

**DETERMINANTS OF FOREIGN MARKET ENTRY STRATEGIES  
TO GAIN COMPETITIVE ADVANTAGE BY COMMERCIAL  
BANKS IN KENYA**

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## DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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

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## **DEDICATION**

I dedicate this project to the Almighty God for the far He has brought me in pursuit of academic excellence, my family: my parents the late Mr Fredrick Sogo & Mrs Mary Sogo for unfailing encouragement and love. To the strong man in my life; Robin Hosea, for walking this journey with me, for picking me up when I fell and for burning the mid night oil with me.

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## **ABSTRACT**

The world is in an era of globalization and companies are continuously affected by the competition around the world. Increasing globalization has led to an increase in international joint ventures, companies establishing subsidiaries and sales offices abroad. Thus, as organizations seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can improve their performance by adopting different foreign market entry modes which will enable them to position themselves in market dominance and improve the firm's overall performance. The complicated part is to choose the right entry mode for the right company considering the company's resources and assets. The objective of the study was to determine foreign market entry strategies and competitive advantage by commercial banks in Kenya. The research design adopted by the study was cross sectional descriptive survey design. The population of the study comprise of all the 8 commercial banks in Kenya which have entered into foreign markets. Data collection was undertaken using a questionnaire which was administered to the heads of business development and marketing, retail banking and corporate departments. The data collected was analyzed using Statistical Package for Social Sciences and presented using descriptive measures, percentages and frequency distribution tables. The study established that the commercial banks entered into foreign market through mergers with a local bank, strategic alliance, export of services directly, sequential market entry strategy, licensing, foreign direct investment, joint venture, purchase of a wholly owned subsidiaries and direct acquisition. The study found out that entry into foreign market by the commercial banks considers the political situation in the countries, sufficient foreign market size for greater growth potential, competitive technology, conducive legal environment, taxation and business regulations, income distribution to sustain entry and growth requirements, adequate and conducive monitors and fiscal policies and conducive foreign currency exchange conditions in the country. The entry of commercial banks into foreign market enabled the banks to achieve competitive advantage over its competitors through market research on pricing, security of product/service and technical innovation strategies.

## TABLE OF CONTENTS

<b>DECLARATION</b> .....	ii
<b>DEDICATION</b> .....	iii
<b>ACKNOWLEDGEMENT</b> .....	iv
<b>ABSTRACT</b> .....	v
<b>CHAPTER ONE: INTRODUCTION</b> .....	1
1.1 Background .....	1
1.1.1 The Concept of International Business.....	3
1.1.2 Determinants of Foreign Market Entry Strategy .....	4
1.1.3 Competitive Advantage .....	6
1.1.4 Commercial Banks in Kenya.....	7
1.2 Research Problem .....	8
1.3 Research Objectives.....	10
1.4 Value of the Study .....	10
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	11
2.1 Introduction.....	11
2.2 Theoretical Foundation .....	12
2.2.1 Normative decision theory.....	12
2.2.2 Eclectic theory .....	13
2.2.3 Theory of National competitive advantage .....	14
2.3 Foreign Market Entry Strategies .....	15
2.4 Factors Influencing the Choice of Foreign Market Entry.....	20
2.5 Empirical Studies and Gap.....	24
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	26
3.1 Introduction.....	26
3.2 Research Design.....	26

3.3 Population of the study .....	26
3.4 Data Collection .....	27
3.5 Data Analysis .....	27
<b>CHAPTER FOUR</b> .....	28
<b>DATA ANALYSIS, RESULTS AND DISCUSSION</b> .....	28
4.1 Introduction.....	28
4.2 Demographic Characteristics .....	28
4.2.1 Highest Level of Education .....	28
4.2.2 Length of service with the Bank.....	29
4.2.3 Duration of Commercial Bank Operation .....	30
4.2.4 Number of Branches outside Kenya.....	31
4.3 Foreign Market Entry Strategies .....	32
4.4.1 Foreign Market Entry Strategies.....	32
4.4.2 Factors considered before entering foreign market .....	34
4.4.3 Competitive Factors Considered by the Bank .....	36
4.5 Discussion.....	37
<b>CHAPTER FIVE: SUMMARY, CONCLUSION, LIMITATIONS AND RECOMMENDATIONS</b> .....	40
5.1 Introduction.....	40
5.2 Summary of Findings.....	40
5.3 Conclusion .....	41
5.4 Limitations of the Study.....	42
5.5 Recommendations for Policy and Practice .....	43
5.6 Suggestion for Further Research.....	44
<b>REFERENCES</b> .....	45
<b>APPENDIX I: Questionnaire</b> .....	48
<b>APPENDIX II: List of commercial banks</b> .....	52

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

The world is in an era of globalization and companies are continuously affected by the competition around the world, (Bender & Fish 2010). Increasing globalization has led to an increase in international joint ventures, companies establishing subsidiaries and sales offices abroad. According to Root (2012), the new global economy has created business environment that require firms to look past the traditional thinking of domestic market and to start looking at business from an international global perspective instead. As businesses are no longer limited by national boundaries, organizations are performing activities outside their home countries. Through accumulate experience in foreign markets, firms gain local market knowledge and develop routine and process for dealing with foreign context. Thus, if companies want to be successful, they must manage their knowledge within the organization, especially across national borders since failure to participate in the global market results in a declining economic capability of the nation (Czinkota & Ronkainen, 2004). In venturing into the international market, firms must decide on the important strategic marketing issues that include the breadth of their product offering and the standardization of marketing strategies across countries (Gupta and Govindarajan 2008).

The normative decision theory suggests that the choice of a foreign market entry mode should be based on trade-offs between risks and returns. A firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment. The theory posits that a firm's choices on the foreign market is determined by resource availability and



need for control (Cespedes 2008). Resource availability refers to the financial and managerial capacity of a firm for serving a particular foreign market in which the availability of the necessary knowledge and capacity will come in handy. Control refers to a firm's need to influence systems, methods, and decisions in that foreign market (Anderson and Gatignon 2006). Control is desirable to improve a firm's competitive position and maximize the returns on its assets and skills. Higher operational control results from having a greater ownership in the foreign venture. However, risks are also likely to be higher due to the assumption of responsibility for decision making and higher commitment of resources in the firm.

The banking industry in Kenya has in the recent past witnessed drastic changes. They are particularly faced by fierce market competition forces in the foreign markets and in order to remain viable and profitable, they need to employ various responsive strategies (Wilburn, 2011). Commercial banks have found it difficult to cope with increasingly competition by relying on the old operation strategies which is putting increasingly greater pressure to the bank to acquire and to increase their competitive advantages. Therefore, to survive and thrive, the banks have to make greater efforts to acquire or improve constantly their competitive advantages, and as a result, their level of competitiveness can provide them a higher level of growth and performance. Consequently, majority of the Kenyan commercial banks have embraced foreign market entry as a medium of serving their customers.

### **1.1.1 The Concept of International Business**

International business consists of any commercial transaction that crosses the borders of any two nations and comprises a large and growing portion of world's total business (Bennett, 2009). International business means carrying of business activities beyond national boundaries. It is an extension of domestic business, which includes the transactions of economic resources such as goods, capital and services comprising of technology, skilled labour, transportation among others (Buckley, 2005). It includes not only international trade of goods and services, but also foreign investment. International business has gained wide popularity, because of the growing rate of multinational enterprises. The flows of goods, services, technologies, resources, people, and ideas among markets have major effects on countries and their governments, companies, and individuals (McDonald *et al.*, 2002). At the nation-state level, participation in international business activities helps countries take advantage of national expertise in commerce to deliver goods and services into the international marketplace.

