STRATEGIES USED BY EQUITY BANK KENYA TO EXPAND INTERNATIONALLY

BY

ALIKUTEPA PAULINE IGOKI

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

2014

DECLARATION

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

Signed... Date...

ALIKUTEPA PAULINE IGOKI

D61/75797/2012

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

Signed.. Date...

DR. JOHN YABS

LECTURER

DEPARTMENT OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENTS

I thank the Almighty Lord for this far he has seen me in my studies. Special thanks to my Parents Augustino Alikutepa and Monica Mbiro who instilled in me the spirit of education, not forgetting my dear brothers and sister. Special thanks to my dear husband for the sacrifices that he made to see me as I did my assignments at home and together helped me brainstorm the most challenging tasks. Special thanks to Equity bank for the provision of information that has enabled me to write this project. Last but not least to my supervisor Dr JohnYabs for tirelessly supporting me through this research.

Finally I appreciate the rest of the people who assisted me in any other way and have not been mentioned above.

DEDICATION

This research project is dedicated my dear husband Dr.Asaph Wangombe Kinyanjui who I owe so much. I highly cherish your love, encouragement, support both financially and emotionally and being my pillar of strength throughout my Masters Programme.

ABSTRACT

International business comprises all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. The research objective of the study was to determine the strategies used by Equity bank to expand internationally. This study employed a case study on the various strategies used by Equity bank in expanding internationally. The study used mainly the primary data and secondary data. Another primary data source as is observation by the researcher during various visits Equity bank main branch in Kenya and this was also supplemented with the Chief Executive Officer interviews with the media. The interview guide was checked for consistency and data organized through content analysis. Content analysis is the systematic qualitative description of the composition of the object or material of the study. The study established that the Bank did evaluate the expansion strategies by considering the various strategies at their disposal. Evaluation of expansion strategy involved setting up a committee that studied each county unique issues, including the key external environmental factors, Political/Legal, study of existing players and levels of competition, availability of qualified staffing, cost of doing business, investment incentives among others. For the Tanzania market, Equity bank used Greenfield strategy in expanding to the Tanzanian Market. For the Rwanda market, Equity Bank Used green field strategy in expanding to the Rwanda market. The bank started by establishing a single branch in Kigali. For expansion strategies in different EAC market, however, on overall, the strategy of FDI was the best as far as expansion strategies are concerned. Though FDI was employed in the banks expansion into the two markets of South Sudan and Rwanda, the mode of execution in the two markets was very different. In the Uganda market, the Bank used acquisition strategy whereby it acquired a well established microfinance institution in Uganda: Uganda Microfinance. This study recommends that a thorough evaluation of the foreign market needs to be done so as to understand the foreign market dynamic against various expansion strategies so the best expansion strategies are adopted. This would enable successful expansion to such markets. This study also recommends that Bank engaged in employee training and development to build the capacity to deliver quality financial services to its customers in the new established financial markets.

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LIST OF ACRONYMS

ATM- Automated teller machine

CBK- Central bank of Kenya

EAC- East Africa countries

EBK-Equity bank of Kenya

EBS- Equity building society

FDI- Foreign direct investment

IDB- Industrial development bank

KBA-Kenya bankers association

MNC'S- Multi National Corporation

MNE- Multi-national enterprise

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

All companies operate in a macro environment shaped by influences emanating from the economy at large: population demographics, societal values and lifestyles, governmental legislation, technological factors and the industry and competitive arena in which the company operates. The company's macro environment include all relevant factors and influences that have a bearing on decisions the company makes about its direction, objectives, strategy and business model (Thompson A,A,2005). The major determinant of organization success today in the turbulent environment is the successful implementation of the strategies. This requires the organization to think strategically and translate their insight into effective strategies to cope with their changing circumstances and to develop rationale necessary to lay groundwork for adapting and implementing strategies (Bryson 1988).

The past five years have seen rapid growth in the operations of banks in Kenya especially in the move to establish units in the East African region. This was in spite of the much proclaimed economic crunch that hit most western banking and other financial institutions. The period has seen banks such as Equity bank move to Tanzania, Uganda, Southern Sudan and Rwanda. The impetus for the growth and strategies used in this expansion has left many questions unanswered. For example, was it really an economic meltdown or was it a paradigm shift of economic development to the African continent?

1.1.1 Concept of International Business

International business comprises all commercial transactions (private and governmental, sales, investments, logistics, and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. The characteristics or features of international business include:

In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported. International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labor from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.

International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities all this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies. International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favorable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.

International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries. International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.

