FACTORS INFLUENCING ENTRY INTO REGIONAL MARKETS BY KENYA COMMERCIAL BANK

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT FOR THE REQUIREMENT OF THE AWARD OF MASTER OF BUSINESS ADMINISTRATION DEGREE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

OCTOBER 2011

DECLARATION

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

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

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DEDICATION

This research project is dedicated to my beloved Husband Geoffrey Kimani who through his noble, selfless sacrifice provided me with financial and emotional support, to my children Ann, Ruby and Christian for their love and self sacrifice and finally to my parents, you taught me the value of Education

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ACKNOWLEDGEMENTS

My special acknowledgements go to my supervisor, Mr. Eliud Mududa for without his guidance and advice this work would not be complete.

Secondly, to Or. John Yabs for his support and academic guidance and counseling

Third, to my family for their support and encouragement both materially and morally and to my Husband Geoffrey Kimani for His support and prayers

And finally, to all my respondents and Bank managers who spent their valuable time to participate in the study.

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LIST OF ABBREVIATIONS

ATM	Automated Teller Machine
COMESA	Common Market of East and Southern Africa
EAC	East African Community
FDI	Foreign Direct Investment
KCB	Kenya Commercial Bank
MNE	Multinational Enterprise
S & **L**	Savings and Loans
SME	Small and Medium Enterprise
ICT	Information and Communication Technology

ABSTRACT

International market selection is one of the most important decisions to he made by organisations engaging in international trade. The number of firms that have been operating in the international market in response to lowering of the barriers to international trade has been increasing. At the same time, for a firm to remain competitive in the international market, there is the need to adopt strategies that necessitate growth. This research study was designed to investigate the factors influencing entry into regional markets by Kenya Commercial Bank. The specific objectives of the study were to establish factors influencing the entry of KCB into regional markets and the influence of the external and internal environment in determining the market entry mode adopted by KCB. To achieve these objectives the study adopted a qualitative case study research design.

The findings of the study concluded that the key forces governing the internationalization of service firms are firm-specific, ownership specific and internationalization advantages. To successfully enter and conduct business in a foreign market, the MNE must possess ownership specific advantages that are unique to the firm relative to other firms already doing business in the market as they seek to take advantage of opportunities in the external environment. The dynamism in the banking sector is expected to continue in future as financial institutions seek and explore new opportunities locally and internationally to maintain their growth momentum and to consolidate their market opportunities.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Growth by international diversification is an important strategic option for both small and large firms. Due to internationalization of the firm, globalization of markets and the ongoing economic integration there has been growing interdependency of countries worldwide. The last five years witnessed a dramatic increase of Kenyan Multinational corporations' foreign participation in emerging markets. Banks from Kenya e.g. Kenya Commercial Bank, Equity Bank, Fina Bank, Diamond Trust Bank have successfully entered into the Rwanda, Sudan, Uganda, and Tanzanian markets. With foreign entry increasing KCB group has taken this opportunity to make their presence felt through foreign direct Investment. Entering foreign markets is crucial for global strategy while focusing on the necessity to overcome the liability of foreignness (Errainilli, 1990). This study develops the comprehensive model based on factors that have influenced KCB entry into regional markets.

1.1.1 Internationalization process

As internationalization and globalization increases in today's business society, it becomes even more important for individual businesses to keep up with the development. The way a company ventures from domestic market to new geographical markets is of great importance for how well the company succeeds with their overall business mission (Aharoni, 1993). Internationalization of the firm has been a key issue in international business research right from the outset. Internationalizing means changing state and thus implies dynamic change. The relationship between internationalization and foreign market servicing is a close one and the conditions under which a firm will choose exporting, licensing or foreign direct investment interact with internationalization. Internationalization may take the form of global sourcing, exporting, or investment in key markets abroad. According to Sullivan (1996), the more proactive firms seek simultaneous presence in all major trading regions. They concentrate their activities in those countries where they can achieve and sustain competitive advantages. Firms internationalize value-chain activities to reduce the costs of research and development and production, or to gain closer access to customers (Li, 1994). Dunning's eclectic theory of the multinational enterprise provides a useful framework for the classification of factors governing the internationalization of service firms The three classifying principles of the eclectic framework are firm-specific advantage, internationalization decisions and location specific factors. These are the key forces governing the internationalization of service firms.

According to Bender and Fish (2000), the world is in an era of globalization, and companies are continuously affected by the competition around the world. Internationalization is necessary because from a national view, economic isolation has become impossible. Failure to participate in the global market place assures declining economic capability of a nation, as businesses are no longer limited by national boundaries and therefore organizations are performing activities outside their home countries. The concept of globalization and internationalization is referred to as the trend towards greater interdependence among national institutions and economies. It is a trend that is characterized by "denationalization" in which national boundaries are becoming less relevant. It also refers to the cooperation between national actors. In addition

Friedman (1999) states that globalization is not phenomenon or just some passing trend, indeed it is an overarching international system, shaping the domestic politics and foreign relations of virtually every country.

1.1.2 Factors Influencing Entry into Foreign Markets

Entry barriers are present to protect domestic industry or to ensure that companies entering from foreign markets conform to trade relation's arrangements with other countries Johansson (1997). These barriers may relate to entry, exit, and the marketplace. Entry barriers can be both tariff and non-tariff. Such barriers also include aspects that impinge on the form of international market entry, such as regulations relating to local content and ownership. Exit barriers may relate to repatriation of profits, dividends, and capital, taxation issues and technology transfer. Marketplace barriers can include access to skilled personnel, availability to warehouse space, transportation, allocation of critical inputs, such as power and water, and control over prices De Burca, Fletcher & Brown (2004). Bradley (2005) discusses the two main reasons that explain why Firms enter international markets. He states that they do it mainly to source components more efficiently than at home and to enter new emerging product markets that hold more promise than the domestic market. Firms pursue internationalization strategies for a variety of reasons and have more than one motive for international expansion. Some reasons are strategic in nature, while others are reactive. These include the need to seek for opportunities for growth through market diversification because of the large market potential that exists and the need to earn higher margins and profits due to the stiff competition at home. Due to the need to follow and support their multinational clients then, depending on the level of economic and legal environment of the host country, they also look for new business opportunities (Boddewyn, Halbrich, Perry 2000).

According to Root (1994) the new global economy has created business environments that require firms to look past the traditional thinking of the domestic market, and to start looking at business from an international global perspective (Instead Friedmann, 1999) also brings out the tremendous opportunities and benefits that come with globalization. Furthermore the increasing globalization according to Bender and Fish (2000) leads to an increase in international joint ventures, companies establishing subsidiaries and sales offices abroad. If companies want to become successful, they must manage their knowledge within the organization, especially across national borders.

Regional economic integration led to the creation of regional markets and has influenced entry into foreign markets. Regional integration refers to the growing economic interdependence that results when two or more countries within a geographic region form an alliance aimed at reducing barriers to trade and investment. The East African Community is a good example of the regional trading bloc which has given rise to the regional markets. By cooperating, nations within a common geographic region connected by cultural, historical, linguistic, economic, or political factors can gain mutual advantages. Through regional integration countries expand market size, achieve scale economies, enhanced productivity and attract direct investment (Boddewyn, Halbrich, Perry 2000).

Greater competition is simultaneously driving companies worldwide into more direct confrontation and cooperation. Entering foreign markets is crucial for Global strategy and it could be based on industry, resources and institutional views. Drawn from the five forces framework, rivalry among established banks may prompt certain moves for example retaliation. The higher the entry barriers, the more intense firms will be in attempting to compete abroad. A strong presence overseas can be seen as a major entry barrier (Friedmann, 1999) by tapping into wider and bigger markets, international sales can increase scale economies and deter entry. Substitute products / services e.g. the growing Microfinance industry in Kenya is offering substitute products to buyers and thus competition for the market which is already saturated with banks.

The value of the firm-specific resources and capabilities plays a key role behind decisions to internationalize and allow foreign entrants to overcome the liability of foreignness. The Kenya Commercial Rank specifically considered resources such as financial strength, management resource, technological resources as well as their customers and their research and development. Rarity of firm-specific assets encourages firms that possess them to leverage such assets overseas. Patents, brands, and trademarks legally protect the rarity of certain product features e.g. the Kenya Commercial Bank brand is a leading brand in the market. The Rank will need to know which market to enter and the location of foreign entries in line with its Strategic goals and Cultural and institutional distances. The Location Specific advantages can be in the form of geographical advantages due to clustering of economic activities in certain locations.

