ANALYSIS OF COMPETITIVE STRATEGIES ADOPTED IN INTERNATIONALIZATION PROCESS OF LOCAL BUSINESS FIRMS IN THE BANKING INDUSTRY. A CASE STUDY OF EQUITY BANK KENYA LIMITED

BY

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DECLARATION

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

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

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DEDICATION

This project work is dedicated my family: Loving wife Jacinta, daughter Evelyn and son Alvin.

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ABSTRACT

International business describes all commercial transactions taking place between two or more nations and across national borders. The rise of globalization presents a number of important challenges to a business seeking international presence. Numerous strategic aspects must be taken into account prior to commitment at an international level, and afterwards. Constant flexibility is required to adapt to changing patterns at local, regional and international levels. Strategies define how an organization will use its resources to gain competitive advantage in the larger environment. Strategic formulation and management process analyses business opportunities and threats, internal strengths and weaknesses or resource gaps, current values and management philosophy. Organizations success in its operation is dependent on how it formulates and pursues strategies that take advantage of external opportunities, minimize the impact of external threats, capitalize on internal strengths and mitigate internal weaknesses. A local company intending to expand operations into international markets must build on the right competence to be relevant in the international market and must understand the priorities of their target markets with challenges involved into the international market environments and in response, develop strategies that would make it a recognizable player in the international arena. This project study sought to identify the competitive strategies adopted and supporting factors in internationalization of local business firms in the banking industry, using Equity Bank Kenya Ltd. as a case study. Interviews were used for primary data and supplemented by secondary data from bank library and websites. In conclusion, the analyzed data identified Duplication of Business Models Strategy, Market Dominance Position strategy, Mode of Entry Strategy and Opportunism on Government Policies Strategy as the major competitive strategies that the firms employ to ensure successful internationalization process. The research further identified that the underlying factors that influence above strategies to be applied during internationalization process are; banks unique business model with unique market niche, financial back up or support from parent company, organizational structure, corporate strategies and financial strengths and available partnership with world recognized financing bodies. The study recommended further research into the areas that presented limitations during the present study. Further study is recommended on other internationalizing banks because the competitive strategies are unique from one organization to the other. This will remove any possible bias arising when concluding on entire banking industry.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ACRONYMS AND ABBREVIATIONS

ATM	Automated Teller Machine
EAC	Eastr Africa Community
EBS	Equity Building Society
FDI	Foreign Direct Investment
KBA	Kenya Bankers Association
IFC	International Finance Corporation
ILO	International Labour Organisation
MVNO	Mobile Virtue Network Operator
POS	Points of Sale
UML	Uganda Microfinace Limited
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

International business is used to describe all commercial transactions which include private, governmental, sales, investments and transportation taking place between two or more nations. It involves all business activities which partake in cross border activities of goods, services and resources between nations. Private companies and the Government involve into international business for profit and political reasons respectively. Every business has its difficulties and thus presents and fight its own challenges to operate successfully in the international markets (Levi, 2006).

Globalization is the process of international integration arising from the interchange of world views, products, ideas, and other aspects of culture. Advances in transportation and telecommunications infrastructure, including the rise of the Internet, are major factors in globalization, generating further interdependence of economic and cultural activities. ([3]Wikimedia, 2014) It is also described as a concept of viewing the world economies as a single unit comprising of many micro economic units. Market globalization implies to a standardization of products across the world as national barriers become less and less relevant (Sutherland, 1993). However Market globalization appears less of a reality as national markets still present significant differences as marketing strategies continue to have country-specific traits and customer needs differ across countries. An important new development in the international business arena has been the rise of 'mini-multinationals' – small and medium size enterprises that do business on a global basis (Morrison, 2006). The rise of globalization continue to present a number of challenges to any business seeking international presence. Numerous strategic aspects must be taken into account prior to commitment at an international level, and afterwards. Constant flexibility is also required to adapt to changing patterns at local, regional and international levels.

A firm can be considered a local firm in any country of reference if such a firm was first registered in that country and at the time of registration, the target operations were on original entrepreneurial concepts, independent and not part of or an extension or branch of another registered firm outside the national borders in which it is being registered. A firm's competencies in the active market place is important to support internationalization. Internationalization forces engender firms to develop a new set of competencies that would enable of better returns in the international market place (Yeniyurt et al. 2005).

Competencies can be divided into two; core competencies and distinctive competencies (Wheelen & Hunger, 2002). Core competencies are the collective learning in the organization, especially about how to coordinate diverse production skills and integrate multiple streams of technology (Prahalad and Hamel, 1990). A core competence is a knowledge base or set of skills that is general enough to be applied in variety of contexts. Core competencies are built on intangible assets and lead to clearly defined benefits to the consumers and are difficult, if not impossible, for other firms to replicate. They are therefore the source of the company's ability to deliver unique value to its customers and allow the company to be flexible in terms of markets and products. Distinctive competencies are sets of differentiated skills and routines that provide the bases for sustainable competitive advantage. Global knowledge competencies as an addition, are considered as a special type of distinctive competencies (Leonard-Barton 1992).

1.1.1 Concept of Strategy

A strategy is a plan of action defining how an organization will use its resources to gain competitive advantage in the larger environment. Strategy also refers to the pattern of organization moves and management approaches used to achieve organizational objectives and to pursue the organization's mission (Thompson et al, 2003). Typically, it includes choices about the functions which an organization will perform, the products or services it will provide and the population it will serve (Byars, 1991). Strategic formulation and management process analyses business opportunities and threats, internal strengths and weaknesses or resource gaps, current values and management philosophy. Organizations success in its operation is dependent on how it formulates and pursues strategies that take advantage of external opportunities, minimize the impact of external threats, capitalize on internal strengths and mitigate internal weaknesses (Cole, 1996).

