheet, one of the managers noted that this will ultimately affect the profitability of the bank in the long run.

The interviewees indicated that the bank faced stiff competition from other banks in the industry in the region, high cost of doing business in other countries, legal restriction in the host country, low market share, hostile environment, lack of government support, low product uptake by customers and lack of strategic partner in the industry. Others include the regulatory environment

In summary, for company to succeed in venturing in internationalization and choosing the right mode of entry strategy; is to formulate an international strategy and then execute it. The directors and those at decision-making positions need to be strategic and embrace change in order to be successful in the mode of entry chosen and the way it is executed in order to realize success in foreign markets

4.4 Discussion of Findings

The study found out that DTB bank used FDI and opening of subsidiaries as a market entry strategy. The ownership structure revealed that DTB Kenya has 55% shareholding in DTB Tanzania, a 51% shareholding in DTB Uganda and 67% of the equity in the Burundi making them the subsidiaries of DTB Kenya. As the bank is planning to expand its operations to South Sudan, the Democratic Republic of Congo, Madagascar and Mozambique it is most probably going to employ mode of FDI and establishing subsidiaries in this markets due to success achieved so far.

The respondents pointed out that the Bank has expansion strategy; however research is always carried out before implementing and choosing specific strategy. This is to allow for flexibility and adapting to specific markets. This, they said, has led to high success rates in the strategy chosen and avoids losses which may be realized due to choice of a wrong strategy. They also agreed that opening of subsidiaries in Uganda, Tanzania and Burundi was a success the 47 branches in this three countries are all contributing profit to the bottom line of the DTB limited. The bank has also increased its customer base and reaches many customers with its products.

In terms of cost, risk and control; one of the managers agreed that opening of subsidiaries was quite expensive as compared to other modes of entry. They chose this mode in order to have control on the activities and management of the subsidiaries. This mode also they said was in line with the banks internal organization competencies. The respondents were of the opinion that for the recent planning of expansion to South Sudan, the Democratic

Republic of Congo, Madagascar and Mozambique, they would recommend the opening of subsidiaries to the Directors and Board of management.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The purpose of this study was to establish the foreign market entry strategies adopted by DTB Bank in entering the East African market banking industry. The researcher was able to interview DTB managers who gave their views on this subject. This chapter will present a summary of the findings, the conclusions drawn from the study, recommendations based on the findings of the study and suggestions for further research.

5.2 Summary of Findings

It was established that DTB Bank opted to expand to the East African market by opening subsidiaries in Uganda, Tanzania and in Burundi due to a number of reasons. The most important reason was as a result of its corporate vision and mission statements of enabling people to advance with confidence and success; to make customers prosper and to create value for stakeholders aimed at making the bank the preferred provider of financial services in the region. In order to achieve this strategy, the bank had to establish its presence in the countries within the specified region. The successful establishment of subsidiaries in Uganda, Tanzania and Burundi has motivated DTB bank to expand its operations in the region. The bank is planning to enter South Sudan, the Democratic Republic of Congo, Madagascar and Mozambique by 2017. The respondents were of the opinion that DTB will probably expand to these regions by opening subsidiaries.

The re-launch of the East African Community also played a very significant role in the establishment of subsidiaries by DTB Kenya in the east African market. The member countries of East African Community signed a common market protocol that allowed for free movement of services and labour among the member states without any restrictions. As a result this created a very wide market that DTB wanted to tap into if the bank utilized the opportunity. The re-launch and the political goodwill of the East Africa common market protocol also made it easier for DTB to open a subsidiary in Tanzania, Uganda and Burundi since there were no rigorous processes pertaining to the registration, operations, and legal issues which always pose a challenge to many multinationals going to foreign markets. It was confirmed from the findings that DTB Kenya injected capital to 55% shareholding in DTB Tanzania and a 51% shareholding in DTB Uganda, 67% of the equity in the Burundi operation making them DTB Kenya's subsidiaries. The main reason for this ownership structure is for the parent company in Kenya controlling the operations of the subsidiaries. There was need for the bank to retain the power to control the activities of the subsidiary in the region

5.3 Conclusions

DTB Kenya moved into the East African and established subsidiaries in the three countries it is operating in. This entry strategy was employed by the bank in order to have control and steer the subsidiaries towards their corporate mission and vision without difficulties. The reasons for expansion include the need to increase business opportunities, the need to tap into the larger East African market that was created due to the re-launch of the East African community and the need to extend its long banking experience in the region. The bank also started a fully owned subsidiary in Burundi as

opposed to other foreign market entry strategies such as mergers and acquisitions and strategic alliances among others.