1.1.3 Kenya Commercial Bank

Kenya has a comparatively developed financial sector compared to most African and other third world countries. The financial sector has been one of the fastest growing sectors in the economy in the last few years. The Banking sector in Kenya comprises of the Central Rank of Kenya as the regulatory authority with the regulated being Commercial Banks, non-bank financial institutions and foreign exchange bureaus. As at 31^{sl} December 2009, the banking sector comprised of 44 commercial banks and mortgage finance companies are the major players in the banking industry and are licensed and regulated under the Central Bank of Kenya Act, cap 491 and foreign exchange Bureaus Guidelines. Out of the 45 licensed institutions, 32 are locally owned and 13 are foreign owned. The locally owned financial institutions comprised of three banks with significant shareholding, 28 privately owned commercial banks and one mortgage finance company. The foreign owned financial institutions comprise of eight locally incorporated banks and four branches of foreign incorporated banks. All foreign bureaus are 100% private and majority is locally owned.

The presence of foreign banks competing alongside domestic banks due to the globalization of financial markets has led to stiffer competition of the local banks for market share, from foreign owned banks. The banking sector is poised for significant new product and market development that should result in further consolidation of the banking sector as market forces and competition take root. It is expected that banks will continue to explore new opportunities locally and regionally to maintain their growth momentum. Initiatives to raise capital are therefore expected to continue in 2010 as institutions consolidate their market niches and explore new opportunities particularly within the East African Community.

KCB is now a regional brand with presence in four out of the five countries in the East African Community and in Southern Sudan. The Bank is effectively positioned as a true regional Bank. In terms of returns, the South Sudan stands above the rest mainly because of first mover advantages the Bank enjoys in that market. The operational subsidiaries of KCB are 100% owned by Kenya Commercial Bank Kenya Limited. KCB (Tanzania) limited was incorporated in April 1997 to provide a wide range of financial products and to facilitate cross-border trading following revival of the East African Co-operation. KCB Tanzania has 10 branches.

KCB Uganda limited started business in November 2007 and is expected to leverage on existing business in Sudan as Uganda is a key transit and trading partner with Sudan.KCB Uganda provides customers with a wide range of innovative products and services including SME banking, corporate banking, personal banking, money transfer and mortgage financing. KCB Uganda now boasts of twelve branches. KCB Sudan limited was launched in May 2006 and has 8 branches in Southern Sudan. The subsidiary offers a wide range of banking services with tailor made products and services for non-governmental organizations, individuals and the young civil service. KCB Rwanda commenced operations in the fourth quarter of 2008 and there are currently nine branches (www.kenyacommercialbank.com).

Both internal and external factors have led the authorities in these countries to open their banking systems to foreign competition. Indeed the openness to foreign trade and investment and the aim to build up more efficient and stable banking systems in the aftermath of crisis in Rwanda and Southern Sudan have motivated the gradual removal of barriers to entry of foreign institutions. Moreover, the need to comply with the requirements of membership in the East African community and the prospects of the LAC has also caused the removal of barriers to entry.

KCB pursued internationalization strategies for a variety of reasons. Firms often have more than one motive for international expansion. Some reasons are strategic in nature, while others are reactive. These include the need to seek for opportunities for growth through market diversification because of the large market potential that existed in the East African and southern Sudan region and the need to earn higher margins and profits due to the stiff competition in Kenya that resulted to slim profit margins. Foreign banks first enter by the need to follow and support their multinational clients; then, depending on the level of economic and legal environment of the host country, they also look for new business opportunities. This was a major factor for KCB especially the location factor and the need to support the Multinational clients and to better serve key customers that have relocated to these region e.g. Nation Media Group, East African Breweries, East African Cables. KCB's motive was also to confront international competitors more effectively or thwart the growth of competition in the home market (Kimata, 2003).

1.2 Research Problem

Despite the growing volume of research focusing on the internationalization process, there is still insufficient knowledge about the factors which encourage firms in entering regional markets (O'Farrell, 1998). Consequently, there remains considerable debate surrounding the factors encouraging manufacturing as well as construction / services ventures to export their goods or services abroad. The role that banks play in economic development and job creation cannot be neglected.

A study conducted by Koch (2001) in Australia, found out that every international market expansion and entry mode selection process begins with the recognition of the need to expand internationally. The recognition is based on an analysis of company objectives, the market selection and entry mode selection depend greatly on the external and internal environment. For a multinational corporation (or a company thinking of entry into the international arena), a more particular set of strategic alternatives, often changing depending on the selected country focuses on several ways to enter a foreign market. Managers need to know how potential new markets may best be dealt with by still considering the risks and the serious environmental factors associated with specific entry.

At the same time, the selection of overseas markets and entry modes is a very central part of any company's international strategy. The vitality of the relevant analysis and of resulting decisions grows with increasing dependence of companies on international business for survival and growth. An increased intensity of competition would demand an improved quality of the overseas market and entry mode selection (Koch, 2001).

According to Burca (2004), internal factors show how the characteristics of management as well as the characteristics of the company can affect the decisions taken regarding the form of market entry and the form of expansion. According to Holensen (2004), internal factors could be seen as the firm size, international experience and the product itself. He also states that factors external to the firm can influence the type of market entry which is most suitable for the firm in a given situation. The role can be perceived as either motivation or a barrier to international activities. The external factors consists of the international nature and attractiveness of the product, the general potential of the chosen international market, government regulations and trade barriers, such as on purpose administrative delays, local content requirements, assistance presented by governments and other stakeholders in both the domestic and international markets.

Internal and external environmental factors that influence foreign/ regional market entry are namely management experience, availability of resources, organization's strategy and goals, internal and competition, political stability, legal, technological, industry based factors and the socio cultural factors (Doherty, 2000). In his study on the factors that Kenyan firms consider when deciding to establish subsidiaries in Uganda and Tanzania, Kiinata (2003) established that infrastructure, political stability, and economic growth potential of the country to be the key factors valued by investors. In his study on the factors influencing the regional growth strategy of the Kenya Commercial Bank limited, Kamanda (2006) established that the Bank is pursuing market development strategy using the already existing products. His objectives were to establish the regional growth strategy that KCB is pursuing, reasons for KCB's regional growth strategy and factors affecting KCB's growth strategy.

In his study on the challenges African airlines face in selecting and entering international markets, Makori (2006), established that the greatest challenge was to assess the profitability, general risk, and yield of the potential market. The aforementioned studies concentrated on the process of market selection strategy the entry modes and factors to consider in entering foreign markets and the challenges faced. It is in this view that this study sought to establish the factors influencing entry into regional markets specifically by Kenya Commercial Bank Limited.

1.3 Research Objectives

The objectives of the study were:

i. To establish factors influencing the entry of KCB into regional markets

ii. To establish the influence of the external and internal environment in determining the market entry mode adopted by KCB Bank.

1.4 Value of the Study

This study on factors influencing the entry of firms into regional markets will provide useful information on the general state of the international business environment and strategies that Kenya Commercial Bank and other Kenyan Multinationals can adopt to ensure that they maintain their position of market leader in foreign markets.

Potential MNEs for example banks and other companies will find the study useful as it will provide information of the strategies for foreign entry, the challenges they will face if they enter into foreign markets and strategies they can adopt to ensure that they succeed.

Finally, researchers and scholars will find the study important as it will increase the body of knowledge in this area. This means that the study will form a basis for further research in the same area of study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter constitutes of the literature findings on factors influencing entry strategies into regional markets. The chapter is therefore a blue print of what other authors have presented in the area of entry into regional markets. The various sections in the chapter were; factors influencing entry into foreign markets 'external factors influencing the choice of foreign entry mode and internal factors influencing the choice of entry mode

2.2 Factors influencing entry into foreign markets

Globalization of markets refers to the gradual integration and growing interdependence of national economies. Globalization allows firms to view the world as an integrated market place. Firms are internationalizing much more than before and the different phases of companies' internationalization have been discussed in six phases, Kotler &Armstrong, (2001).The tendency of national governments to reduce trade and investment barriers has accelerated global economic integration. Reduction of trade barriers is greatly associated with the emergence of regional trading blocs, a key dimension of market globalization. Market liberalization and adoption of free market as well as integration of world financial markets and advances in technology have also influenced the entry into foreign market.

2.2.1 Internationalization and Globalization

The eclectic theory of the Multinational Enterprise, (MNE) provides a useful framework for the classification of factors governing the internationalization of service firms (Dunning, l995).The eclectic paradigm specifies three conditions that determine whether or not a firm will internationalize. The key forces governing the internationalization of service firms are Firm-specific, ownership specific and internalization advantages.