A firm will also be successful only to the extent that it contributes to the industry's value chain. This ensures management view its operations from the customer's point of view. Every operation should be examined in terms of what value it adds in the eyes of the final customer (Porter, 1990).

1.1.3 Concept of Competitive Strategy

Competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Porter, 1990) Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural and human resources, new and information technologies. Information technology can provide competitive advantage, whether as a part of the product itself, as an advantage to the making of the product, or as a competitive aid in the business process, for example, better identification and understanding of customers. (Porter , 1990).

The competitive advantages combined with the scope of activities for which the firm seeks to achieve lead to the three generic strategies: cost leadership - to offer products or services at the lowest cost in the industry, differentiation - to provide a variety of products, services, or features to consumers that competitors are not yet offering or are unable to offer and focus. Focus startegy has cost focus and differentiation focus (Porter, 1990). Other specific strategic approaches sought to gain competitive advantages are innovation strategy through the introduction of completely new or notably better products or services and operational effectiveness as a strategy. This enables a firm to perform internal business activities better than competitors, making the company easier or more pleasurable to do business with than other market choices. ([4]Wikimedia, 2014)

1.1.3 Concept of internationalization

Internationalization is the process through which a firm expands its business operations outside the national (domestic) market. The entry strategies into foreign markets will depend on various considerations: exporting a firm's products into the foreign market, licensing the firm's production and marketing process, or asking for royalties to be paid for the use of firm's assets and resources, franchising the firm's business, directly undertaking production and selling in a foreign country either through multinational or global approach and strategic alliances and joint ventures with foreign firm. Local firms will choose to diversify internationally to seek new output markets, reduce costs and enhance competitiveness, exploit their own core competences in new markets, share risks over a larger market and to take advantage of lower labor cost, lower taxation, and cheaper natural resources. ([1]Wikimedia, 2014)

1.1.4 The Banking Industry in Kenya

The banking industry in Kenya is regulated under the Banking Act Cap. 488 of the Laws of Kenya through the Central Bank of Kenya. By May 2014, there were forty-five commercial banks licensed by the Central Bank of Kenya. (See appendix V.) Thirty two are locally owned and thirteen are foreign owned. The locally owned financial institutions comprise three banks with shareholding by the Government of Kenya and State Corporations, Twenty eight commercial banks and one mortgage finance institution, Housing Finance. There are extra seven representative offices of foreign banks (KBA, 2012). The Kenya banking sector performance data indicates that the sector’s balance sheet expanded by 15.6 percent from KeS.2.50 trillion in May 2013 to KeS.2.89 trillion in May 2014 (Ndung’u, 2014).

The commercial banks has in the current times embarked in multiple initiatives, including the rapid expansion of money transfer through telephones and electronic mobile banking services. This has raised the quality and expanded access of financial services. The M-PESA mobile, for example, is a phone-based payment system, world-class Kenyan innovation by Safaricom Company, which is now being considered for implementation by various countries worldwide. Similarly, the M- KESHO banking concept and M-SHWARI lending services from Safaricom in collaboration with Continental Bank of Africa provide opportunities to the unbanked poor to save and borrow. (East Africa Resource Center, 2014). By embracing technological innovations, financial exclusion dropped from 32.7% in 2009 to 25.4% in 2013, and access to formal banking increased from 40.5% to 65.9% in the same period. (East Africa Resource Center, 2014)

To further develop the financial inclusion to the bankable population, Central bank of Kenya is registering non-financial entities as agents of existing financial institutions. This have led to introduction of Agency Banking in Kenya. Kenya incorporated banks have embarked on regional expansion to the East African Community and beyond (Abishua, 2010). Cooperative Bank of South Sudan for example, is a member of the Co-operative Bank Group, headquartered in Nairobi, Kenya ([2]Wikimedia, 2014). Cooperative Bank Group, with total assets of KeS 231.2 billion in 2013, the third largest bank in Kenya after Kenya Commercial Bank and Equity bank, has also announced that it will be expanding to Uganda and Ethiopia. (Standard Newspaper, 2014)

1.1.5 Equity Bank Kenya Ltd

Among the top ten banks in Kenya in 2013, for local banks, only Equity bank and Diamond Trust bank that has expanded in more than one country. (See Appendix I).

Equity Bank was founded as Equity Building Society (EBS) in October 1984 in Kenya and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. It was transformed into a microfinance and later as a commercial bank. By end on 2013, Equity Bank had more than 8 million customers making it the largest bank in terms of customer base in Africa. The company’s vision is “to be the champion of the socio-economic prosperity of the people of Africa". Equity Bank, is guided by solid core values dearly upheld in all the activities they undertake. These values abbreviates PICTURE: Professionalism, Integrity, Creativity & Innovation, Teamwork, Unity of Purpose, Respect & Dignity for Customers and Effective Corporate Governance (Equity Bank of Kenya, 2014).

Equity Bank in 2010 established the Equity Group Foundation to support the concept of philanthropy and corporate social responsibility. Equity Bank's low margin, high-volume business model and its visionary leadership has continued to earn local, regional and global accolades and recognitions. Equity Bank is the holder of the 2007 Global Vision Award in Microfinance "For initiating a concept of the future that will shape the Global Economy, In June 2009 Equity Bank was named the Emerging Markets Most Sustainable Bank of the Year in Africa and the Middle East ". In 2010, there were two awards on investments and leadership. In 2011, the awards were three: two on African investments and one global award on champions of financial sustainability.

In 2012, Equity bank received four awards: Best bank and microfinance, best innovative bank in Africa by Ernst and Young consulting firm. In 2013, the bank received seven awards: three on Best bank in terms of customer base and on asset base exceeding Kes 150 billion with strong regional reach and strong brand pull and one on affordability and inclusivity. The bank was also awarded top tax payer by Kenya Revenue Authority and the rest two awards were on leadership recognizing the Banks chairman and Banks managing director on visionary leadership, and the other on increasing financial results year by year, embracing innovation and model corporate citizen respectively (Equity Bank of Kenya, 2014).