5.4 Recommendations

5.4.1 Recommendations with Policy Implications

The study established that DTB has been successful in by opening subsidiaries in Uganda, Tanzania and Burundi. The strategy has been successful since the bank has grown into Ninety one branches in total. It is therefore recommended that the bank also uses the same strategy in establishing its presence in other countries within the region. It was evident from the study that DTB has not made use of other foreign market entry strategies. The bank should also explore other foreign market entry strategies and benchmark with the banks that have used them and establish their adoptability. This will assist the bank in having more than one alternative at its disposal. A successful and sustainable entry strategy will require planning, resources and research for successful implementation

From the study it came out clearly that there is also need for the East African governments and indeed the region at large to improve conditions in their business environment in order to attract Multinationals, support them and ensure the success and sustainability of their businesses. This will make their countries attractive to this Multinationals to consider their countries as suitable for setting up operations; this is

beneficial to the host country as a source of employment for its people and flow of the much needed foreign Exchange earner

5.4.2 Suggestions for Further Research

There is need to conduct a study to establish the reasons why DTB chose to use the establishments of subsidiaries in entering the East African Market. This will assist in comparing whether the same reasons can be applicable in other countries and other financial institutions. There is need to conduct a comparative study on the success of the strategy as compared to the other foreign market entry strategies that have been applied by other organizations especially the in the financial sector globally.

5.5 Limitations of the Study

A limitation for the purposes of this research project was regarded as any factor that affected or could have affected the attainment of research objectives. First, this was a case study where the unit of analysis was one organization. Thus the findings may not be applicable to other organizations as there are no two organizations that are similar. Un-ease and suspicion from the target respondents was evident and they were not ready to provide data needed for the study fearing that the information they provide may be misused. This was overcome by assuring them that the information requested will be treated with high level of confidentiality and purely used for the intended purpose only.

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APPENDIX 1: INTERVIEW GUIDE



**UNIVERSITY OF NAIROBI
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MBA PROGRAMME**

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DATE... 18/08/2014

TO WHOM IT MAY CONCERN

The bearer of this letter JOHN RONOH


Registration No. DG/73582/2012

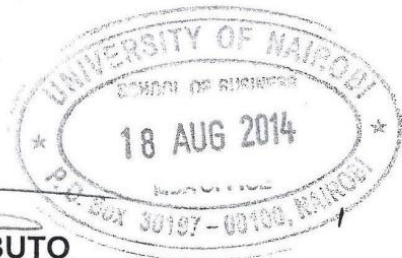
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS



1. Diamond Trust Bank has how many Branches
2. How many countries do you operate in East Africa Market?
3. Most banks in Kenya including DTB have recently embarked on expansion, why is this so?
4. What are the major strategies that the bank has used to enter into the countries it operates in?
5. In DTB do you have a specific expansion strategy or choose from a variety?
6. Do you consider DTB Bank's entry into the East African market a success and why?
7. What factors contributed to the success?
8. Has the implementation of the expansion strategy improved bank's financial standing?
9. Apart from financial performance, what other advantages have been gained by the bank from the adoption and implementation of the regional expansion strategy?
10. What are the benefits of choosing the correct market entry strategy?
11. What challenges do you think the bank faced in choosing the market entry strategies?
12. In terms of cost, risk and control; how would you categorize the strategy adopted by the Bank?

13. How have the following factors influenced your business as a Bank in the East African region;

a) Political factors

b) Economic factors

c) Social factors

d) Technological factors.

14. How is the bank dealing with these challenges?

15. Recently DTB announced plans to expand to other African countries; would you support this plan? Explain

16. Which Entry strategy would you recommend to an organization planning to go into the East African region?

17. Are there any factors which need be considered before expanding to foreign market?

18. In your opinion do you think internal organization competencies affect the mode of entry strategy chosen?

19. What is the significance of the mode of entry chosen by DTB to its business?

20. In your view do you think this expansion is sustainable?