To successfully enter and conduct business in a foreign market, the MNE must possess Ownership specific advantages that are unique to the firm relative to other firms already doing business in the market. These consist of the knowledge skills, capabilities, process, relationships, or physical assets held by the firm that allow it to compete effectively in the global marketplace. They amount to the firm's competitive advantages. To ensure international success, the advantages must be substantial enough to offset the costs that the firm incurs in establishing and operating foreign operations. They must be specific to the MNE that possess them and not readily transferable to other firms. Examples of ownership specific advantages include Proprietary technology, managerial skills, trademarks or brand names, economies of scale and access to substantial financial resources. The more valuable the firm's ownership specific advantages, the more likely it is to internationalize via Foreign Direct investments (Bramble, 2000).

A location specific advantage refers to the comparative advantages that exist in individual foreign countries. Each country possesses a unique set of advantages from which companies can derive specific benefits (Hollensen, 2004). Examples include natural resources, skilled labor, low cost labor, and inexpensive capital. Sophisticated managers seek to benefit from the host country advantages. A location specific advantage must be present for an FDI to succeed. It must be profitable for the firm to locate abroad and must utilize ownership specific advantages in conjunction with location specific advantages in the target country. When profitable, the firm will transfer its ownership specific advantages across borders, within the organization rather than dissipating them to independent foreign entities. Internalization advantages include the ability to control how the firm's products are produced or marketed, the ability to control dissemination of the firm's proprierary knowledge and the ability lo reduce buyer uncertainty about the value of products the firm offers (Albaum, Duerr, & Strandkov,2005).

Internationalization may take the form of global sourcing, exporting, or investment in key markets abroad. The more proactive firms seek simultaneous presence in all major trading regions. They concentrate their activities in those countries where they can achieve and sustain competitive advantage. Firms internationalize value-chain activities to reduce the costs of Research and development and production, or to gain closer access to customers. Bradley (2005) discusses the two main reasons that explain why firms enter international markets. He states that they do it mainly to source components more efficiently than at home and to enter emerging product markets that hold more promise than the domestic market.

At the business enterprise level, market globalization amounts to reconfiguration of company value chains-the sequence of value-adding activities including sourcing, manufacturing, marketing, and distribution on a global scale. Multinational corporations enjoy higher revenues than local firms by providing goods and services that are not readily available in local markets (Clark, Rajaratnam & Smith 1996). Advantages that MNES enjoy over domestic firms are Global Branding because of the advantages of size and scope of their operations, MNEs can exploit their competitive advantages on a larger scale and across a broader range of markets and products than domestic competitors. Flexibility in marketing and distribution therefore they can more easily shift sales efforts toward markets willing to pay higher prices for their products (Baskaran & Muchie, 2008).

Globalization is reshaping lives and leading into uncharted territory. As new technologies drive down the cost of global communication and travel, we are increasingly exposed to the traits and practices of other cultures. As countries reduce barriers to trade and investment, Globalization forces their industries to grow more competitive if they are to survive. As Multinationals from advanced countries and emerging markets seek customers, competition intensifies on a global scale. Globalization both compels and facilitates companies to pursue cross-border business activities and international expansion (Clark, Rajaratnam & Smith, 1996). These new realities of international business are altering cultures and transforming the way companies do business (Wild, 2010).

The Eclectic theory attempts to explain why companies engage in foreign direct investment and it states that firms undertake foreign direct investment when the features of a particular location combine with ownership and internalization advantages to make a location appealing for investment. The Market power theory states that a firm tries to establish a dominant market presence in an industry by undertaking foreign direct investment. Firms seek the greatest amount of power possible in their industries relative to rivals. The benefit of market power is greater profit because the firm is far better able to dictate the cost of its inputs and/or the price of its output (Baskaran & Muchie, 2008).

2.2.2 Strategic entry into international markets

The choice of entry mode is the most important strategic decision made by the firm expanding into new markets (Erramilli, 1990). Once made, the choice of entry made the entry mode cannot be reversed. The form of market entry cannot be easily reversed. The form of market entry is determined by the particular markets and products. Unfamiliarity with foreign markets is the biggest obstacle to entry, therefore companies tend to begin their internationalization process in countries that are more easily understood and offer more familiar operating environments than distant ones. Knowledge of foreign markets increases with experience. As MNEs knowledge of foreign markets grows, the real and perceived risks of dealing with the market decreases. With this increasing familiarity comes an increasing ability and willingness to take a more direct role in cross-border operations (Erramilli, 1990).

The strategies taken will usually be influenced by local factors such as following the customer and Ranks often follow their customers into foreign markets. They can also use Lead the customer strategy to attract foreign companies into their domestic market. Lead the customer strategy is a way of solidifying relations with foreign companies before they establish relations with other local competitors (Erramilli,1991). Follow the leader strategy is also common in industries enjoying high profitability e.g. the Banks .When competitors are actively acquiring foreign assets, a common response is to acquire foreign assets to reduce their threat of falling behind in market share or production costs. Economies of scale and Economies of vertical integration are other strategies that will be important in making decisions.

2.2.3 **Strategic factors in selecting an entry mode**

Ekeledo (2004) presents and discusses what an entry mode is and why it is important to understand how entry modes work. An entry mode is an institutional arrangement that a firm uses to market its product in a foreign market in the first three to five years. This is also seen as the time it usually takes for a firm to fully enter a foreign market (Root, 1994) the choice of entry mode in a foreign market can affect whether the firm goes successfully or not. The consequences from the choice of entry mode can also have strong effect on the survival of the firm. For instance an insufficient entry mode can minimize opportunities and limit important options open for the firm and could lead to high financial losses as well as loss of control of the foreign market.

The choice of entry mode has many important strategic implications for a company's future operations. Because enormous investments in time and money can go into determining an entry mode, the choice must be made carefully. Several key factors that influence a company's international entry mode selection are the cultural environment, political and legal environments, market size, production and shipping costs, and international experience (ErramiHi, 1990).

Cultural environment will include Values, beliefs, customs, languages religions and this can differ greatly from one nation to another. On the other hand, cultural similarity encourages confidence and thus the likelihood of investment. Likewise, the importance of cultural differences diminishes when managers are knowledgeable about the culture of the target market. Political and legal environment's will include the Political stability and it reduces the risk exposure, a target market's legal system also influences the choice of entry mode (Erramilli, 1990). Certain import regulations, such as high tariffs or low quota limits, can encourage investment. Also governments may enact laws that ban certain types of investment outright. Finally, if a market is lax in enforcing copyright and patent laws, a company may prefer to use investment entry to maintain control over its assets and marketing.

The size of a potential market also influences the choice of entry mode. For example the rising incomes in a market encourage investment entry modes because investment allows a firm to prepare for expanding market demand and to increase its understanding of the target market (Bonaccorsi, 1992). As companies gain international experience, they tend to select entry modes that require deeper involvement. But this means that businesses must accept greater risk in return for greater control over operations and strategy. Eventually they may explore the advantages of licensing, franchising, management contracts, and turnkey projects. After businesses become comfortable in a particular market, joint ventures, strategic alliances, and wholly owned subsidiaries become viable options. Whereas some firms are fixed at one point, others skip several modes altogether. Advances in technology and transportation are allowing more and more small companies to leapfrog several stages at once. These relationships also vary for each company depending on its product and characteristics of home and target markets (Geringer, Tallman & Olsen, 2000). Every company must grasp its capabilities and its product if it's going to be successful in global markets (Wild, 2010).

2.2.4 Determinants of competitive advantage

Porter (1980) states determinants of Competitive Advantages on Related and Supporting Industries; the success of an industry directly links the success of its supplier firms, because each one of these needs the other to determine its competitive advantages. Local industries with international success provide efficient and cost effective access to inputs. However, the most important advantage of home-based international suppliers is on-going coordination and the process of innovation and upgrading close to home. These benefits do not happen automatically and firms need to work together to gain competitive advantage (Katsikeas, 1994).

Having strong competition at home drives firms to pursue upgrading and innovation, enters foreign markets to increase market of fill capacity, and even creates stronger survivors for the global market. Not having competition at home may lead to complacent attitude or not being prepared to succeed among global rivals who may have strong competition at home (Czinkota & Ronkainen 1990). Home-based geographic concentration of competitors contributes to magnify domestic rivalry benefits because information flows more efficiently and contributes to the dynamism of the whole national industry vs. global competitors. Its benefits are even greater when considering the effect they can have in the pool of home-based supplier availability and growth. Significant cooperation among domestic competitors is not good because it retards the process of innovation and focus on striving for growth and newness.