The Bank's headquarters are located in Nairobi, Kenya, with subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. (See appendix IV). Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange. Equity Bank Limited offers financial services through its wide network of branches supported by alternate delivery channels which include: Visa Branded Automated Teller Machine (ATMs), Points of Sale (POS) where customers shop - pay and withdraw cash in leading retail outlets, Internet and mobile banking channels and Agency outlets.

Equity Bank Ltd started regional expansion in 2008 by 100% share acquisition of Uganda Microfinance Ltd which later rebranded to Equity bank Uganda in April 2009. In 2011, it started operation in Rwanda. By 2013, Equity bank had 135 branches in Kenya, 38 branches in Uganda, 4 branches in South Sudan and 2 branches in Tanzania.

1.2 Research Problem

The Kenya banking sector often registers positive growth mainly supported by an expansion of banking services and financial inclusion. The performance drivers include; innovative banking products, adoption of cost effective delivery channels, and continued expansion of banks not only within the country but also outside Kenya.

As at 31st December 2013:, eleven Kenyan banks had established subsidiaries in East African Community (EAC) member states and South Sudan. One Kenyan bank owned a 50% stake in a Mauritius bank while another Kenyan bank had a minority stake of 11.4% in a bank operating in Malawi. The eleven Kenyan banks had established 288 branches in EAC member states and South Sudan as compared to 223 branches in 2011. (Ndung'u, 2014).

The coss-border expansion have been met with challenges but the expanding banks have laid strategies to overcome these challenges. A local firm intending to expand operations into international markets must build on the right competence to be relevant in the international market. Internationalization forces engender companies to develop a new set of competencies that would enable of better returns in the international or global market place (Yeniyurt et al. 2005)

According to Cole (1996), strategic formulation and management process analyses business opportunities and threats, internal strengths and weaknesses or resource gaps, current values and management philosophy. Organizations success in its operation is dependent on how it formulates and pursues strategies that take advantage of external opportunities, minimize the impact of external threats, capitalize on internal strengths and mitigate internal weaknesses.

A number of studies have been carried out on internationalization of banking industry. Asira (2013) in the study; internationalization of indigenous Kenya commercial banks within Eastern Africa establishes that the need to follow customers in their footprint as they diversify markets, to spread and mitigate financial and political risks, to enjoy economies of scale and scope, and to grow their markets are the key determinants of internationalization of indigenous commercial banks. However, most of studies relate to challenges of internationalization on selected banks but very little on strategies of internationalization.

Mbogo (2013) for example, highlights the challenges of internationalization with Barclays Bank of Kenya which is an international subsidiary of Barclays Bank PLC London. There were many strategies that were used by banks to expand in their quest for international expansion. Asubwa (2011) further in the study; Strategies used by

Equity Bank Limited Kenya in International Expansion established that methods used were acquisitions, start-ups and joint ventures.

Musyoka (2011) in his study of competitive advantages adopted in developing sustainable competitive advantage, although on local petrochemical industry, success factors such as robust distribution channels, Government support, diversification to new markets and brand loyalty we identified. No research on the Kenya banking industry that was found focusing on competitive strategies to be adopted in relation to the challenges during internationalization process of a local bank. This study, while employing Equity Bank Kenya Ltd in its case study, sought to identify the competitive strategies adopted during internationalization process of a local business firm in the banking industry in an attempt to answer the question; what are the competitive strategies adopted in internationalization process of local business firms in the banking industry?

1.3 Research Objectives

The specific objectives of this study are:

1. To establish the major competitive strategies adopted during the internationalization process of Equity Bank (K) Limited.
2. To analyze the underlying factors that influences given competitive strategies to be applied during internationalization of banking business in Kenya.

1.4 Value of the Study

This study is of benefit to the Government and related stakeholders especially the private business organizations that are contemplating to expand in foreign countries on sound international business management practices. This will subsequently enable the Government to formulate strategies that can create competitive advantage in the business arena and facilitate achievement of "Vision 2030" which is the Government's second long-term strategic plan in Kenya.

The findings of this study will give important information that will be beneficial to the bank and the banking sector. They can utilise the findings while they execute strategies on internationalisation while they match the competence discussed.

The findings of this study will also be invaluable to researchers and scholars, as it will contribute to the existing literature and theories and form a basis for further research. The students, consultants and other practitioners would use this study as a guide for purposes of learning, discussions, consulting and further research in the phenomena of internationalisation of local firms.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature relative to the area of study. It covers theoretical foundations of the study, international business environment, influences on internationalization strategy, competencies and importance of strategy in international business.

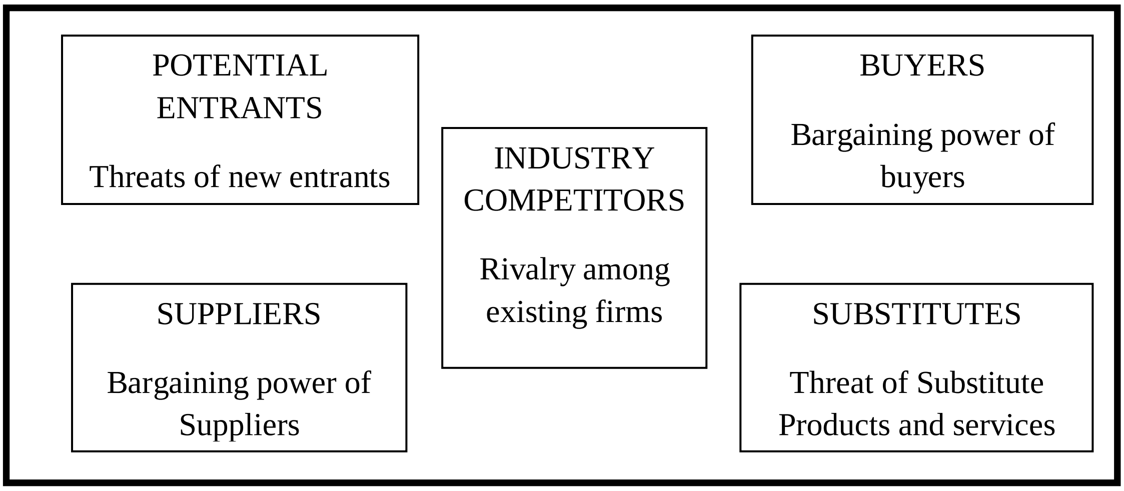
2.2 Theoretical Framework

A number of management theories and techniques have been developed to improve the understanding of competitive strategies in organizations. The more significant of these include Porters 'Five forces' model and the competitive factors model. (Porter, 1990)