For companies, international business increases competition in domestic markets and opens up new opportunities abroad. Global competition forces firms to be more innovative and efficient in their use of resources. For consumers, international business brings increased varieties of goods and services into the world marketplace and enhances living standards. Just as important, open borders means increased exposure to new ideas, technologies, and ways of doing things (Devinney, 2010).Grosse (2005) noted that Governments have major effects on international business activities in determining how

open (or closed) national economies are to external influences such as trade and investment.

International trade policy consists of bilateral and multilateral arrangements between countries and dictates the terms of commerce between them. These trade policies and relations vary in scope and content but generally depend on the structure of the economy of a particular country (Hill, 2005). At the international level, the process of globalization plays a major role in influencing and shaping subsequent trade policies. Since no nation can produce all it needs by itself alone, international trade has become not only a means by which nations source those goods and services they lack or do not have in sufficient quantities but also a subject of international politics either for achieving, promoting or maintaining peace between international trading partners or countries and a source of national insecurity as a result of external developments in countries with which it interdepends or depends on for essential products and sometimes wars are fought to preserve that national security (Torre, 2008).

### **1.1.2 Determinants of Foreign Market Entry Strategy**

Foreign market entry is a way for a company to expand its business internationally. According to Greening and others (2006) expansion into markets in foreign countries is an excellent way for a company to grow. Yip and Hult (2012) further state that there is a lot of evidence that proves that companies that applies a global strategy and want to internationalize themselves can gain competitive and financial benefits from it. This means that a company could choose to work with foreign market entry as a tool in order to both grow and to be more successful, if the company takes the right decisions. An

expansion could be about both geographical and product expansion. A firm may want to penetrate a product market that has been unknown previously for that company since they have not been working with that kind of products before (Johnson et al. 2008). According to Root (2012), international entry strategy is a comprehensive plan and it sets forth objectives, goals, resources and policies that will guide the international business activities. The selection of an entry mode involves following decisions: Choice of a target product/market; Objectives and goals in the target market; Choice of an entry mode to penetrate the target market country; Marketing plan to penetrate the target market and Control system to monitor performance in the target market, to achieve sustainable growth in world markets.

When entering a foreign market, firms must decide on the level of resources (e.g., cash, human resources, transfer of technology and other types of assets) to commit to the new market (Westjohn, and Boggs 2009). Firm size is considered a useful and manageable approximation of firm resources. It is an important aspect for a company whether they should or not should expand their business into foreign markets. The reasons for expansion into foreign markets could be the economic characteristics of the foreign business environment, the perceived growth in a local foreign market or the financial and competitive benefits a company can gain from a successful foreign market entry (Laird et al. 2003). A company has to be sure that they can handle and understand the foreign market and also that they offer a product or service that is needed.

### **1.1.3 Competitive Advantage**

Competitive advantage is the extent to which an organization is able to create a defensible position over its competitors (Lim, Acito, and Rusetski, 2006). In the same vein, Devinney (2010) defines the competitive advantage as the asymmetry or differential in any firm attribute or factor that allows one firm to better serve the customers than others and hence create better customer value and achieve superior performance. Competitive advantage allows a firm to create superior value for its customers and profits for itself. A firm positions itself in the industry through its choice of low cost or differentiation. This decision is a central component of the firm's competitive strategy. Mantravadi and Reddy (2008) argues that resources are the sources of a firm's capabilities, while capabilities are the source of a firm's competitive advantage.

Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Doole and Lowe 2008). To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage. Superior performance outcomes and superiority in production resources reflects competitive advantage (Day and Wesley 1998). Sources of competitive advantage include high quality products, superior customer service and achieving lower costs than its rivals (Gupta and Govindarajan 2008). The search for competitive advantage has been the dominant theme in the study of strategy for many years (Porter, 1996). Competitive advantage is a journey and not a destination - it is

like tomorrow which is inescapable but never arrives. Competitive advantage only becomes meaningful when this journey is experienced (Devinney, 2010).

#### **1.1.4 Commercial Banks in Kenya**

According to the Central Bank of Kenya, there are currently 43 commercial banks in Kenya (CBK, 2014). Thirty-five of these banks, most of which are small to medium sized, are locally owned and the other 8 are foreign owned. Kenya's financial landscape has considerably changed over the period 2006-2013 and the financial sector has grown 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 East Africa community region as well as automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off-the-shelf' products. Among these innovations include moving from the traditional decentralized banking to one branch banking that has been enabled by integration of various business functions (PWC, 2013). The CBK annual supervision report emphasizes that the financial institutions will need to cope continuously with changing business environment and a continuous flood of new requirements via a robust ICT platform, while staying sufficiently agile. Consumers will continue to demand individualized services, and to demand them faster than ever (CBK, 2014).

The banking industry in Kenya has found it necessary to embrace business integration as one way of responding to the changing needs of the customers. Contemporary customers have become more informed and require efficient and faster service delivery than before.

Nyaoke (2007) indicates that there are some challenges that are encountered by the banking industry in Kenya such as money laundering, but such kind of challenges are easily overcome once banks embrace integration since various departments are able to share real time information.

## **1.2 Research Problem**

Building long-term relationships with customers in this globalization era has become a critical strategy for most financial institutions in today's competitive financial markets. As the current economic environment becomes more competitive and introducing new brands becomes increasingly costly, companies must find new strategies to increase their capacity and competitiveness (Lipponen *et al.*, 2004). Corporates worldwide have been aggressively trying to build new competencies and capabilities, to remain competitive and grow profits (Mantravadi and Reddy, 2008). Thus, as organizations seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can improve their performance by adopting different foreign market entry modes which will enable them to position themselves in market dominance and improve the firm's overall performance. The complicated part is to choose the right entry mode for the right company considering the company's resources and assets. There can be many external issues that could complicate a market entry for a company. Examples of this is strength of potential competitors, the market potential, growth of the country, cultural differences, political issues, law and financial factors (Johnson et al. 2008; Meyer, 2001).

The banking sector plays a significant role in the growth of economies all over the world. Due to liberalization, globalization, technological advancement and more enlightened customers, banking industry has continued to grow both in terms of new local and foreign entrants. As part of the financial services industry, when faced with global competition, banks may be unable to satisfy their global customers by providing standard services. Therefore, the globalization of the banking industry faces much more difficult challenges. The foreign market entry, which is becoming highly important and critical as the competition in the banking sector has intensified to the extent that many banks have changed their strategies in order to survive. It is important in a sense that it enables the bank to be cost effective, quality conscious and highly competitive in the contemporary global market. However, host and source countries' characteristics related to profitability and risk have been found to be important drivers of a bank's decision to penetrate a foreign market.