2.3 **External Factors influencing the choice of foreign entry mode**

According to Root (1994), when a company select entry mode for a given product /target country is the outcome of several contradictory forces. Several external factors that affect the choice of entry mode will be reviewed. External factors in the market, production and environmental in any market can seldom be influenced by management decisions. They are seen as external to the company and should be seen as factors that affect the entry mode decision and one can say that there are several external factors that influence the choice of entry mode (Czinkota & Ronkainen, 1990).

2.3.1 Designing Entry strategies for international markets

According to Cavusgil, Kinight & Riesenberger (2008), the size of the target country market is of significant influence on the entry mode. Where there is a small market entry then the company will prefer modes that have low breakeven sales volumes for example licensing or exporting. On the other hand markets with high sales potential will fit with entry modes which have high breakeven sales volumes for example, subsidiary, branch equity investment. Another perspective regarding the target market according to Gronroos (1999), is the competitive structure, open free markets (atomistic) with several non dominant competitive structures, open free markets (atomistic) with several none dominant competitors to oligopolistic where there is few dominant parties and monopolistic where there is only one dominant part.

There is the aspect of the target country's quality and accessibility of the local marketing infrastructure. When for example skilled local agents and distributors are cooperating with other firms or if they do not exist at all, then the exporting company has to reach the market through a branch/subsidiary entry mode. According to Peter, Buckley and Pervez, (1999), target country environmental factors such as the economical, political and socio cultural of the targeted country can affect the selection of entry mode. The most important factors seem to be government policies and regulations. Some target countries support foreign direct investments by providing tax holidays. Different factors of the targeted countries economy such as size of the economy, it's absolute level of performance as well as the relative importance of its economic sectors, refers to the market size for a company's product in the target country, may affect the selection of foreign entry strategies. Root (1994) explains the dynamism of an economy for instance the rate of investment, the growth rate of gross domestic product and personal income, changes in employment.

The target countries economic relations in direction composition and value of exports and imports, the balance of payment, the debt service burden and the exchange behavior. Great and remarkable changes from only one party in an external economic relationship may be an indication of changes in government policies regarding trade and international payments. Socio-cultural factors in general and cultural distance in particular are another external factor that affects companies' choice of foreign entry. The cultural distance could be very long: values language, social structure and ways of life differ between the targeted country and the home country (Koch, 2001). Home country factors such as market production and environment factors also affect the companies' choice of foreign entry. The competitive structure in the home market has a significant influence on the foreign entry for example where the market size is small or the market is saturated. Another factor is the home government's attitude on the topic of foreign investments.

2.3.2 External Factors influencing market entry and mode selection

There are several factors that influence companies 'market and entry mode selection for example the characteristics of the overseas country business environment because the features of foreign countries business environments in most cases are very easy to reach nowadays. Similarity and volatility of general business regulation/practices, business infrastructure and encouraging industries stage of development, forms, scope and intensity of competition, customer sophistication and customer protection legislation are some of the features that would normally draw the interest of potential entrants into a foreign market (Koch, 2001).

Market barriers can make entrance to foreign markets more complicated if they are in the form of Tariff barriers, Government regulations Distribution access. Natural barriers will affect market success and customer allegiances. Industry feasibility/viability of entry modes; In some countries there are entry modes that according to law are forbidden such entry modes could be fully owned subsidiaries, as well as international joint ventures. Some countries use barriers such as restrictive labor regulation, cost of labor, insufficient level of skill, and this may frighten a company to set up a subsidiary or a joint venture operation in the foreign market (Makori, 2006). There are also countries that favor companies that invest in foreign subsidiaries, through taxation treatment. Due to the facts that entry modes have particular risks and costs and that they have different sales potentials, some modes of entry will be more appropriate than others in given situations.

Since market growth has been used as a criterion when selecting market entry, market growth is expected to have a crucial role. Rising interest in international business increase (he consciousness of the limitations of the company's resources and it is just a matter of time before it results in a re-definition of the company's global strategy. Some companies choose a spread, multinational mode of operations as the answer, for others, the standardized, global approach may turn out to be more suitable seen from a strategic efficiency point of view. Critical success factors and companies main capabilities must be studied to find the optimal organizational structure and strategy (Root, 1994).

2.4 Internal Factors influencing the choice of entry mode

How a company responds to external factors when choosing an entry mode depends on the company's internal factors. According to Thomson and Strikaland (2003), failure to have a capable management team may impede effective strategy execution. They further contend that staffing the entire organization with talented people is necessary in order to assemble the human resources and knowledge base needed for effective strategy execution. Failure therefore to have a capable management team may affect a firm's growth strategy. Root (1994) stated some internal factors as presented below.

2.4.1 Designing entry strategies for international markets

Root (1994) discussed entry strategies from a detailed and analytical perspective: an entry strategy for international markets is a broad plan. It decides the objectives, goals resources and policies that will show the path companies in international business operations should choose to reach sustainable growth in world markets. Commonly used entry mode alternatives include exporting, licensing/franchising, joint ventures, and full ownership. Full ownership is the entry mode where the company has full ownership of facilities in the host country, which means the parent company has full ownership of the equities in the foreign country (Root, 1094).

The nature of the product will determine the decision on which entry strategy to adopt (Peng, 2009). When providing product services the company needs to be close to the customer, and for service intensive products companies are biased towards branches/subsidiaries. When a company has a large amount of resources in management, capital, technology and production skills and marketing skills, then they have more entry strategies. Therefore company size has a crucial role when selecting entry mode. Resources can affect the choice of entry but do not itself decide the choice of entry mode. Resources should be combined with willingness to dedicate them to foreign market development in order to affect the entry mode. Where there is high education, means that managers are going to select entry mode from a broader spectrum of alternatives than managers with low commitment (Clark, Rajaratnam & Smith, 1996).

2.4.2 Factors influencing market and entry mode selection

Company size/resources; because smaller companies have fewer market servicing alternatives as (Koch, 2001) have quoted from (Benito and Welch, 1994). Small companies have limited resources and may not be able to support the choice of some market entry modes. For example the set up of a fully owned subsidiary often engage very large investments as well as high risk levels. The pressure from a company's size on its freedom of choice in selecting between relevant different market entry mode and their relevant preferences depends on industry-specific resource demands for individual market entry modes.

The importance of management locus of control for the degree of the company's international business involvement and the market entry mode choice is viewed from an overall point of view. Thus strong internal, or external, locus of control are probably going to significantly affect manager perceptions, the way managers feeling works and their market entry mode decisions may therefore typically in less experienced companies affect the net results of the decision making process. It is important to be aware that individual locus of control can change, as an outcome of some critical circumstances or more progressively, as the related experience grows (Axinn, & Matthyssens, 2002).

The experience of company's competitors, selection process, success and degrees of all these factors will affect both the market entry selection process and the choice of entry mode as (Koch, 2001). Companies that feel relatively familiar with a region have a preference to invest their resources into business projects in that particular area instead of seeking contractual mode.

Companies' management culture will have an impact on the choice of entry mode (Craig & Douglas, 2006). Effectiveness and efficiency of the organizational learning relays on the degree of experience collected by individuals, and on the occurrence of reflection distribution in the company. There is a recommendation saying that managerial succession often explains the dynamism in the favored market service mode. The market entry selection process is more likely to be subject to analysis and development, if the common reflection in action becomes commonplace. If information increased accessibility of information on the internet can be probable to speed up experience gaining quoted by (Koch, 2001).

Management risk attitude will be determined by the degree to which the company will accept different international business risks depends on the situation of the company's financial condition, its strategic alternatives, the competitiveness of its competitive atmosphere and its experience. Market share targets is the criterion used for choosing market entry mode is sales or market shares maximization, market entry modes that are believed to deliver the desired results will be chosen. D fferent market entry strategies are most probably going to produce profit to different degrees and a long time profit target will prefer the of high investments while a short one will favor low investments in the example indirect exporting (Dunning, 1995).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter described the research methodology that was adopted to achieve the objectives of the study on factors influencing entry into regional markets specifically by Kenya Commercial Rank Limited. The various sections included the research design, sampling procedure and data collection technique and procedure, data analysis and presentation.