2.2.1 Porters' 'Five Forces' Model

Porters' 'Five Forces' model is a commonly used analytical tool that attempts to "broaden our thinking about how forces in the competitive environment shape strategies and affect performance" (Miller & Dess, 1996). These forces determine the nature and extent of competition and shape the strategies of firms in their particular competitive environments. These forces are; the entry of new competitors, the threat of substitutes, the bargaining power of suppliers, bargaining power of buyers and the rivalry among existing competitors (Porter, 1990). See also figure 2.1 below.

Figure 2.1: Competitive Strategy 'Five Forces Model'



(Source: Porter, 2008)

Competitive advantage is gained by how well an organization positions and differentiates itself within an industry. The 'Five Forces' embody the rules of competition that determine industry attractiveness and help determine a competitive strategy to "cope with and, ideally, to change those rules in the firm's favor" (Porter, 2008).

Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. New entrants in the industry bring in new capacity, the desire to gain market share, and often substantial resources. The seriousness of the threat will depend on entry barriers presenting the industry. The threat of entry is low if the entry barriers are high and new comer expects sharp retaliation from entrenched competitors (Porter 2008). Customers power is manifested in their capability to force down prices, demand for higher quality or more service and play competitors off against each other. The power of buyers as often attributed to consumers as a group as well as industrial buyers. Suppliers can exert bargaining power on an industry by raising prices or reducing the quality of goods and services purchased. Hence, an industry profits are squeezed out if the participants are unable to recover the increased cost in its own prices.

Substitute products compel the industry players to upgrade quality or to differentiate their products. A company may have some latitude for improving matters through strategic shifts such as a focus on selling efforts in the fastest growing segments for the industry or market areas with lower fixed costs Banks, just like all other organizations, are affected by these changes. Responsiveness and flexibility to changes are important factors that determine the success of an organization. The achievement of superior efficiency, quality innovation and responsiveness enables an organization to create superior value and attain competitive advantage. (Jones, 2001)

2.2.2 The competitiveness Factors Model

Entrepreneurs in the process of internationalization of their businesses need to pocess the ability to think globally and have an understanding of international cultures. By appreciating and understanding different beliefs, values, behaviors and business strategies of a variety of companies within other countries, entrepreneurs will be able to internationalize successfully. Entrepreneurs must also have an ongoing concern for innovation, maintaining a high level of quality and continue to strive to provide the best of business strategies while adapting to different countries and cultures ([4]Wikimedia, 2014).

The diamond model is an economical model theory developed by Michael Porter expressing why particular industries become competitive in particular locations. The diamond model consists of six factors: Factor conditions, Demand conditions, Related and supporting industries, Firm strategy, Structure and rivalry, Government and

Chance. These factors interact with each other to create conditions where innovation and improved competitiveness occurs. ([4]Wikimedia, 2014)

2.3 International Business Environment

The international business environment is multi-dimensional, including economic, political, cultural and economic facets. These are is critical to strategy formulation in today's global and rapidly changing environment. The challenges that are brought about into international business include political system and policy, economic policy, legal policy, language/communication barrier, environmental standards, corporate and local culture, foreign exchange markets, import and export regulations and trade agreements. (Morrison, 2006).

Culture is "the collective programming of the mind which distinguishes the members of one human group from another" The main dimensions of culture that affect work practices in different countries: Power distance, uncertainty avoidance, individualism vs. collectivism, masculinity vs. femininity, long vs. short-term orientation. (Hofstede 1984) Within a culture, its distinctive values, attitudes, beliefs, resulting in behavioral patterns and impact on group thinking are well understood and taken for granted. However, for a person entering the cultural context from the outside (that is,. from another culture), it can pose some unexpected and surprising challenges. (Morrison, 2006).

The role of Government and its management of the economy plays a crucial role in determining a county's attractiveness to foreign investors. The macroeconomic environment is the general economic situation in the country or countries in which a firm operates, and is used in assessing the attractiveness of international markets. It includes gross domestic product, income distribution, disposable income saving rates and investment rates. (Morrison, 2006). National political systems are closely intertwined with economic systems. Political risk is defined as the challenges faced by local or international investors that result from some sort of Government action, and sometimes inaction. Political risk may implies negative business consequences due to the behavior of Governments and public sector organizations (Suder, 2004).

Social environments are characteristics of every society lifestyles its influences to the way of life. For an organization setting up operations across several countries, an appreciation of the diversity in social environments is critical. Social stratification and inequalities are an aspect of all societies and must be understood. (Dicken, 1998).

2.4 Influences on Internationalization Strategy in International Business

Strategy is a unified, comprehensive and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprises are achieved through proper execution by the organization (Glueck & Janch, 1986). Internationalization strategy is defined as plan to enter different foreign markets (Levi, 2006).