International studies that have been on undertaken on determinants of foreign market entry strategy include Baaij et al., (2004) researched on locational decisional variables in a multinational and found that factor prices and political stability were major factors affecting a location decision. Almajali et al., (2012) undertook a study to identify the factors associated with internationalization of small and medium enterprises in Iran and established that internationalization in new markets has created the motivation for setting up new business; that the level of education of top managers has been very useful in setting up international business; that political systems have been supportive in all areas of the business and language barrier has been less influential in the internationalization



trade in the business. Other studies that have been undertaken on determinants of foreign market entry strategy include Mutia (2012) study on the assessment of the perceived attraction of the Kenyan market to international airlines and found that the international airlines were attracted to the Kenyan market due to legislation and cost savings. Mutiso (2012) researched on the multinational enterprises and host nations on contribution by Coca-Cola to Kenya's economy and established that the company is favored by an ideal investment climate, globalization pressure on Kenya and other emerging economies, economical human and natural resources as well as political stability. From the above studies, there is no study that has been undertaken on the factors that influence the foreign entry of commercial banks and the study will fill this gap by answering the question; what factors influence the foreign entry of commercial banks in Kenya?

## **1.2 Research Objectives**

The objective of the study was to establish the determinants of foreign market entry strategy.

## **1.3 Value of the Study**

For the government and the commercial banks policy makers, the study will bring into light the implication of the different modes of market entry and bring forth the long-term and short-term outcomes of the strategies. This in turn will help the banking institution players identify the best strategy that suits their situation and that which will enhance superior performance and competitiveness.

Future scholars may use the results of this study as a source of reference. The findings of this study can be compared with other sectors to draw conclusions on various ways an institution can respond to competitive forces in the environment. For academicians, this study will form the foundation upon which other related and replicated studies can be based on.

The findings of the study will benefit other commercial banks and all other related industries as they will understand the factors that influence new market entry and challenges facing the banking industry as regards adoption of the effective. To the investors the study will widen their knowledge on foreign market entry by analyzing their effect on performance of the firms they are involved and will have invested in. The management of Commercial banks in Kenya will be able to put in place appropriate strategies to enable the bank counter operating challenges emanating from the globalization and changing operating environment. In addition, the findings of the study will form part of the action plans that will help the bank to be innovative in order to gain competitive advantage over its competitors as they will be able to make informed decisions on issues that will boost their client base.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

In this chapter literature of relevance to the study was reviewed. Key areas of literature that took center stage in this section include the theoretical framework. The study further

put into context the foreign market entry strategies and factors influence the choice of foreign market entry.

## **2.2 Theoretical Foundation**

This study is founded on two theories which are the normative decision theory and the eclectic theory.

### **2.2.1 Normative decision theory**

Normative decision theory suggests that the choice of a foreign market entry mode should be based on trade-offs between risks and returns. A firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment. According to the theory, the banks that enjoy a comparative advantage in the banking industry will offer more competitive financial products, and will therefore be more competitive in international markets. Furthermore, banks engage in foreign entry to increase the bank's profitability, within an acceptable risk profile and risk diversification goals. Focarelli and Pozzolo (2010) find that banks prefer to have subsidiaries in countries where expected profits are larger, owing to higher expected economic growth and the prospect of reducing the local banks' inefficiency

Root (1994) stated that political, economic, cultural and social property of target market has considerable influence on selecting entry mode to market and the most important of them is governmental regulations and policies in relation to international business. Another environmental factor is geographical distance. Properties including: national

gross production, interest rate, per capita income has close relationship with size of market of target country. Cultural distance has great importance; since, enterprises prefer to be more close to culture of target country.

### **2.2.2 Eclectic theory**

The eclectic paradigm (Dunning, 1980) argues that the foreign market entry mode is influenced by three factors, namely, the ownership advantages of a firm, the locational advantages of a market, and the firm's internalization advantages (Czinkota & Ronkainen, 2004). When all these three advantages are superior, firms will choose to enter the prospective market using the mode for which the firm has a higher degree of control. The eclectic paradigm assumes that the organizations possess ownership advantages from their intangible assets in the form of technology. This has enabled them to reduce the transaction cost through the internalization process. Internalization advantages arise because of the exploitation of technology and the locational and other advantages accruing in the host country (Doole and Lowe, 2011).

Backlund & Suikky (2009) noted that although, the ownership advantages may be transferred to the host country through the licensing arrangements; yet certain advantages are such that non-transferable benefits from them would occur only if they are managed within the MNEs themselves. Such advantages are organizational and entrepreneurial capabilities of the managers of the international firms, their experience of foreign markets, their political contacts and long-term business agreements with other enterprises. The control over technology and its coordination with the host country resources would promote research and development efforts, which can lead to the rapid

growth of internationalization of the world economy. According to the Eclectic model, three reasons reflect the inability of the market to organize transaction in optimal way: the buyers and sellers do not enter the market with complete (or symmetrical) information or perfect certainty about the consequences of the transactions they are undertaking (Dunning, 2002). The market cannot take account of the benefits and costs that arise as a result of a particular transaction, but which are external to that transaction. The demand of a particular product, while infinitely elastic, is insufficiently large to enable the producing firm fully to capture the economies of size, scope and geographical diversification (Galbraith and Kay, 2011).

### **2.2.3 Theory of National competitive advantage**

The theory was developed by Porter (1990) and it identified four major determinants of international competitiveness: factor conditions – the nation’s position in factors of production, such as skilled labour or infrastructure, necessary to compete in a given industry; demand conditions – the nature of home demand for the industry’s product or service; related and supporting industries – the presence or absence in the nation of supplier industries and related industries that are internationally competitive; and firm strategy, structure, and rivalry- the conditions in the nation governing how businesses are created, organized and managed, and the nature of domestic rivalry. Also identified were chance events and government influences, which are deemed minor determinants (Porter 1990). The determinants of national advantage reinforce each other, creating a dynamic system where the cause and effect of individual determinants become blurred.

Eisenhardt and Zbaracki (2012) noted that countries in particular points in time belong to the stage of development that corresponds to the predominant pattern in the nature of competitive advantage of their firms. Although these stages do not explain everything about a nation's development process, they can highlight the attributes of a nation's industries that are most closely related to economic prosperity. Porter (1990) considers domestic rivalry as having a very direct role in helping firms 'reap the benefits of the other determinants'. He also connects domestic rivalry with another very important feature of competitive industries, geographic concentration. Proximity increases the concentration of information and the speed of its flow, raises the visibility of competitor behaviour and attracts the necessary factors and resources.

### **2.3 Foreign Market Entry Strategies**

Entry strategy for international markets is a comprehensive plan. It sets forth the objectives, goals, resources, and policies that will guide a company's international business operations over a future period long enough to achieve sustainable growth in world markets (Brouthers & Hennart, 2007). The selection of an appropriate entry mode into a foreign market can have significant and far-reaching consequences on a firm's performance and survival. Enterprises in order to enter external markets apply from different methods and there are many factors greatly influencing on this decision. Recognizing these factors is very important for enterprises; therefore, several studies are performed with the goal of recognizing and classifying these factors.

A strategic alliance can be defined as a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common

objective (Cateora & Graham, 2002). The use of strategic alliances as an international market entry mode has increased as firms increasingly recognise the necessity to for foreign help. Jeannet & Hennessey (2004) outline three different types of strategic alliances: Technology-Based Alliances: where firms share technology capabilities in these alliances. Production-Based Alliances: where production facilities and capabilities are shared between companies with component linkages to reduce costs and finally Distribution-Based Alliances: where firms form alliances with an emphasis on distribution.

Strategic alliances tend to be contractual rather than equity arrangement. Licenses and joint ventures are forms of strategic alliances, but are often differentiated from them (Hill, 2003). Strategic alliances can involve no joint ownership or specific license agreement, but rather two companies working together to develop a synergy. Joint advertising programs are a form of strategic alliance, as are joint research and development programs. Strategic alliances seem to make some firms vulnerable to loss of competitive advantage, especially where small firms ally with larger firms. In spite of this, many smaller firms find strategic alliances allow them to enter the international arena when they could not do so alone (Thompson and Strickland, 2004).