3.2 Research Design

The research study adopted a case study research design approach on the investigation of factors influencing Kenya Commercial Rank entry to regional market. A case study design is most appropriate where a detailed analysis of a single unit of study is desired as it provides focused and detailed analysis of a single unit of study is desired as it provides focused and detailed insight to phenomenon that may otherwise be unclear. A case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit irrespective of what type of unit is under study (Kothari, 1990). A case study was chosen because it enabled the researcher to have an in depth understanding of the factors influencing KCR foreign market entry.

3.3 Data Collection Method

In this study, emphasis was given to primary and secondary and secondary data. The primary data was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing (Mugenda and Mugenda, 2003). It makes it possible to obtain data required to meet specific objectives of the study. Primary data was collected from senior management through face to face interviews using interview guide (See Appendix 1). Secondary data was taken from existing literature, annual financial reports magazines, website and research materials, documentation, archival records, interviews, direct observations, participant observation and physical artifacts, KCB strategic plans manual other external reports, and the Kenya Commercial Bank website. The sources are used together for triangulation. This gave the researcher an opportunity to discuss a broad range of historical, attitude related and behavioral issues to increase objectivity.

3.4 Data Analysis Techniques

The data obtained from the interview guide was analyzed using qualitative analysis. Qualitative data analysis makes general statements on how categories or themes of data are related (Mugenda and Mugenda, 2003). The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). It involves observation and detailed description of objects, items or things that comprise the object of study.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter identifies the various factors that affect the entry of KCB in the foreign market as set out in the objectives. They have been classified as internal and external factors. It involves a blueprint for the collection, measurement and analysis of data. It is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question.

KCB and its subsidiaries

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The operational subsidiaries of the KCB Group 100% owned. The operational subsidiaries of the KCB Group as at 31 December 2009 were as follows:

Table 1: Operational Banking subsidiaries of KCB

Subsidiary	Ownership	Date of incorporation	Country	Number of branches
KCB (Tanzania)LTD	100%	April 1997	Tanzania	11
KCB Bank Uganda limited	100%	2007	Uganda	12

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KCB Sudan LTD	100%	December 2005	Sudan	16
KCB Rwanda	100%	19 June 2008	Rwanda	9

Source: Research Data

4.2 Internal Factors influencing KCB's entry into regional markets

The study established the internal factors influencing KCB's entry into regional markets. Ten senior managers of the bank were interviewed using the interview guide to establish the internal factors that influenced entry into regional markets by KCB. More than 80% of the managers strongly believed that the company's internal strength played a key role in influencing entry into regional markets by KCB. Regional integration and economic co-operation among the countries has resulted in opportunities for cross-border trade.

Table 2: Internal factors influencing entry into regional markets

INTERNAL, FACTORS	YES	NO
Management experience	80%	20%
Company size	90%	10%
Financial strength and stability	85%	15%
Organization strategy	90%	10%

Organization structure	80%	20%
Organization culture	80%	20%
Information and Communication Technology	95%	5%
Products and Services	85%	15%
International experience	75%	25%

Source: Research Data

The study established that KCB had ownership specific advantages that are unique to the firm relative to other firms doing business in the market. The results indicated that KCB had been using the foreign direct investment mode of entry into regional markets due to its financial strength and stability as the brand popularity.

4.2.1 Financial Stability

The findings established that KCB is Kenya's longest established banking institutions, having been in operation for over 100 years. It boasts of financial stability and a favorable heritage being the largest commercial bank in the region in terms of asset base and profit generation. The study also established that the bank had recorded a 33% increase in profit before tax for the period of 2006/ 2007. In the period of 2009 it recorded a total asset growth of 2% and profit before tax of 5%. It also reported a significant increase in the profitability of its subsidiaries within this period.

The bank has 34 new branches and over 100 new automated teller machines across the region. The additional outlets and channels affirmed KCB's position as the largest commercial bank in the region with 203 branches and 325ATMS ensuring that customers have convenient access to their funds at all times. The objective of this mode of entry is to promote one modern and efficient financial system that would boost trade and investment in the East African community in line with the efforts of the five states to integrate into one cultural and socio economic block. This clearly indicates that the bank is financially stable even in the regional market.

4.2.2 The International Experience

From the data collected, it was established that Kenya commercial Bank has 12 years international experience having established its first subsidiary in Tanzania in the year 1997. The Bank incorporated KCB Sudan limited in 2006, KCB bank Uganda in 2007 and KCB Rwanda SA in 2.008. At the same time, results from primary data indicated that managers have had 5 to 10 years of management experience in subsidiary operations. It has the favorable heritage on business management stability which has influenced its entry into regional markets.

4.2.3 Products and services

KCB group is engaged in the business of banking and provides a wide range of related financial services through its wide and extensive branch network and subsidiary companies. A number of products and services have been launched in line with changing customer needs and demands of a competitive landscape. The Group's current product range is as shown by the following table.

Table 3: Products and services

Division	Service offerings
Retail Banking	Personal banking, card business, Biashara banking, Advantage banking and micro banking
Corporate banking	Custodial services, Asset finance, Corporate finance, Trade finance
Treasury	Money market, Foreign exchange services, cash management, Institutional banking
Mortgage finance	Personal accounts, mortgage loans, Housing development bonds

Source: KCB

The findings established that retail banking, corporate banking and treasury are the main products that the bank offers in the regional market. KCB bank provides a wide range of financial products to the emerging economies of this region and facilitates cross border trade following the revival of the East African Co-operation. Backed by the KCB group, the subsidiaries are well placed to offer their customers more flexible, global customer oriented and cost effective financial services and is able to offer one branch banking in a cross border business environment. They specialize in the provision of medium and long-term finance while Savings & Loan specializes in mortgage financing. The products and services are very competitive in the market and this is confirmed by the high profitability.

Some of the hanking services offered in the Uganda subsidiary includes SME banking, corporate banking, Personal banking, money transfers and mortgage products. It prides itself for being a strong indigenous African brand. KCB Uganda also offered fully-Hedged universal banking products that are tailored for this market which includes world class infrastructure capable of facilitating one-branch banking in the cross-border business environment.

4.2.4 Marketing Strategy

The findings indicated that the bank conducts periodic research on customer needs in the local market. The marketing strategy is customer driven and highlights branch expansion and adequately supports new product lines. The results indicated that the Bank invested in aggressive marketing campaigns using sales representatives, Road shows, media advertisements through Television and Radio, corporate social responsibility as well as customer visits. They advertise using the language that is best understood in the individual countries by target marketing using the most convincing language that will be understood by its target population. In this case the Bank carries out research to establish the best marketing strategy before they can launch any marketing campaign due to the difference in culture and the language in the targeted regions. This confirms with the literature findings by Deresky, (2008) on the need to consider cultural differences when managing across cultures. They also use the branch network to advertise because the branches are well networked. Customers who have business across the region do not need to carry cash while doing business in the region.

The study also found out that the hank enhances brand visibility through flagship sponsoring for example the KCB safari rally. In Uganda and Tanzania, there was heightened visibility to boost sales and market presence. There are efforts to ensure that the Bank retains its leadership position in the market in spite of entry of new competitors like equity Bank from Kenya.

4.2.5 Organization Strategy and Plans for Regional Expansion

The findings established that the group's medium term strategy focuses on the following as illustrated in the table below.

Table 4: Medium term strategy

Consolidate the business in all its markets of operation and meeting its growth needs
Foster an efficient market-driven organization attuned to the needs of its customers
To Grow profitability and market share
To grow the mortgage lending business in the region
To build on existing risk culture and cost management to enhance share

Source: Research Data

The strategy for 2007 to 2009 was to reposition the bank and reclaim its leadership position in the region in line with its vision. Establishment of the subsidiaries is in line with the Bank's strategy for regional expansion which is underpinned by its vision to be the 'Best Bank in the region'. The entry to cross-border trade fits well with the bank's regional expansion strategy. As part of its strategy KCB is exploring the prospects of establishing other subsidiaries in Uganda, Rwanda and possibly, Burundi. It has plans to expand to other viable business centers such as Yei and Yambio in a short period of time.

Going forward, the Board has approved a strategy that will under pin their performance objectives over the next five years. T hey have identified the pillars of customer service, financial, operations and technology, risk management, regional markets, human resources and social relevance as key to their growth into the future and will implement key initiatives in each of these areas to support business.

4.2.6 Management Experience

The objective of the research was to establish whether management experience influenced entry into regional markets by KCB. With the aid of the interview guide, we sought to establish how long the managers interviewed had been involved in management of international business activities. Nine out of the ten managers interviewed had been involved in international business either directly or indirectly and they held key positions within the organization. All 10 managers interviewed had worked in the bank for over ten years.