The success of entering a new foreign market depends on the internationalization competencies possessed by the firm and the firm's internationalization strategy (Hill 2005). A firm needs to pursue both the strategies that build on its existing resources and capabilities and the strategies that develop new competencies. Competency building process must be designed to support and improve the competitive strategy of the firm. The primary objective of strategy is to achieve competitive advantages. The internationalization competencies influence the strategy on strategic direction and performance (Regan et al. (2004).Strategy can also refer to both intended strategy and realized strategy. An intended strategy is a long-term managerial guideline and guarantees the permanent accomplishment of the company' overriding goals and objectives. A realized strategy is the product of many different decisions taken individually without reference to strategic guidelines. (Kuhn and Grunig 2006)

Internationalization is driven by the formation and exploitation of the firm's network relationships rather than through the existence of particular strategic advantages. Developing a firm's international operations is considered as a continuous process of incremental adjustment to changing conditions in the firm and the environment (Yip et al., 2000). When firms find their home markets stagnating and foreign competitor's forces increasing, they will need to develop a strategy for internationalization. (Kuhn and Grunig 2006). Most of the studies about the effects of the environments on a firm's internationalization strategy have focused on exporting (Lu and Beamish 2001).

In international market diversification, institutional arrangements with firms of different national origin involve complex factors such as host country risks and host government policies, which complicate the structural, transactional, and resource dynamics of transactional activities. Firms entering new foreign markets choose from a variety of different forms of entry, ranging from licensing and franchising, through exporting (directly or through independent channels) to foreign direct investment (FDI) through joint ventures, acquisitions, mergers and wholly owned new ventures.

The characteristics of the country business environment have a positive impact on the market entry mode selection or internationalization strategy (Koch 2001).

According to international trade theories, the impact of country factors varies from industry to industry, so that the economic structures of countries tend to differ as countries specialize in industries that are best suited to their national contexts (Hawawini et al., 2004).

Research and development has a special economic significance apart from its conventional association with scientific and technological development. Research and development investment generally reflects an organization's willingness to forgo current operations or profit to improve future performance or returns, and its abilities to conduct research and development. Research is of special importance in the field of marketing where companies keep a sharp eye on competitors and customers in order to keep pace with modern trends and analyze the needs, demands and desires of their customers**.**

Technology changes, especially information technology, is amongst the most important forces that can alter the rules of competition This is because most activities of an organization generate and utilize information. Information technology offers a scope of product differentiation that enables the company to effectively serve the needs of the market niche. The way a firm views its business, consumers and competition is critical to successful aligning its businesses and information technology strategies (Porter, 1990).

2.5 Internationalization Challenges

Internationalization may create many challenges for the companies going to international in terms of resources, assets, capabilities and competencies from the home country to the foreign markets. The external factors in a foreign market including market factors, cost sensitivity, governmental influences and competitive considerations force firms to develop a set of competencies that will enable the value creation for the global customers (Yip, 1992).

When entering a foreign market, the firm has to develop new competencies to fit with the changing external environment of this new foreign market (Toni et al, 2003). One of the most complex decisions is whether to establish a separate equity venture or to establish a direct parent-to-parent alliance. Cross-border ventures are appropriate when it is possible to establish a stand-alone business with dedicated resources provided by all parents. A high degree of integration of specific parent resources is required to achieve goals and it is desirable to create loyalty to a new business distinct from the parents because their interests might otherwise prevent the success of a collaboration (Kale & Singh, 2009)

According to Ruigrok et al. (2003), when firms go international, they are faced with an increasing imbalance between external environments and its domestic competencies. The pressures of internationalization in terms of cost, competition and country risk causes radical changes in firm's domestic competencies such as knowledge of international customers, competitors, suppliers, international mindset or the management's commitment on sharing resources, capabilities, processes and organizational structures and so on that would help them to get a better returns in the new international market (Yeniyurt et al., 2005).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduces and describes the research methodology, which was used to carry out this study. It further outlines a description of the research design, data collection methods and finally, the data analysis procedures that was used to analyze data for the study.

3.2 Research Design

A research design refers to arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research with economy to procedure (Kothari, 2004). This study employed a case study design and set out to collect data on the competitive strategies adopted in internationalization process of local business firms in the banking industry.

3.3 Data Collection

Data collection involves contacting respondents in order to collect the required information about the study (Cooper and Schindler, 2003). The data collection exercise involved use of interview guide (See Appendix III). The target interviewees are two senior marketing executives and two corporate strategists. A formal introduction was done to the target interviewees though a letter on introduction (See appendix II). The ensure quality of the data collection, voice recording during the interviews was employed which ensured many questions or thematic responses are well captured.

Secondary data to complement the primary findings was used. Secondary data was sourced from the banks library and websites.

3.4 Data Analysis

Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence to address the initial propositions of a study (Yin, 1994). The interview responses were analyzed using content analysis. That is, the technique for making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate the trends. The analysed data was presented in simple and objective inferances in relation to the main objectives set.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the analyzed data from the interviews and desk reviews clustered along the main objectives of the study. Also, the chapter discusses the findings and draws comparison with existing research findings on the study area.

4.2 Results and Analysis

4.2.1 Number of Respondents

The letter of introduction and the interview guide was sent to Equity Bank's Research and product Department who forwarded it to the General Manager for approval or coordinate the response from the target groups.

Table 4.1: Distribution of respondents

Target Department	Target		Achieved	Achieved versus target (%)
Marketing	02		01	50%
Corporate and Strategy	02		02	100%
Total	04		03	75%

(Source: Researcher)

The higher percentage of responses in table 4.1 above, suggest that the data collected is accurate and relevant for deductions in the research. The secondary data from Equity bank press releases and websites were also used. Other relevant data relating to Equity bank from various prints were objectively considered.

4.2.2 Competitive Strategies adopted during the internationalization process

The researcher based on the findings identified the following strategies used by the bank during internationalization: Duplication of business model strategy, market dominance position strategy, mode of entry strategy and opportunitism on Government policies strategy.