Exporting is often the first international choice for firms, and many firms rely substantially on exports throughout their history (Buckley, 2005). Exports are seen as relatively simple because the firm is relying on domestic production, can use a variety of intermediaries to assist in the process, and expects its foreign customers to deal with the marketing and sales issues. Many firms begin by exporting reactively; then become

proactive when they realize the potential benefits of addressing a market that is much larger than the domestic one. Effective exporting requires attention to detail if the process is to be successful; for example, the exporter needs to decide if and when to use different intermediaries, select an appropriate transportation method, preparing export documentation, prepare the product, arrange acceptable payment terms, and so on (Hough and Neuland, 2010).

Most importantly, the exporter usually leaves marketing and sales to the foreign customers and these may not receive the same attention as if the firm itself under-took these activities. Larger exporters often undertake their own marketing and establish sales subsidiaries in important foreign markets. Once a company decides to target a particular country, it has to determine the best mode of entry. Its broad choices would be indirect exporting, direct exporting, licensing, joint ventures and direct investments. The normal way to get involved in foreign market is through export. Occasional exporting is a passive level of involvement in which the company exports from time to time, either on its own initiative or in response to unsolicited orders from abroad. Active exporting takes place when the company makes a commitment to expand into a particular market (Brealey & Kaplanis, 2012).

Foreign direct investment (FDI) is the direct ownership of facilities in the target country. It involves the transfer of resources including capital, technology, and personnel. Direct foreign investment may be made through the acquisition of an existing entity or the establishment of a new enterprise (Grant, 2000). Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive



environment. However, it requires a high level of resources and a high degree of commitment. FDI enables growth in international business and multinational businesses (Puljeva & Widen 2011). Different economic factors encourage inward FDI. These include interest loans, tax breaks, grants, subsidies, and the removal of restrictions and limitations. Factors detrimental to the growth of FDI include necessities of differential performance and limitations related with ownership patterns. Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing.

For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development (Daniels, Radebaugh and Sullivan, 2007). Foreign direct investment, in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment, which is considered an indirect investment.

In the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology, growing liberalization of the national regulatory framework governing investment in enterprises, and changes in capital markets profound changes have occurred in the size, scope and methods of FDI. New

information technology systems, decline in global communication costs have made management of foreign investments far easier than in the past. The sea change in trade and investment policies and the regulatory environment globally in the past decade, including trade policy and tariff liberalization, easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries, has probably been the most significant catalyst for FDI's expanded role (Buckley, 2005).

Licensing on the other hand is the process of permitting a local company to use the property of the licensor in exchange for a fee. Licensing offers the least level of control because it also involves the least utilization of resources. This arrangement involves the infusion of little resources enabling the licensor to obtain a high return on investment. However, there is a risk of revenue loss because the licensee produces and markets products and collects revenue (Meyer and Tran, 2006). Dickson, Farris and Verbeke (2011) noted that many companies feel that production in a foreign country is desirable but they do not want to undertake this production themselves. In this situation the firm can grant a license to a foreign firm to undertake the production. The licensing agreement gives access to foreign markets through foreign production without the necessity of investing in the foreign location. This is particularly attractive for a company that does not have the financial or managerial capacity to invest and undertake foreign production.

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. 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.

#### **2.4 Factors Influencing the Choice of Foreign Market Entry**

The changing international environment continually presents new opportunities and challenges for multinational enterprises. Before doing business in a foreign country, organizations are influenced by several factors. These include

Different foreign market entry modes represent different types of control exercised by firms in relation to their foreign operations, different levels of resources committed, and different levels of risk. Any firm that ventures into the business carefully calculates the potential costs for a new market entry. Businesses should have the necessary financial resources to compete within these markets (Dickson, Farris and Verbeke, 2011). Since

foreign market entry involves sunk costs, one may expect that financial factors affect exporting decisions. However, it is usually found that financial constraints only matter for certain types of firm, usually smaller and younger firms. Exporters are usually found to be larger and especially more productive than their competitors that operate solely on the domestic market (Daniels, Radebaugh and Sullivan, 2007). The theoretical justification for this observation is that exporting is only feasible if a certain productivity threshold is reached. This is because exporting also incorporates higher variable costs than domestic sales due to transport costs and costs of the ‘liability of foreignness’, i.e. unfamiliarity with the foreign market and disadvantages compared with local producers because of the limited ability to provide after-sales services. Hence, it is not clear whether financial constraints matter for those firms that could profitably export otherwise.

The scale of a bank can also be a proxy of its management capability. The larger the bank and the more resources it has, it can be argued that its risk taking capacity and management capability will be greater. Therefore, as argued in regard to their foreign experience, larger banks will be more likely to enter foreign markets with a high control mode. Puljeva and Widen (2011) argued that the larger firms are more likely to enter foreign markets by resorting to FDI through wholly-owned subsidiaries or joint ventures than the smaller firms. Larger scale firms with more assets are generally more capable of integrating and managing risk.

The political environment of international trade includes any national or international political factor that can affect the organization’s operations or its decision making. Politics has come to be recognized as the major factor in many international business

decisions, especially in terms of whether to invest and how to develop markets (Grosse, 2005). Politics is intrinsically linked to a government's attitude to business and the freedom within which it allows firms to operate. Unstable political regimes expose foreign businesses to a variety of risks that they would generally not face in the home market. This often means that the political arena is the most volatile area of international trade (Buckley, 2003).

Cultural distance represents the extent of the cultural differences between the host and home countries. Cultural distance influences the internalization of an enterprise in many ways. For example, during the initial phase of internationalization, some firms choose to export to psychologically-close countries first. After accumulating international experience, they then extend their reach to psychologically-distant countries (Buckley Pass, and Prescott, 2012). Based on the logical reasoning of transaction cost economics, when the cultural distance is high, it is more difficult to monitor and to communicate with the overseas unit. That is, the cost of using organizational or hierarchical mechanisms will be higher than the cost of using the market mechanism. Therefore, firms will tend to enter the foreign market with a low control mode.

Gatignon and Anderson (2008) demonstrated that, the higher the recognized cultural distance between the home and host countries, the more that firms will tend to adopt a low control entry mode, because a low control mode is also a more flexible mode for withdrawal when the firm is unable to adapt to the host country. In addition, Erramilli (2011) also empirically demonstrated that market similarity is an important factor that influences the foreign market entry mode. Furthermore, Esperanca and Gulamhussen

(2011) found that the closer the cultural distance between the home and host country, the more that foreign banking is attracted to the host country.

Puljeva and Widen (2011) noted that a firm's ability to compete in national or international markets is only partly determined by its cost position. Of great significance are the actual product and marketing differentiation and the effectiveness of the firm's customer offering in relation to competitive offerings. When several competitors practice undifferentiated marketing, the result is intense competition in the largest market or market segments and under-satisfaction of the smaller ones. Dickson *et al.*, (2011) noted that all suppliers have identical products with similar quality and physical attributes. However, this practice of assuming product homogeneity is not likely to be made among those familiar with marketing. More often than not, products are endowed with psychological attributes. As such, brand name products are often promoted as having additional value based on psychological nuance.