Over 90% of the respondents said that KCB has good leadership at board and management level and it is run by a highly motivated team which is led by a managing director who is supported by business development managers in the subsidiaries. The management team was reported to have had over ten years' management experience. They are geared up to the challenge of supporting and growing the business in the foreign markets where there are cultural challenges such as language barriers. The management commitment to the highest standards of service, professionalism and integrity is unequalled in the region. The hank recognizes the importance of its human capital in rendering services and generating revenue and returns on shareholder value. The Bank invests resources in talent management, training, placement and staff development. There is an ongoing leadership program that creates business leaders at middle and senior management levels.

4.2.7 Information and Communication Technology

The objective of the study was to establish whether advancement in ICT has influenced entry into regional markets by KCB. The information from secondary data revealed that the IT component has undergone tremendous change from the two completely discrete platforms(TC3 and AS400 systems).The first phase of the transformation involved the migration of all the branches to one platform(an upgraded TC3) to improve connectivity and achieve one-branch-banking. The processes are more simplified and centralized and allow for branch configuration. The implementation of T24 core banking system provided a platform for upgrading systems and rolling out more IT-based products and services.

The last few years have witnessed investment in ICT in the banking industry in Kenya and KCB took the lead. It is evident that ICT is a key driver of growth in banking business since it influences the unit cost of providing banking services and the diversity of products and services that a bank can offer to its customers. The bank invested in good ICT infrastructure to optimize on its main objective function as well as provide efficient and affordable services. In its business growth strategy the bank had to carefully consider whether its ICT platform is adequate and robust enough to support the desired business model.

4.3 External factors influencing entry into regional markets by KCB

The objective of the study was to establish the external factors that influenced market entry into regional markets by KCB. This was mainly comparative advantages that existed in the external environment of foreign countries. They possess a unique set of advantages from which the Bank can derive specific advantages.

Table 5: External factors influencing entry into regional markets

EXTERNAL FACTORS	YES	NO
Market environment	90%	10%
Competitor action	85%	15%
Industry structure	80%	20%
Customer activity	85%	15%
Political, Legal, Economic	85%	15%
Regional integration and Barriers to entry	90%	10%
Distribution / delivery channels	85%	15%
Regulatory environment	80%	20%

Source: Research data

4.3.1 Market Environment

The findings indicated that the banking environment in East Africa is dynamic and vibrant even in countries like Tanzania which had more stringent regulations especially labor. KCB have taken advantage of the emerging regional investment opportunities to support inter-regional trade in the East African region. The Bank was seeking for opportunities for growth through market diversification because the region has a large market potential. The Bank targeted to earn higher margins and profits as part of its profit strategy and there is a very high population that does not use banking facilities to save their income especially in South Sudan and Rwanda.

4.3.2 Competitor Action and Industry Related Factors

The findings revealed the presence of many Multinational banks competing alongside indigenous banks in Kenya and in the region. Secondary data from the central bank of Kenya indicate that as of 31 December 2008, locally owned private institutions accounted for 64% of the sector's institutions controlled 55% of the total assets. Financial institutions with foreign ownership of over 50% accounted for 26% of the sector's institutions and controlled over 40%» of the total net assets. KCB is the only financial institution in Kenya that is cross listed in stock exchanges within East Africa, while Equity bank is cross listed only in the Uganda Stock exchange.

The microfinance Act 2006 became operational in Kenya in May 2008.This regulated the establishment, business and operations of microfinance institutions in Kenya through licensing and supervision thus promoting competition, efficiency and access.

There are many multinational hanks from all over the continent and banks from Egypt, Tanzania and Ethiopia have established subsidiaries in Southern Sudan. The study established that KCB was not an exception due to its strategy as a market leader within the financial industry.

4.3.3 Customer Activity

The findings show that most of the leading multinationals in Kenya were expanding their operations into the East African and Southern Sudan region an example being BAT, EABL, leading media houses. Most of these customers banked with KCB and it was necessary to expand into the region to support their customers. There was high level of economic activities in the EAC and southern Sudan and KCB looked for new business opportunities in the region. There was reconstruction of the Southern Sudan region after the signing of the peace treaty and this created opportunities for Companies such as the East African breweries and the Nation newspapers. The two companies established operations in the region and KCB therefore used strategies that included following the customer strategy and lead the customer strategy in some of the countries.

4.3.4 Political, Legal, Economic and Cultural Environment

The Banking environment in the region is stable, dynamic and vibrant even in countries like Tanzania which have more stringent regulations especially labor. The study established that the political/legal environment within the region was peaceful and these according to 80 percent of the respondents contributed to high economic activities and growth thus influencing KCB's entry into regional markets. The signing of the peace treaty in Southern Sudan and the aftermath of the genocide in Rwanda created opportunities for reconstruction and economic support. The bilateral economic relationship between Kenya and Rwanda and Southern Sudan influenced KCB's regional expansion especially because it was mainly government owned and there was need to have a bank that could take care of the government transactions in these countries. There has been an upward economic trend with all the countries reporting growth in Gross Domestic product. The economic activities in Southern Sudan have also been increased by the activities due to the oil fields in the southern Sudan. The economic activities due to the availability of natural resources in the region are becoming more visible to the Bank as it continues expanding its operations and this has tremendously increased the profit margins of the KCB group. The countries share the infrastructure and Kenya is a gateway to most of the countries due to the coastline which has the port of Mombasa. This therefore has encouraged the countries to continue carrying out business activities within the region.

The secondary data indicated that the Uganda has a mature market just like in Kenya competition is stiff calling for innovation to make profits. In Rwanda there is thriving business because of the country's openness to foreign investment and ease of doing business. Tanzania has the biggest potential for growth because of its huge population and geographical area though products like mortgages have not sold there because of non-ownership of land. The labor restrictions that limit the number of workers a company can employ from outside the country has also slowed down operations due to lack of trained workforce in Tanzania. With the common market, it is expected that the country would relax many of the restrictions and unlock the untapped investment opportunities.

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The similarity in culture within the region was also quite visible with over 80 percent of the results showing that most countries speak English and Kiswahili. It indicates that though there was language barrier especially in South Sudan this was as a result of high level of illiteracy in the communities because the Sudanese who have attained basic education level are able to speak and understand English language. All countries within the region used at least either Kiswahili or English language which is the two main languages used in KCB and therefore enabled them to penetrate the market in the region. The cultural environment within the region is also similar as most of the countries collaborate with Kenya in one way or another for example there are similar systems of education. The History of these countries is almost similar having been colonized by the British and the French as well as the cultural beliefs, values and traditions and customs which make the cultural environment very similar. This confirms with the literature findings by Clark, Rajaratnam & Smith (1996), who elaborates on the importance of culture for a harmonized regional market.

4.3.5 Regional Integration

The findings revealed that with the creation of regional markets as is the case of the East African Community and it is an important influence for KCB's regional expansion. This resulted in economic interdependence of countries within the geographic region of East Africa and the Southern Sudan region thus reducing barriers to trade and investment. KCB's entry into regional market has been influenced greatly by the creation of regional markets as this created an opportunity for investment and flow of capital without restriction within this region. This largely influenced the entry into regional markets by

KCB because of the emerging regional investment opportunity and the large market that was created as a result of this regional integration.

KCB (Tanzania) Limited was incorporated in April 1997 to provide a wide range of financial products and facilitate cross-border trading following the revival of the East African co-operation.

4.3.6 Plans for Regional Expansion

The main challenge KCB has had to face in the region included lack of a regulatory framework and infrastructure, especially in Southern Sudan. KCB has been tracking developments in the East African community (EAC) due to its great potential. They are looking to further expanding business opportunities in both Tanzania and Southern Sudan where KCB already exists. In about I5years time, KCB envisions itself as the Pan African bank, and it is positioning itself to become the best bank in the region. The bank had previously recorded tremendous growth and they seek to continue building it on the foundation that has already been laid to take it to the next level. In the next one year the bank plans to set up six branches spread across various urban centers in Uganda. The bank's entry into Uganda promoted cross-border trade and it also fitted well with the bank's regional expansion strategy. Customers who had businesses across the needed not need to carry cash while doing business in the region since the bank's branches are all networked.