4.2.3 Factors influencing success of applied competitive strategies

The researcher identified the supporting factors to the operational strategies are: banks solid organizational structure, corporate finance and marketing objectives, inter-branches financial back up and support, unique business model with unique business niche and partnership with world financial support bodies. These factors also summurises the banks internal strengths and competencies.

4.3 Discussions

4.3.1 Competitive Strategies

The findings as obtained from the research are discussed in individual segment. These strategies are Duplication of business model strategy, market dominance position strategy, mode of entry strategy and opportunitism on Government policies strategy.

4.3.1.1 Duplication of Business Models Strategy

The researcher noted that Equity bank Kenya business model is duplicated during international expansion due to the complete similarity of countries population income brackets and existing competition in target countries. This has ensured that international expansion strategy are successful with customers who are doing international business remain loyal to the bank. The aggressive research and product development has ensured that the model remains unique by forever being the leader in the market place by product offerings that target given segments distinctively while not threatened by competition. This has made entrants to potential competition disoriented and not able to adapt successful follower strategies.

4.3.1.2 Market Dominance Position strategy

It was noted that Equity banks is the largest bank in active accounts which stands at about 9 million customers. While these accounts are distributed throughout in all countries and over 50% being in Kenya alone, his gives to the bank the bargaining power to suppliers of other services or strategic partnerships with strong international companies an upper hand. This in turn ensures the low cost model is sustained while efficiency in service delivery is enhanced. This further raises the entry barrier for the competitors and potential new comers who may not have similar commanding market position. This is explained by the bank declining to use the Safaricom mobile platform –M-Pesa in the internet banking and introducing a 'thin-sim' technology. This introduction is not only a threat to revenue for telecommunication giant Safaricom, but also disrupts the pricing for the mobile virtue network operations (MVNO) and further creates a further competitive advantage over the peers in the banking industry. (/www.equitybankgroup.com, 2014)

4.3.1.3 Mode of Entry Strategy

The researcher noted that Equity bank, in pursuit of international expansion strategies employ acquisition to leverage penetration and green investments. This can can be summarised as in the table 4.2 below.

Table 4.2: Entry strategies employed by bank during expansion

Mode of Entry	Number of countries	Countries (year)
Acquisition	01	Uganda (2008)
Green Investment	03	South Sudan (2009), Rwanda (2011), Tanzania 2012
Total	04	

(Source: Researcher)

In 2008, Equity Bank started regional expansion by taking 100% shareholding in Uganda Microfinance Limited (UML), a profitable microfinance institution with twenty-eight full-service branches and fourteen agency branches, for a share-acquisition deal valued at approximately USD 25.3 million.

4.3.1.4 Opportunism on Government Policies Strategy

The researcher noted that Equity bank keeps aligned to the Governments policies and in-turn take opportunities to leverage on the Government infrastructure and institutional support networks. The bank on understanding the government strategic directions, they come up with products that support those Government initiatives. For instance, the signing of the EAC protocol that allows for free movement of persons and labour implies that local customers of these banks are likely to seek opportunities in other countries within the region. Given that these customers who move to the new foreign markets are likely to seek banking services in their new destination could explain the banks reasoning of following their customers. That also explains their desire to serve their customers better by providing familiar customer experiences they are used to in their home markets. (Abishua, 2006).

4.3.2 Supporting Factors

The research sought to identify the sources of bank internal strengths and corporate strategies that in-turn leads to growth of banks financial strength and competencies. The researcher identified the banks solid organizational structure, corporate finance and marketing objectives, inter-branches financial back up and support, unique business model with unique business niche and partnership with world financial support bodies. Each factor is individually discussed below

4.3.2.1 Bank Solid Organization Structure

Equity Bank Kenya has eleven members into Board of Directors including the board secretary. Two are female and others are male by gender. The members are fetched from different nationalities and cultural backgrounds. The embrace of diversity is demonstrated through the top management.

All Board members are vetted before appointment to take into account professional qualifications, integrity and track record. The Board also conducts a self-evaluation exercise in keeping with highest international standards. The evaluation focuses on the role and responsibility of the Board, structure, composition, functions and processes, information, meetings among other critical areas. The Board has established seven Board committees to assist in guiding the direction of the bank. These are Audit, Credit, Risk management, Governance, Nominations and Staff Remuneration, Tendering & Procurement, Strategy & Investment, Executive Committees. All the committees are governed by charters setting out their mandates and authority.

The Bank's senior management comprises of highly skilled and experienced personnel. The Bank has in place an aggressive capacity building initiatives through staff training and development programs. (www.equitybank.co.ke, 2014)

The banks runs on a solid organizational structure**.** Equity bank created a simpler management structure, with clear jurisdictions which can eliminate any friction among senior managers. It is clear the bank came up with clearer individual roles since 2011, which could bring clearer responsibility as it grows rapidly and increases its subsidiaries. (www.businessdailyafrica.com, 2011)

4.3.2.2 Bank Corporate, Finance and Marketing Objectives

Equity Bank financial base expansion strategy has been responsive and flexible to changes of corporate strategies that govern the organization at a given time. In 1994, Equity Building Society had adopted a saving led model which was characterized by high volume low margin to offer accessibility, build capacity and establish culture and philosophy. This was 1.0 strategic plan that phased from 1994 to 2004.

By 2004, 2.0 strategy was launched whose mission was to reposition the strategy for future, change legal and operating structure, increase growth and financial leadership, scale global distribution network, and build a socio-economic brand. This strategy phased from 2004 to 2014. The 3.0 strategy has been launched in 2014 to span to 2024 and the main mission is to re-design operating model for efficiency and high performance. This shall be achieved through Scaled agency banking, digitizing processes, Seamlessly integrating channels to improve experience, Leveraging on technology and innovation, Convergence of financial products and services, Segment inclusion for focused strategic delivery, Scaling brand visibility and loyalty and improving on operational discipline. (www.equitybankgroup.com., 2014)

The researcher established that Equity also engages into product or market conglomerate diversification to ensure financial leverage and spread risk. Equity Investment Bank (EIB) is a subsidiary of Equity Bank which is licensed in Kenya to provide investment bank services (including stock broking services). EIB is also a member firm of the Nairobi Securities Exchange.