Firms accustomed to a good supporting infrastructure in their home market may find a weak supporting infrastructure in the target foreign market; when they do, they must make some adjustments in their operations (Terpstra and Sarathy, 2012). For example, an exporting company may be forced to establish an export subsidiary in the local market when there is no good local agent or when distributors are already committed to other firms. The more adequate the commercial and financial infrastructure is, such as advertising agencies, marketing research companies, and credit and banking facilities, the better the firm is able to focus on its marketing task. Generally, a weak marketing infrastructure favors an entry mode that involves low resource commitment (Terpstra and

Sarathy, 2012). However, aggressive pioneering firms that have deep pockets may take risks by adopting FDI even in a country with weak infrastructure if the expected long-term market growth potential is high (Erramilli, 2011). Detailed discussion of pioneering advantages is beyond the scope of this article. In general, however, a poor marketing infrastructure is more likely to favor entry modes that represent greater distance from the market.

Porter (1990) highlights the importance of home country market size as a major source of competitive advantage. Organizations with a home base in large, demanding, and sophisticated markets are often innovative and competitive (Erramilli, 2011). For example, the U.S. economy has bestowed special competitive advantages on its domestic firms by virtue of its size, resources, infrastructure, and government policy (Lall and Siddharthan, 2012). Also, a large domestic market helps its firms in international business to be relatively larger than their competitors from other countries in terms of financial resources, technology, management skills, production capacity, and marketing expertise. Firms originating from industrialized countries with large markets are more likely to favor foreign direct investment than firms from small-market countries (Erramilli, 2011).

## **2.5 Empirical Studies and Gap**

Previous studies in the areas of international trade, industrial organization, and market imperfections have identified a number of factors that influence the choice of an entry mode for a selected target market. Integrating perspectives from these areas, Terpstra and

Sarathy (2012) proposed a comprehensive framework, which stipulated that the choice of an entry mode for a target market is influenced by three types of determinant factors: ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions within the firm.

McDougall and Oviatt (2011) study on identifying factors influencing entry mode selection in food industry of Small and Medium-sized Enterprises (SMEs) in Iran established that target country market factors; target country environmental factors; target country production factors and home country factors as external factors and country production and company resource/commitment factors as internal factors have impact on the process of choosing entry modes.

Griffin and Pustay (2012) study on the factors influencing international marketing strategy development among successful exporters in Australia established that market and industry factors in both domestic and foreign markets, the firm's internal factors, foreign environmental factors and public and private support networks in the foreign markets.

Howells and Wood (2013) study on factors Influencing the Foreign Entry Mode of Asian and Latin American Banks found out that cultural distance, market potential of the host country, customer following and bank advantages are the factors that influence the foreign entry mode of Asian and Latin American banks. While these studies have made substantial contributions to our understanding of the entry mode behavior of firms, an important gap in the empirical literature is the issue of how the entry strategies influence firm competitive advantage and the determinant factors influence firms' entry choices.



## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter contains a description of the methods and procedures that was used to carry out the study. It gives summary information regarding the methodologies to be adopted and used in this study. It describes the research design, target population, data collection procedures and methods data analysis and presentation of data.

### **3.2 Research Design**

The study adopted a cross sectional descriptive survey design. Cross sectional descriptive design aim to describe or define a subject, by creating a profile of banks through the collection of data and tabulation of the frequencies on research variables or their interaction (Cooper and Schindler, 2003). Best and Khan, (2009) argued that descriptive surveys describes and interprets phenomena and are concerned with conditions or relationships that exists, opinions that are held, processes that are going on, and effects that are evident or trend that are developing.

### **3.3 Population of the Study**

According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. A research study's target population should be clearly defined and the unit of analysis should be identified, which is not easy sometimes. The target population consists of all the units being studied. The unit of analysis is the entity or who is being analyzed.

The population of the study comprised of all the commercial banks in Kenya which have entered into foreign markets. According to the CBK (2015) there are 8 commercial banks which have entered foreign markets and all of them participated in the study since the population was small.

### **3.4 Data Collection**

The study used a questionnaire which was administered to each member of the population. The target respondents in the banks were the heads of business development and marketing, retail banking and corporate departments or their equivalents in the respective banks. The primary data was collected through the use of a semi structured questionnaire that was administered by “drop and pick” method to the respondents. The respondents gave their response in a five point Likert scale. The open-ended questions provided additional information that was not captured in the close-ended questions.

### **3.5 Data Analysis**

The data was analyzed by the use of descriptive statistics to summarize and relate variables which was attained from the administered questionnaires. The data was classified, tabulated and summarized using descriptive measures, percentages and frequency distribution tables while tables and graphs were used for presentation of findings. However, before final analysis was performed, data was cleaned to eliminate discrepancies and thereafter, classified on the basis of similarity and then tabulated. In accomplishing all analysis details with efficiency and effectiveness, the researcher utilized the Statistical Package for Social Sciences (SPSS) software.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

The research objective was to determine foreign market entry strategies and competitive advantage by commercial banks in Kenya. This chapter presents the analysis, findings and discussion. The findings are presented in percentages and frequency distributions, mean and standard deviations. A total of 24 questionnaires were issued out and only 19 were returned. This represented a response rate of 79%.

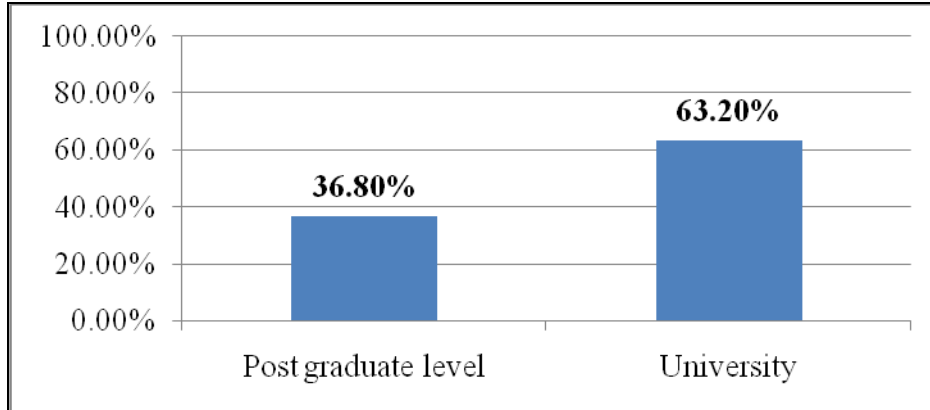
#### **4.2 Demographic Characteristics**

The demographic information considered in the study was respondents' highest level of education attained, length of service with the bank, duration of bank operation, number of employees and number of branches outside Kenya.

##### **4.2.1 Highest Level of Education**

The level of education was important as it enabled the respondents to answer the questions appropriately on the strategies that have been pursued by commercial banks that have entered foreign markets. The results are presented in Table 4.1.