4.4. Barriers to Entry

The findings showed that KCB experienced some language barriers, discriminatory immigration, business regulations and political interference in some countries. It experienced language barriers in Rwanda because the nationals mainly speak French though it is now changing to English speaking having joined the EAC. They also experienced some barriers in Tanzania in the area of labor restrictions that limit the number of workers a company can employ from outside the country and this has slowed their operations due to lack of a well trained workforce. There is also barrier in the mortgage products due to the lack of land ownership policies in the country. This explains the slow growth rate in Tanzania due to the restrictions that cause barriers to entry. On the other hand the results showed openness in Rwanda and Sudan to foreign investment and this has encouraged thriving business in the two countries, very high growth rate and market penetration. Uganda on the other hand has a mature market and the main barrier here is in the form of stiff competition thus the need for innovation to be able to penetrate the market and retain high profitability. The findings show that the bank had taken advantage of the minimal barriers to entry in the region and this enabled the bank's easy entry into regional markets. The need for countries to comply with the requirements of membership in the East African community also caused the removal of barriers to entry. There have been common trading currencies within the region with the acceptance of the Uganda, Tanzania and Kenya Shillings within the region and this meant that there were no foreign exchange rate barriers in the region. This enabled KCB to launch its distribution network with the currencies that were acceptable to all the three countries without experiencing foreign exchange barriers.

The results indicated that there were licensing delays due to suspicion from local authorities especially in Southern Sudan where the Rank could not set up its operations within the anticipated time. The results from the respondents indicated cultural harriers in some parts of the region especially in some areas of Southern Sudan which has a high population of Muslims. They were not comfortable with the bank products offered and would have preferred Shariah compliant products. It took a great effort for the Bank to penetrate this market. There was also the issue of high illiteracy levels which resulted in communication barriers. There were no cultural barriers in Uganda, Rwanda and Tanzania.

4.5 Discussion of the Findings

Below is a summary of the internal and external factors influencing entry into regional markets by KCB as established in the study.

Chart 1: Analysis of internal factors that influenced entry into regional markets

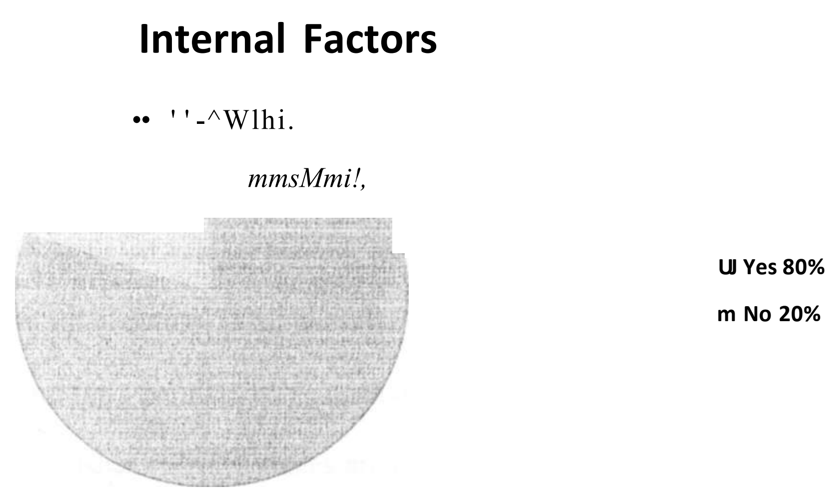
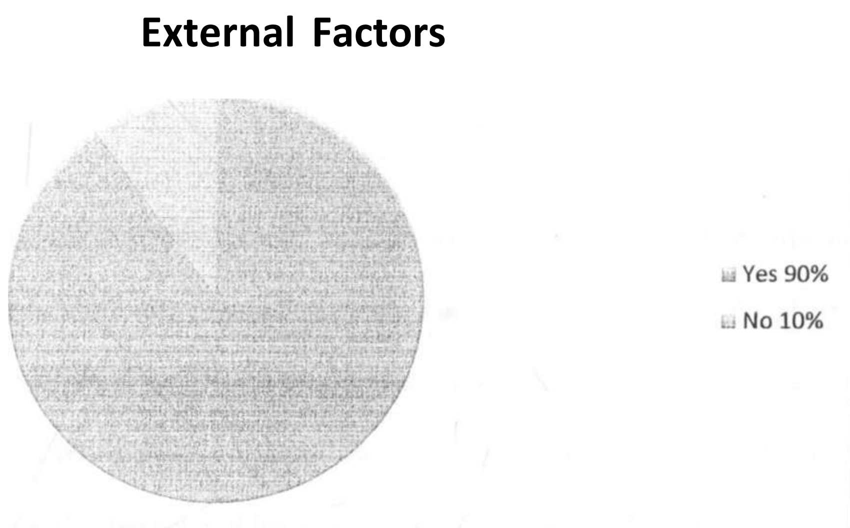


Chart 2: Analysis of external factors that influenced entry into regional markets



From the findings and analysis of the study, both the internal and external factors play a very crucial role in the entry of KCB to the foreign market. The external factors have a greater influence as illustrated (chart 2.) the bank does not have much control over these factors as opposed to the internal ones. Market environment and the regional integration are the leading external factors which act as the anchor on which establishment of any business is based on. With the regional integration, some of the illustrated factors will be uniform across the board resulting in deeper penetration into the region.

The cultural environment included values, beliefs, customs, languages and religions and this differed greatly from one country to another. On the other hand cultural similarity encouraged confidence and thus the likelihood of investment. Likewise, the importance of cultural differences diminishes when manages are knowledgeable about the culture of the target market.

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Political and legal environments revealed in this study included the political stability and it reduced the risk exposure, a target markets legal system also influence the choice of entry mode. Certain regulations such as low taxation rates can encourage investment as was in made possible by the common markets where the tariff barriers have been reduced.

The study also established that the size of a target country market is of significant influence to the choice of entry into regional markets. Tanzania's large geographical area and huge population influenced KCB's entry into the market because it had the biggest potential for growth. The rising economic activities Southern Sudan and Rwanda brought about higher incomes for the market and there was opportunity for market expansion due to the expanding market demand in the region.

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Having strong competition at home drove KCB to pursue upgrading and innovation to enter foreign markets in order to increase its market share. There was a lot of domestic rivalry and KCB looked for new opportunities to meet its profit growth strategy. The target country economic relations with the host country were also of influence to KCB's regional market entry. This was confirmed by the Bilateral economic and political relationship that saw countries in the region open to foreign investment especially in Rwanda and Sudan the success of KCB's regional expansion was attributed to this.

The target country's quality and accessibility of the local marketing infrastructure influenced KCB's success in market penetration and this was due to the marketing strategy adapted by KCB to carry out an independent market research in individual countries in order design and adopts marketing activities that are well suited for the target market. It has 34 new branches and 100 ATMs, an indication easy market access as well as good distribution network and this strengthens the view that there is infrastructure accessibility within the region.

Market barriers can make entry to foreign markets more complicated if they are in the form of Tariff barriers, government regulations distribution access natural barriers, labor barriers as in the case of Tanzania that resulted in insufficient level of skills. This in effect had an effect of slow rate in the growth of Tanzania compared o the rest of the countries in the region. Language barriers affected the marketing of the banks products thus there was slow acceptance of the products be in the beginning because of lack of understanding of the product features and services offered but this situation is now changing.

KCB had a capable management team which in effect made it possible to have an effective strategy execution of its regional market entry. The talented and motivated teams helped to assemble the knowledge base needed for effective strategy execution and this influenced the firm's growth strategy.

The nature of the product influenced the decision to adopt the foreign direct investment market entry mode because the product services needed to be close to the customer and for service intensive products companies are biased towards FDI. When a company has a large amount of resources in management, capital, technology and production skills and marketing skills they are able to have more market entry strategies into regional markets as the can be seen from this study, KCB's took advantage of its internal factors for entry into regional markets.

However there is a small deviation from existing theory because the study reveals that though political and financial stability are important when considering foreign market entry, it is worth noting that Sudan and Rwanda have been the most successful markets for KCB as compared to Tanzania and Uganda which enjoyed longer periods of political stability. This findings show that a firm can still make progress in countries which had periods of political instability as long as long as there is political goodwill from the governments involved

The main findings showed clear connection between what existing theories claim to be the internal and external factors influencing entry into regional markets by service providers. The empirical findings of the study measure up to Dunning's eclectic theory of the multinational enterprise (MNE).The key forces governing the internationalization ofservice firms are firm-specific, ownership specific and internationalization advantages.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objectives of this study were to establish the factors that influenced entry into regional markets by KCB. This chapter gives a brief summary of the findings and conclusions gathered from the analysis of chapter four.