The researcher established that Equity bank employs product diversification strategies as guided by her aggressive research and product development departments. Many a products from Equity bank are unique and targeting specific market niche. To leverage growth in financial support, Equity bank was listed in Nairobi Security Exchange (NSE) in 2006 although no new shares were offered. The researcher also noted that Equity bank also utilizes collaborations or strategic partnerships with private and Government agencies to leverage on infrastructures, cement growth, benefit on expertise consultations with little or no capital expenditure.

In 2008, Equity Bank Ltd was listed as an on-line lender Financial Intermediary in Partnership with the Youth Enterprise Development Fund. The Youth Enterprise Development Fund was conceived in June 2006 by the Kenyan Government as a strategic move towards arresting unemployment which is virtually a youth problem.

The government set aside Sh. 1 billion in the 2006/07 and subsequent fiscal years budgets to fast-track this initiative. (www.tisa.or.ke, 2014)

In May 2008, UNDP partnered with Equity Bank, UNIDO, ILO, and the Kenya Ministry of Finance to establish the Fanikisha Initiative in Bondo, Kenya that would increase women's access to credit facilities and reduce poverty in local regions by giving women capital for economic activities. UNDP Kenya recognised a unique opportunity to promote both entrepreneurship in local markets and women in the workforce by increasing lending through Equity Bank. The project began with an initial operating budget of Sh 8.0 Million (www.business.un.org, 2014)

In 2014, Equity Bank Group has engaged a global management strategy firm McKinsey to play a business advisory role in the implementation of the bank's 3.0 strategy. (www.businessdailyafrica.com, 2014). Other recent strategic partners brands with worldwide presence include: Western union money trasfer, Visa, Google, Union pay, Mastercard, Diners club International, Vfx, JCB, and Americam Express (www.businessdailyafrica.com, 2014)

4.3.2.3 Inter Branches Financial back up and support

On this section, the researcher established that Equity bank Ltd uses proceeds from its sound financial base and market dominance in the Kenyan market to financially support the international expansion strategies and maintain the competitive edge.

The research revealed that some international subsidiaries are still loss making but the net results of consolidated bank group is positive although diluted. It was estimated that Equity has pumped close to Sh8 billion in the last four years into its regional subsidiaries but made a loss according to www.businessdailyafrica.com[1], (2014) report. This is further demostrated in table 4.3 and table 4.4 below.

Table 4. 3: Summary of Equity Bank subsidiary investments and profits

Period	Number of countries	Total Investment in Sh 000,000	Profit or Loss Sh. '000,000'
2008 - 2011	04	8000	-30

(Source: www.businessdailyafrica.com[1], 2014)

Table 4.4: Profitability contributions from Equity subsidiaries

Country	Period	Profit or Loss Sh. '000,000'
Uganda	2008 - 2011	-880
South Sudan	2008 - 2011	915
Rwanda	2008 - 2011	-59
Tanzania	2008 - 2011	-6
Totals	**2009 - 2011**	**-30**

(Source: www.businessdailyafrica.com[1], 2014)

4.3.2.4 Unique Business Model with Unique Market Niche

The researcher established that the bank has carved out a distinct and unique market for itself in microfinance. No competition institution has been able to successfully duplicate their business model. Most important is their unconventional way of assessing risk during on lending. Instead of using, the famous land, assets and collateral method, equity simply uses a client's account history or group credit. This has proved to be hugely successful. They have also attracted the trust of small depositors in the urban and rural areas thereby bringing in much needed cheap deposits for further onward lending.

4.3.2.5 Partnership with World Financial Support Bodies

The research established that the World Bank is one of the largest shareholder in Equity bank through their private investment arm, IFC under Helios EB. In December 2007, Helios EB Fund completed the USD178.7 million acquisition of a 24.99% interest in Equity Bank. This investment deal appears to have been motivated by the desire to raise capital support microfinance and leverage regional expansion. In return this has given Equity the legitimacy and 'credit worthiness' to attract attention and investments from other institutions and high net worth individuals. This has also assisted the bank in that its model that targets banking the low income population and reduce poverty is also exposed to International Agencies targeting Africa population with related mission. This gives brand leverage of Equity across the world. (www.microcapital.org, 2004)

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter makes a summary of the study findings, presents the conclusions of the study and makes recommendations.

5.2 Summary of the Findings

This study had sought identify and analyse the competitive strategies adopted during internationalization process of a local business firm in the banking industry.

Based on the activities of the Equity bank of Kenya in the case study approach, it was found that while to pursue internationalization process strategy, many supporting strategies needed to be in place before, during and after implementation of the internationalization strategy. It was found that any firm need to cement the financial strength and pioneer leadership at corporate, business and operation levels.

The findings noted that top or senior management structure and operations, as the drivers of company philosophy and value systems in a firm need to have the right skills or talent, ethos, demonstrate diversity, leadership and the core strategies be solidly communicated effectively to business and operation levels for successful implementation. While Equity bank has had a successful implementation of internationalization strategy to Uganda, Tanzania, South Sudan and Rwanda which is faster than top and old banks (by incorporation in Kenya reference country), it was discovered that very unique strategies were adopted.

The findings found that Equity bank employed strategies in the parent company to build in financial strength, build in capacity and infrastructure, leverage their brands growth, and achieve government, local and international recognition before implementing internationalization strategies. During internationalization process, the mode of entry to target markets were selective in line with protecting the financial strength and support quick turn-around of the new branches.

After internationalization, the parent company continues to support from the parent country resources the loss making branches as they consolidate financial gains. The bank business model has continuously ensured sustained competitive advantage over the competition in the international branches.