**Table 4.1: Highest Level of Education**

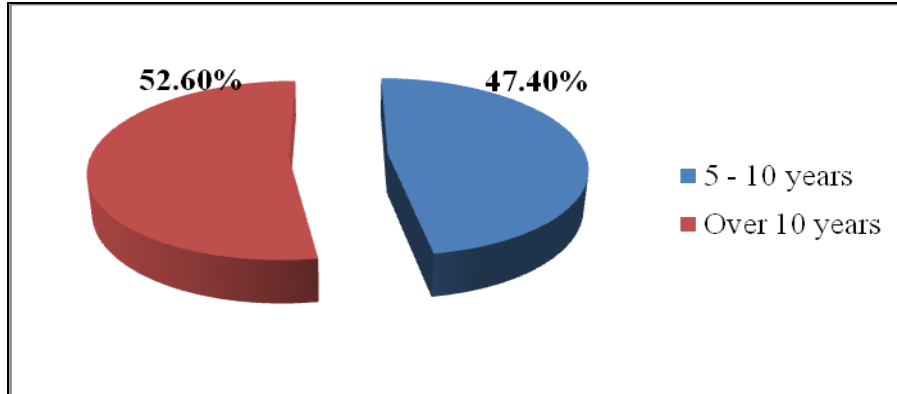


The results on the level of education indicate that 63.2% of the respondents have attained university level while 36.8% of the respondents indicated that they have postgraduate level of education. The results indicate that majority of the respondents have attained university level of education and therefore they have knowledge on the need by the commercial banks to enter into other foreign markets and the strategies that have been pursued towards the realization of organization objectives.

#### **4.2.2 Length of service with the Bank**

The length of service with the bank for the respondents was important for the study as it would give credence on the period when the bank was entering into foreign market thus access to information of the entry strategies.

**Figure 4.2: Length of service with the Bank**



The results show that 52.6% of the respondents have worked in the bank for more than 10 years while 47.4% of the respondents indicated that they have worked in the bank for a period of between 5 and 10 years. The results indicate that majority of the respondents have worked in the banks for a long time and therefore they understand the foreign entry strategies that was applied by the banks when they were entering the markets.

#### **4.2.3 Duration of Commercial Bank Operation**

The duration in which the commercial banks have been in operation was important for the study as it will indicate the understanding of the local market and the need to enter into foreign market to expand its business operations.

**Table 4.1: Duration of Commercial Bank Operation**

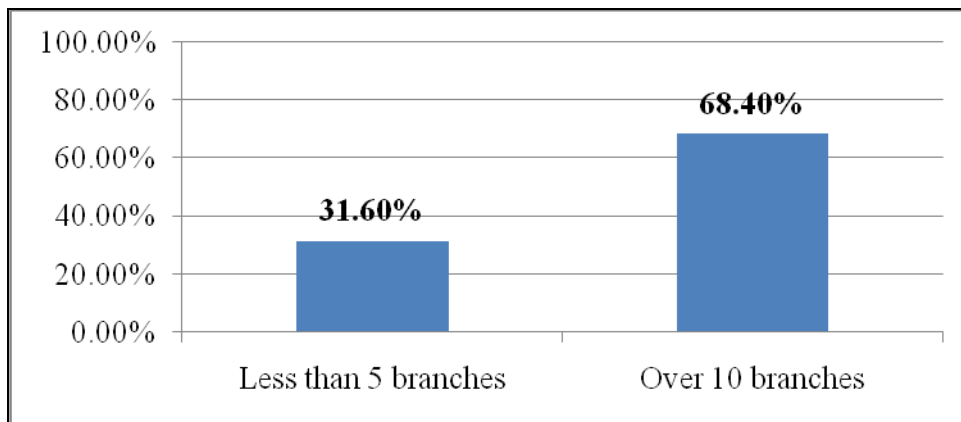
Years	Frequency	Percent	Cumulative Percent
11 – 15	2	10.5	10.5
16 – 20	7	36.8	47.4
Over 25	10	52.6	100.0
Total	19	100.0	

The results indicate that 52.6% of the respondents said that the commercial banks have been in operation for over 25 years, 36.8% of the respondents said the commercial banks have operated for between 16 and 20 years while 10.5% of the respondents indicated that the commercial bank duration of operation as between 11 and 15 years. The results show that the commercial banks have been in operation for a long time and the local market having been competitive, entry into foreign markets in which there is low banking services penetration and low competition has become viable in order to increase shareholder value. The number of employees in the commercial banks was noted to be more than 500 and this can be attributed to the size and number of branches that the banks have.

#### 4.2.4 Number of Branches outside Kenya

The number of branches the commercial banks operates outside Kenya was important in order to determine the extent to which the banks have entered other markets.

**Figure 4.1: Number of Branches outside Kenya**



The results on the number of supermarkets indicate that 68.4% of the commercial banks have over 10 branches outside Kenya while 31.6% of the respondents said that the commercial banks have less than 5 branches. The number of branches the commercial banks have outside Kenya varies and this can be attributed to the duration the bank have operated foreign branch, regulatory approval of the bank to open the branch and the availability of resources to enable the bank expand.

### **4.3 Foreign Market Entry Strategies**

The selection of an appropriate entry mode into a foreign market can have significant and far-reaching consequences on a firm's performance and survival. This means that a company could choose to work with foreign market entry as a tool in order to both grow and to be more successful, if the company takes the right decisions. The study sought to establish the strategies that the commercial banks have utilized to enter foreign markets in a five point Likert scale. The range was 'not at all (1)' to 'very great extent' (5). The scores of respondents' disagreement represent a variable which had a mean score of below 3.0 while the scores of above 3.0 represent respondents' agreement with the use of strategy to enter the markets. A standard deviation of  $>0.9$  implies a significant difference on the impact of the variable among respondents.

#### **4.4.1 Foreign Market Entry Strategies**

The strategy that was used by the commercial banks to enter a foreign market was important to the study in order to understand the various strategies that are available to the banks.

**Table 4.2: Foreign Market Entry Strategies**

Foreign Market Entry Strategies	Mean	Std. Deviation
The bank has direct acquisition some of the local banks as a strategy to enter to the foreign market	3.1474	.9703
The bank sort the authority from the regulators through licensing to open to start its operations in foreign market	3.6789	.9015
Entering into joint ventures with some of the local financial institutions was the strategy that my bank used to enter the foreign market	3.4105	1.2727
Entering into strategic alliances with local partners facilitated the setting of our bank business in foreign market	3.9368	.8719
Foreign direct investment was the avenue that my bank adopted in entering the foreign market	3.6263	.9642
The bank at first directly exported our services to Kenya which facilitated the entry to the foreign market	3.8351	1.1160
The bank used sequential market entry strategy	3.7316	.8307
Purchase of a wholly owned Subsidiaries in foreign market was the strategy that the bank used	3.3579	1.0145
The bank merged at a foreign market with a local bank which led to the entry of the bank into the foreign market	4.1058	1.1945

The results on the foreign entry strategies used by the commercial banks indicate that the banks merged at a foreign market with a local bank (mean = 4.1058); entering into



strategic alliances with local partners (mean = 3.9368); export of services directly (mean = 3.8351); sequential market entry strategy (mean = 3.7316); licensing (mean = 3.6789); foreign direct investment (mean = 3.6263); joint venture (mean = 3.4105); purchase of a wholly owned subsidiaries (mean = 3.3579) and direct acquisition (mean = 3.1474). From the results, it can be concluded that the commercial banks have entered foreign markets through various strategies which ensures that they have competitive advantage over its competitors. These strategies ensure that the commercial banks utilize its experience and knowledge of the industry to compete effectively with other banks.

#### **4.4.2 Factors considered before entering foreign market**

The entry into a foreign market requires an analysis of the market to ensure that the bank has knowledge of both opportunities and challenges so that they come up with strategies that will ensure they achieve their objectives.