5.2 Summary

This research study was on internal and external factors influencing entry into regional markets by KCB. The main objectives of the study were; to establish factors influencing the entry of KCB into regional markets and; to establish the influence of the external and internal environment in determining the market entry mode adopted by KCB Bank.

Major findings from the study showed that there were factors in the internal and external environment of KCB influenced the entry into regional markets. The internal factors that influenced the entry into regional markets were the financial stability and financial strength of the Bank in terms of asset base and profit generation. This would enable the bank to undertake its expansion strategy without difficulty in raising the capital required for this. The bank has been enjoying high returns from its existing investments and this would be able to support the new investments in the initial years after they are established before they can start generating profits or incase of slow growth as is the case of Tanzania and Uganda. This would be able to cushion against the risk of new business activity and business turnaround time.

The study established that regional economic integration created an opportunity for market expansion and it therefore created an opportunity for profit maximization and increased market share. The other external factors included the political, legal, economic, cultural environmental factors which influenced the decision for regional market entry. There were no barriers to market entry as the barriers were minimal or insignificant compared to the benefits and opportunities in the external environment.

The study established that the management's experience of the management team is important as it will greatly influence the success of entry into regional markets as the management team will be required to grow the business in the new markets. On the question of management experience the study reveals that the subsidiary is run by a highly motivated team led by a managing director who is supported by business
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development managers. This therefore confirms that the management experience influenced the decision to enter into regional markets as the bank already had a team of management that was capable of taking up the responsibility of managing the subsidiaries. They are capable managers who make business decisions, manage business risk as well as grow the business and strategic management of subsidiaries

The findings confirm that the Bank strategy supported the regional expansion which is underpinned by its vision of being the Best Bank in the region. This therefore confirms that the implementation of the entry into regional markets by KCB is supported by the vision and strategy of the organization. There strategic plan takes the business forward and it should cover essential areas such as financial targets, business expansion, product innovation, human resource development and technological advancement. A firm's internationalization begins with its strategy and this must be seen to support regional expansion for it to succeed in regional market entry as is the case with KCB's regional entry strategy.

The wide range of financial products that the bank offers that is tailor made to meet the customer need was an important internal factor that influenced regional market entry. This enabled the bank to penetrate the market with the existing products and this reduced the high cost of new product development. The wide range of products was an indication that the Bank is leading in product innovation and product range offering and could easily use this product strength to penetrate into new markets. Backed by the KCB group the subsidiaries are able to offer their customers flexible, global, customer oriented and cost effective financial services. This can also be attributed to globalization of markets and services which make it possible to offer services that meet the customer needs.

KCB has strong indigenous African brand and this is associated with the stability of the bank having been in existence for over 100 years. It is a leading brand in the region and the bank will therefore use this strong brand name to penetrate the market. The brand is also unique to the firm and cannot be easily imitated in the region and the bank is able to position this brand in the customer's mind thus easy market penetration. The KCB logo of a lion depicts stability and financial strength which will be the utmost need of all its customers as well as investors.

The findings confirm the market factors that influenced entry were the large market that was in the region due to the large population and the emerging regional investment opportunities. The regional economic integration has influenced the entry into regional markets as it creates investment opportunities and reduces the cost f investment. There was a big market that was unbanked in the region as well as economic growth and these influenced their decision to enter into regional markets. The home country factors such as stiff competition in the banking sector in Kenya reduced their profits and were a challenge to retaining their market share. Driven by the necessity to grow profits and increase their market share, the Bank started looking for new business opportunities in the region.

The finding indicate that the competitor and customer activity influence on entry into regional markets was proactive rather than reactive as KCB is a market leader and chooses the leader strategy for both the customer as well as the competitor rather than following the leader or the customer strategy. Being the market leader makes KCB very quick to take risks and to take advantage of every opportunity presenting itself and this explains the reason for the rapid and successful regional market entry.

The findings confirmed that there were no or minimal barriers to market entry in the region. This is an important consideration when a company is considering foreign market entry as barriers to entry will normally not attract foreign investment and thus discourage foreign market entry. In this study there were no barriers to entry and where encountered they were very minimal and thus one of the main factors that have encouraged or influenced market entry into the regional markets by Kenya commercial Bank.

Internationalization advantages include the ability to control how the firm's products are produced or marketed, the ability to control dissemination of the firm's proprietary knowledge and the ability to reduce buyer uncertainty about the value of products the firm offers.

5.3 Conclusion

The finding of this research concludes that both internal and external factors influence entry into regional markets by the firm. Based on these findings, to successfully enter and conduct business in foreign markets, firms must possess ownership specific advantages that are unique to the firm relative to other firms that are already doing business in the market. This consists of the Knowledge skills, capabilities, process, and relationships or physical assets held by the firm to allow it compete effectively in the global market place. Ownership specific examples are proprietary technology, managerial skills, trademarks or brand names, economies of scale and substantial financial resources. However, they amount to the firm's competitive advantage and they must be substantial enough to offset the costs that the firm incurs in establishing and operating foreign operations. Resources should be combining with willingness to dedicate them to foreign market and development.

The key forces governing the internationalization of services are firm-specific, ownership specific and internationalization advantages. The more proactive firms seek simultaneous presence in all major trading regions. They concentrate their activities in those countries where they can achieve and sustain competitive advantage.

5.4 Recommendations

The dynamism in the banking sector is expected to continue in future as financial institutions continue to seek and explore new opportunities locally and regionally to maintain their growth momentum. Financial Institutions will seek to consolidate their market opportunities particularly within the Hast African community, the Southern Sudan region and beyond. Banks should try and take advantage of their firm specific advantages namely strong brand, financial strength, management capability, product offering and features, Information technology, Organization strategy as well as external opportunities such as emerging markets such as the East African community, COMESA due to regional integration and internationalization.

5.5 Limitation of the study

Only five out of ten of the targeted respondents responded to the questionnaire due to bureaucracy within the organization that limited me to access and fear that these could comprise the bank's confidentiality. The study looked at the external factors influencing entry into regional markets as one yet the external factors are unique to different countries for example the external environment in Tanzania is quite different and unique to that one of Sudan, Uganda, and Rwanda.

5.6 Suggestions for Further Study

There is an opportunity for further research especially on the challenges that Kenyan Banks have encountered in the implementing strategies for market entry into regional markets. There are opportunities for expansion into regional markets but it is important that a study is carried out to prepare firms that are planning to internationalize their operations for challenges that they could encounter and therefore strategize on how they can overcome this challenges.

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APPENDICES

APPENDIX A: INTRODUCTORY LETTER

September 27, 2010

The Human Resource Manager,

Kenya Commercial Bank LTD

P.O. BOX4800-00I00

Nairobi

<u>RE: MBA RESEARCH PROJECT</u>

1 am a student at University of Nairobi pursuing an MBA pursuant to the pre-requisite course work. I would like to conduct a research project to access the factors that influenced entry into regional markets by Kenya Commercial Bank. The focus of my research will be Kenya commercial bank limited and will involve interview with managers of the Bank.

1 kindly request your authority to conduct the research at Kenya Commercial Bank Kenya limited through research interviews and use of relevant documents. I have enclosed an introductory letter from the university. Your assistance is highly valued.

Yours faithfully

Esther N Kimani

c.c. Eliud Mududa

Project Supervisor

University of Nairobi.

APPENDIX 1: INTERVIEW GUIDE

1. What is your position in the organization?

2. How long have you been involved in international business activities?

3. For how long has the company been in existence?

4. What has been the nature of progress \ growth of the bank?

5. What is the annual turnover of the bank?

6. What are your plans for regional expansion?

7.. What is Ihe decision making process within the organization on regional market entry?

8. What is the organization structure and how has this influenced regional market entry?

9. What is the organization culture and how did this influence regional market entry?

10. Which entry modes do you use for foreign market and why do you use them?

11. What do you consider to be the company's internal strengths and weaknesses?

12. What is the range of products or services that you offer in the foreign markets?

13. What marketing strategy have you been applying in your operations?

14. What are the Industry related factors that have been crucial in your regional market entry?

15. What market barriers did you experience in your foreign market entry and how has this affected or influenced your regional market?

16. To what extent do you think culture influenced entry into regional markets?

17. What Internal factor are fundamental when you choose regional market entry and how do you choose them?

18. What external factors are fundamental when you choose regional market entry and why do you consider them? What do you consider most? Why not and how? Please give me a broader explanation?