5.3 Conclusions

The findings of this research that sought identify and analyze the competitive strategies adopted during internationalization process of a local business firm in the banking industry identified the following strategies: Financial back up and support from parent company , Unique business model with Unique Market Niche, Duplication of Business Models Strategy during internationalization, Partnership with Key financial bodies, Market Dominance Position strategy, Mode of Entry Strategy, Government Policy and Opportunism Strategy.

Competitive strategies analyze indicated that strategies that fosters growth and gives competitive advantages in a firm shall only be gained from a mix arising from management and leadership commitments, strategic business models, Government policy alignment into business strategies and sustained barrier of entry of competitors. It was discovered that when firms are the same industry, competition between firms in the industry is there and therefore each firm must generate its unique approach and strategies. The strategies should be unique, not easy to duplicate or be replicated to ensure sustained competitive advantage over each other.

5.4 Recommendations

Based on the findings, the researcher recommend that any firm evaluating implementing an internationalization strategy should adequately consolidate financial strength in the parent company, scan the marketing environment and develop a unique business model or products that will offer sustained competitive advantage for long and thus create an entry barrier to existing and potential rivals.

The findings from the research also recommends that firms should seek more opportunities emanating from the regional market especially by taking advantage of the EAC protocol, trading blocks and recently acquired independence of the Republic of South Sudan.

5.5 Limitations of the study

Although the findings are accurately presented, the study recommends that further research are necessary beyond this point as this study failed to take into account the very current development of Equity bank due to limited information at that time. This includes "the shelving of the Pan-African expansion strategy by Equity Bank Management in order to consolidate gains in East African countries**".**

The strategies that were identified to have been employed by Equity bank were so diverse that the researcher had to condense the scope to key ones due to limitations of support resources. The study design was limited to a case study and since the competitive strategies were found to be unique from one organization to another, similar research need to be done in other banks to remove any possible bias.

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APPENDICES

Appendix I: List of top 10 banks in Kenya - June 2013

RANK	BANK NAME (TOP 10)	ENTRY YEAR IN KENYA	ORIGIN	EXPANSION IF KENYAN
1	African Banking Corporation	1984	Kenya	Uganda
2	Barclays Bank of Kenya,	1923	United Kingdom	-
3	CFC Stanbic Bank Kenya Ltd	2008	South Africa	-
4	Citibank, NA	1974	New York	-
5	Co-operative Bank of K. Ltd	1965	Kenya	South Sudan
6	Diamond Trust Bank K. Ltd	1946	Kenya	Burundi, Rwanda, Tanzania
7	Equity Bank Ltd	1984	Kenya	Burundi, Rwanda, South Sudan, Tanzania
8	Kenya Commercial Bank Ltd	1896	India	-
9	NIC Bank	1959	United Kindom	-
10	Standard Chartered Bank Ltd	1911	United Kingdom	-

(Source: http://bicom.biz)

Appendix II: Introductory Letter

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 08/10/2014

TO WHOM IT MAY CONCERN

The bearer of this letter JAPHETH NJUKERA GICHOHI

Registration No. D61/76475/2012

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.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
08 OCT 2014
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix III – Interview Guide

Part I - General Information

1. What is your designation at Equity Bank?

2. How long have you worked with Equity Bank?

3. How were you ever been involved in drafting international strategies?

4. What are your line business activities?

Part II. Environment and Competencies

5. What was considered in your operating environment and preparations before first going international in 2008?

6. What do you think are your core competencies and distinctive capabilities that have made you succeed on your competitive strategy?

7. What are your major considerations while drafting your international expansion strategies?

8. Which kind of internationalization options do your company chose from when devising expansion plans? Example choice of country.

9. What are some of the international decisions and competitive moves that your organization had pursued in the recent past to optimize successful performance?

10. To what extent are the internationalization competencies beneficial to the company?

    a. what is the process of gathering or sharing information and interpreting its implications
    b. What are the considerations into choice of entry modes in expansion strategy outside Kenya?
    c. What are the process for determining responses to serve the different needs of different customer segments?
    d. What are the unique elements in the offer compared to competitors existing abroad?
    e. What changes (if any) are made in the organizational design to improve or sustain competitiveness
    f. What are the training programs available to improve your employees cope internationally?

Appendix IV - Equity Bank's International Branches

1. Equity Bank – (Rwanda) – Kigali. Rwanda
2. Equity Bank – (Tanzania) – Dar-es-Salaam, Tanzania
3. Equity Bank – (South Sudan) – Juba, South Sudan
4. Equity Bank – (Uganda) – Kampala, Uganda

Appendix V - Commercial Banks in Kenya

1. African Banking Corporation
2. Bank of Africa (Kenya)
3. Barclays Bank
4. Bank of Baroda
5. Bank of India
6. CFC Stanbic Bank
7. Chase Bank
8. Citibank NA Kenya
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. East African Development Bank
17. Ecobank
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Bank
22. First Community Bank
23. Giro Commercial Bank
24. Guaranty Trust Bank (Kenya)
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank
28. Habib Bank AG Zurich
29. Housing Finance Company of Kenya
30. I&M Bank Limited
31. Imperial Bank Limited
32. Jamii Bora Bank
33. Kenya Commercial Bank
34. K-Rep Bank
35. Middle East Bank Kenya
36. National Bank of Kenya
37. NIC Bank
38. Oriental Commercial Bank
39. Paramount Universal Bank
40. Post Bank
41. Prime bank
42. Standard Chartered Kenya
43. Trans National Bank Kenya
44. United Bank for Africa
45. Victoria Commercial Bank

Representative Offices of Foreign Banks

1. Bank of China
2. Bank of Kigali
3. FirstRand Bank
4. HDFC Bank
5. Nedbank
6. The Hongkong and Shanghai Banking Corporation
7. Central Bank of India