**Table 4.3: Factors considered before entering foreign market**

Factors considered before entering foreign market	Mean	Std. Deviation
The foreign market size was sufficient and had great growth potential for market entry and growth	4.1053	.7374
The foreign currency exchange conditions in the country were conducive for market entry and growth	3.1053	.9941
The taxation and business regulations were adequate and well understood by the bank	3.6842	.7492

The current monetary and fiscal policies used by the government were adequate and conducive for the market entry	3.5211	.9015
Income distributions were assessed to be adequate to sustain entry and growth requirements	3.6737	.9642
The political situation was stable and conducive for market entry	4.3474	.7798
The legal environment was conducive for market entry	3.9316	.7608
The bank could adequately deal with the competition in the country.	4.1947	.9941
The technology adopted by the bank allows it to be competitive	4.1021	.8342

The results indicate that the commercial banks consider several factors before entering a foreign market. These factors were found to be political situation which was stable and conducive for market entry with a mean score of 4.3474. Other factors include dealing adequately with competition locally (mean = 4.1947); foreign market size being sufficient and having greater growth potential (mean = 4.1053); technology adopted which allows the bank to be competitive (mean = 4.1021); conducive legal environment (mean = 3.9316); well understood taxation and business regulations (mean = 3.6842); adequate income distribution to sustain entry and growth requirements (mean = 3.6737); adequate and conducive monetary and fiscal policies (mean = 3.5211) and conducive foreign currency exchange conditions in the country. It can be concluded that the commercial banks undertake market survey until they ensure that all conditions favour them to enter the foreign market.

#### 4.4.3 Competitive Factors Considered by the Bank

The entry into a foreign market necessitates the analysis of the market by the commercial banks. The way a company ventures from its domestic market to new geographical markets and selecting the right entry modes are important decision that demands a lot of resources and planning in order to achieve competitive advantage over its competitors.

**Table 4.4: Competitive Factors Considered by the Bank**

Competitive factors considered by the bank	Mean	Std. Deviation
The bank focused on technical innovation strategies and ensured that the products/services to be offered were superior than what was available	3.2947	.5671
The pricing strategy of the products / services to be offered was customer friendly at the same time adequate to meet the bank expenses	3.7842	.8200
The bank performed extensive research and testing to ensure that the products/services to be offered would be easily adopted by the market	3.8853	.6710
The bank ensured that the products /services to be offered were in conformity to the standards and requirements of the country	3.9368	.6533
The bank was able to provide security and protection of the product/service rights to ensure longevity	4.1474	.7798

The results indicate that the commercial banks were able to provide security and protection of the product/service rights to ensure longevity (mean = 4.1474); the banks ensured that the products/services offered were in conformity to the standards and requirements of the country (mean = 3.9368); the banks perform extensive research and testing to ensure that the products/services to be offered would be easily adopted by the market (mean = 3.8853); the banks adopt pricing strategy of products/services which is customer friendly (mean = 3.7842) and that the banks focused on technical innovation strategies and ensured that the products/services to be offered were superior than what was available (mean = 3.2947). The results indicate that for the commercial banks to achieve competitive advantage over its competitors they ought to undertake market research on pricing, security of product/service and technical innovation strategies. The respondents noted that the performance of the commercial banks since the entry into foreign market had improved significantly as a result of the foreign branches contributing to increased revenue and profits. The respondents noted though that the performance of some branches in other countries had been affected by changes in political climate which results in decreased income contribution by the branches.

#### **4.5 Discussion**

The saturation of affluent companies in developed markets has greatly reduced their profit margins. This has led to the need for organizations to expand their operations beyond geographical borders and increase interest in emerging markets. According to Kotler, 2000 successful firms know the importance of constantly watching and adapting to the changes in the business environment Organizations therefore have to align

themselves well so as to cope with the ever changing environment. Gallego et al. (2009) noted that international firms may choose to do business in a variety of ways. Some of the most common include exports, licenses, contracts and turnkey operations, franchises, joint ventures, wholly owned subsidiaries, and strategic alliances. These results were found to be consistent with the findings of the study which established that the commercial banks entered into foreign market through mergers with a local bank, strategic alliance, export of services directly, sequential market entry strategy, licensing, foreign direct investment, joint venture, purchase of a wholly owned subsidiaries and direct acquisition.

The international environment is complex and it is very important for firms to understand this environment and make effective choices in this complex environment. The entry into foreign market for the commercial banks was not easy as the operating conditions in the country had to be favourable for the bank to operate. The study found out that the political situation in the countries was conducive, sufficient foreign market size for greater growth potential, competitive technology, conducive legal environment, well understood taxation and business regulations, adequate income distribution to sustain entry and growth requirements, adequate and conducive monitors and fiscal policies and conducive foreign currency exchange conditions in the country. This was consistent with Mantravadi and Reddy (2008) findings which noted that entry into a foreign market for organizations is hampered by many external issues that could complicate a market entry for a company. This includes strength of potential competitors, the market potential, and growth of the country, cultural differences, political issues, law and financial factors.

The reasons for expansion into foreign markets could be the economic characteristics of the foreign business environment, the perceived growth in a local foreign market or the financial and competitive benefits a company can gain from a successful foreign market entry. Yip and Hult (2012) further state that there is a lot of evidence that proves that companies that applies a global strategy and want to internationalize themselves can gain competitive and financial benefits from it. This means that a company could choose to work with foreign market entry as a tool in order to both grow and to be more successful, if the company takes the right decisions. The entry of commercial banks into foreign market enabled the banks to achieve competitive advantage over its competitors through market research on pricing, security of product/service and technical innovation strategies.

# **CHAPTER FIVE: SUMMARY, CONCLUSION, LIMITATIONS AND RECOMMENDATIONS**

## **5.1 Introduction**

The chapter is outlined into summary of the findings, conclusions, limitations of the study, recommendations and suggestions for further research.

## **5.2 Summary of Findings**

The results show that the commercial banks have been in operation in the local market for a long time and therefore they understand the dynamics of the local market and thus the need to enter into foreign markets in order to increase shareholder value. The number of branches the commercial banks have outside Kenya varies and this can be attributed to the duration the bank have operated foreign branch, regulatory approval of the bank to open the branch and the availability of resources to enable the bank expand. In view of the globalization of the world economy, one of the critical questions to examine in establishing an international development strategy by the commercial banks is to select the entry mode in the target foreign country and the distribution channel. The study found out that the commercial banks entered foreign markets through mergers with a local bank, strategic alliance, export of services directly, sequential market entry strategy, licensing, foreign direct investment, joint venture, purchase of a wholly owned subsidiaries and direct acquisition.

The commercial banks are both environment serving and environment dependent and therefore the environment influences the way they work. The commercial banks that have

ventured into foreign market therefore are influenced by what is happening either locally or in the foreign market. The commercial bank business environment is influenced by activities of other organizations internationally, governments and cultures. The study found out that the political situation in the countries was conducive, sufficient foreign market size for greater growth potential, competitive technology, conducive legal environment, well understood taxation and business regulations, adequate income distribution to sustain entry and growth requirements, adequate and conducive monitors and fiscal policies and conducive foreign currency exchange conditions in the country. The results indicate that for the commercial banks to achieve competitive advantage over its competitors they ought to undertake market research on pricing, security of product/service and technical innovation strategies. The respondents noted that the performance of the commercial banks since the entry into foreign market had improved significantly as a result of the foreign branches contributing to increased revenue and profits.

### **5.3 Conclusion**

The most powerful tactic for financial institutions growth in the current market conditions is through product differentiation, flexible organization structures that are responsive to the customers' needs and market expansion. Any commercial bank that enters the foreign market must know very well that they should have the vital capability and the skills necessary to win the sales as well as market the banks' products and services to all. The ability to enter into a foreign market depends upon the nature of the market plan. Based on the results from data analysis and findings of the research, it can be concluded that the following are the popular entry strategies for the commercial banks; mergers, strategic



alliance, export of services directly, sequential market entry strategy, licensing, foreign direct investment, joint venture, purchase of a wholly owned subsidiaries and direct acquisition.

The decision criteria for the mode of entry depend on political situation in the countries, foreign market size, competitive technology, conducive legal environment, taxation and business regulations, income distribution, adequate and conducive monitors and fiscal policies and conducive foreign currency exchange conditions in the country. The competitive advantage of the commercial banks not only plays the role to increase the market value of that specific bank but also leads towards the growth of the whole sector which ultimately leads towards the overall prosperity of the economy. The performance of the commercial banks since the entry into foreign market had improved significantly as a result of the foreign branches contributing to increased revenue and profits.

#### **5.4 Limitations of the Study**

The limitation of the study was that as with other research that uses questionnaire as the instrument to collect data, there may be a problem of social desirability. Some respondents may have the tendency to exaggerate or provide responses deemed to be desirable by others, instead of giving honest responses. The results and implications drawn from this study should be viewed in light of the research method employed. Some of the inconsistencies observed could have arisen from the nature of the sample. The sample came from a single industry and hence the generalizability of the results is limited.

The respondents may be hesitant to give some information to the researcher, which they regard as confidential in nature. To overcome this limitation, the researcher will assure the respondents that the information will strictly be used for the study. The respondents will not be asked to write their names on the questionnaire and the employee demographics page will be detached immediately after data entry to ensure confidentiality.

### **5.5 Recommendations for Policy and Practice**

The study established that the commercial banks that have ventured into foreign markets have achieved competitive advantage over its local competitors and it is recommended that other commercial banks which have the resources should consider venturing to other markets in order to improve their performance.

The entry into foreign market was found to be affected by several factors that need consideration before entry. It is therefore recommended that all the local organizations that need to venture into international market ought to undertake thorough market research so that they comply with the regulations of the countries and achieve its internationalization objectives.

The level of the operational strategies for the foreign branches needs to be increased. The decisions should be made at the host country by the management. The banks should be able to respond to economic environmental changes in the host country. The study established that the commercial banks undertake extensive market research focusing on technical innovation strategies to ensure that the products/services to be offered are

superior to what is available, testing to ensure that the products/services to be offered would be easily adopted by the market, and to ensure that the products/services to be offered are in conformity to the standards and requirements of the country.

### **5.6 Suggestion for Further Research**

The study was undertaken on the foreign market entry strategies by commercial banks. It is recommended that future research studies can examine how capital of multinational companies influences the entry strategy of the multinational company. Studying the past individual and shared experiences of managers can be fundamental in understanding a firm's current entry choices.

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## APPENDIX I: QUESTIONNAIRE

Please give answers in the spaces provided that matches your response to the questions where applicable.

### Section A: Demographic Characteristics of Respondents

1. Name of the commercial bank (Optional).....
2. What is your highest level of education qualification?
  - a) Post graduate level ( )
  - b) University ( )
  - c) Tertiary College ( )
  - d) Secondary ( )
3. Length of continuous service with the commercial bank?
  - a) Less than five years ( )
  - b) 5-10 years ( )
  - c) Over 10 years ( )
4. How long has your commercial bank been in operation?
  - a) Under 5 years ( )      b) 6 – 10 years ( )
  - c) 11 – 15 years ( )      d) 16 – 20 years ( )
  - e) Over 25 years ( )
5. How many employees are there in your bank?
  - a) Less than 100 ( )
  - b) 100 – 499 ( )
  - c) Above 500 ( )
6. How many branches does your bank have outside Kenya?
  - a) Less than 5 ( )
  - b) 5 – 10 ( )
  - c) Over 10 ( )

**Section B: Foreign Market Entry Strategies /Modes**

Below are some of the strategies that can be adopted by foreign banks in entering the Kenyan market. Please indicate the extent to which your bank has adopted any of the strategies using the following scale

Key;

**1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent**

7. To what extent has your bank used the following foreign market entry strategies? Use

<b>Foreign Market Entry Strategies /Modes</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The bank has direct acquisition some of the local banks as a strategy to enter to the foreign market.					
The bank sort the authority from the regulatory through licensing to open to start its operations in Kenya					
Entering into joint ventures with some of the local financial institutions was the strategy that my bank used to enter the foreign market					
Entering into strategic alliances with local partners facilitated the setting of our bank business in Kenya.					
Foreign Direct Investment was the avenue that my bank adopted in entering the Kenyan market					
The bank at first directly exported our services to Kenya which facilitated the entry to the Kenyan market					
Sequential Market Entry strategy where					
Purchase of a wholly owned Subsidiaries in Kenya was the strategy that the bank used					
The bank merged at a foreign market with a local bank which led to the entry of the bank into the Kenyan market					

8. To what extent do you agree with the following as the factors considered by the bank before entering the foreign market?

<b>Factors considered when entering new markets</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The foreign market size was sufficient and had great growth potential for market entry and growth					



The foreign currency exchange conditions in the country were conducive for market entry and growth					
The taxation and business regulations were adequate and well understood by the bank					
The current monetary and fiscal policies used by the government were adequate and conducive for the market entry.					
Income distributions was assessed to be adequate to sustain entry and growth requirements					
The political situation was stable and conducive for market entry					
The legal environment was conducive for market entry					
The bank could adequately deal with the competition in the country.					
The technology adopted by the bank allows it to be competitive					

9. To what extent did the bank consider the following factors before deciding to enter into foreign market? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Factors considered when entering new markets	1	2	3	4	5
The bank focused on technical innovation strategies and ensured that the products/services to be offered were superior than what was available					
The pricing strategy of the products / services to be offered was customer friendly at the same time adequate to meet the bank expenses					
The bank performed extensive research and testing to ensure that the products/services to be offered would be easily adopted by the market					
The bank ensured that the products /services to be offered were in conformity to the standards and requirements of the country					
The bank was able to provide security and protection of the product/service rights to ensure longevity					

10. To what extent does the adoption of the foreign market entry strategies influence the bank competitive advantage? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

<b>Competitive Advantage</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The bank market share has increased					
The profitability of the bank surpasses industry profit					
The bank offer is services at a lower price					
The bank has differentiated its services from competitors					
The bank has achieved competitive advantage through capabilities/resources utilization					
The distribution network of the bank has enabled it to achieve competitive advantage					
Innovation and technological advancement has enabled the bank to be competitive in the market					

**11.** How do you rate the performance of the bank since its entry to the Kenyan market?

- a) Has improved to a greatly extent ( )
- b) Has improved to a moderate extent ( )
- c) Has Improved to a lesser extent ( )
- d) No improvement noted ( )
- e) Has deteriorated ( )

**12.** What suggestions do you have on the entry strategies other commercial banks or organizations can use to effectively enter foreign market?

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## **Appendix II: LIST OF COMMERCIAL BANKS**

1. Kenya Commercial Bank
2. Co-operative Bank
3. Equity Bank
4. Diamond Trust Bank
5. GT bank (Formerly Fina Bank)
6. NIC Bank
7. Commercial Bank of Africa Limited
8. I & M Bank