1.1.2 Entry Strategies

There were many strategies that were used by Equity bank to expand in their quest for international expansion. The common ones were acquisitions, start-ups and joint ventures. Although this was the case, there was only limited consensus and banks, Kenyan banks for that case, in which the best option could be, represented most banks chose the same or varying options when they were expanding across the borders

Diversification: Equity Bank like many companies post good results by offering diverse ways to grow and have diversified in one way or the other. Musau says that as opportunities in the market continue to diminish with the emergence of new companies offering the same products, the only way for firms to thrive in business is to explore other markets. Diversification invariably leads to organizational changes in the structure of the business which represent a distinct break with past business experience – thus allows the firm to expand its product lines and operate in several different economic areas," Nzuve says. Advantages of adopting diversification strategies include improving product value/quality, to gain competitive edge and to maintain product loyalty.

Equity has not been left behind as it has introduced new innovative services like Auto Bank which can be accessed anywhere internationally. It has successfully penetrated internationally by introducing cash back services which enables customers to use Equity bank ATM to pay for services or access cash from outlets like supermarkets chains. "Cash back services", model is an innovation that borrows heavily from visa and MasterCard network. Equity bank has also diversified its products offering by introducing comprehensive banking services, forex products, insurance, investment banking and mortgage services.

An acquisition is one of the strategies used by companies to beat competition and expand internationally by accelerating their pace of growth. Firms can strategically benefit from mergers and acquisitions by acquiring new customers and markets, cost reductions through synergies and obtain new products and technologies (SAP 2008).

Equity Bank has responded to financial strength of its competition by rapidly growing its business through a series of acquisitions. Acquisitions include the purchase of the retail business arm of Industrial Development Bank (IDB) in 2005, 20% of Housing finance from CDC group in July 2007, 100% acquisition of Uganda micro finance Ltd for kshs 1.66billiom in April 2008.Business acquisition strategy is one of the strategies used by companies to expand internationally and beat competition by accelerating their pace of growth. Firms can strategically benefit from mergers and acquisitions by acquiring new customers and markets, cost reductions through synergies and obtain new products or technologies (SAP 2008). Mergers and acquisitions are the most popular form of growth strategy according to a survey by Boston Chapter of the association for corporate growth conducted in New England USA. Other proponents of this strategy are Welch & Welch (2005) and Gaughan (1999). Growth aspects include market penetration, market development, product penetration and diversification (Ansoff 1965). Equity Bank has responded to expanding into new markets by rapidly growing its business through a series of acquisitions.

Marketing development strategy is where an organization seeks to sell its existing products into new markets. In other words expansion is maintained by leveraging the company's product or service knowledge to reach new customers**.** Marketing strategy is defined by David Aaker as a process that can allow an organization to concentrate its resources on the optimal opportunities with the goals of increasing sales and achieving a sustainable competitive advantage. Marketing strategy includes all basic and long-term activities in the field of marketing that deal with the analysis of the strategic initial situation of a company and the formulation, evaluation and selection of market-oriented strategies and therefore contributes to the goals of the company and its marketing objectives.

There are many possible ways of approaching this strategy example is what Equity bank used which is New geographical markets by offering new products to Rwanda, Uganda, different pricing policies to attract different customers . It consists of marketing present products, often with only cosmetic modifications to customers in related market areas by adding channels of distribution or changing the content of advertisement or promotion (Pearce and Robinson, 1991.

Start-ups strategy**:** This is the kind of strategy where by a business in our case Equity Bank decides to expand by opening up branches in other countries to serve the market. Equity has expanded to Rwanda, Uganda, and South Sudan. Studies reveal that Equity bank is doing so well and almost beating the local Banks. Equity has started up seven branches in Rwanda.

1.1.3 Banking industry in Kenya.

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya. The banking sector was liberalized in 1995 and exchange controls lifted. The Central Bank of Kenya, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2011 there were forty six banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus (CBK,2011). The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sectors interest.

Over the last few years, the banking sector in Kenya as continued to growth in assets deposits, profitability and products offering. The growth has been mainly underpinned by: an industry wide branch network expansion strategy both In Kenya and in the east Africa community region. Automation of a large number of services and a move towards emphasis on the complex customer needs rather than traditional 'off the shelf' banking products. According to central bank of Kenya (2007) a survey conducted by the banking division revealed the following aspects ranging from product usage to challenges in gaining access to financial services. Only 19 percent of Kenyans are banked and thus have access to financial services through commercial banks, building societies and post bank. Additional 8 percent are served by the savings and corporate societies and microfinance institutions while 35 percent depend primarily on the informal financial services such as merry go rounds.

1.1.4 Equity Bank

Equity Bank was founded as Equity Building Society (EBS) in October 1984 and was originally a provider of mortgage financing for the majority of customers who fell into the low income population. The society's logo, a modest house with a brown roof, resonates with its target market and their determination to make small but steady gains toward a better life, seeking security and advancement of their dreams. The vast majority of Africans have historically been excluded from access to financial resources. Having been declared technically insolvent in 1993, Equity's transformation into a rapidly growing microfinance and then a commercial bank is widely considered to be an inspirational success story. Currently, Equity Bank has more than 8 million customers making it the largest bank in terms of customer base in Africa and having nearly half of bank accounts in Kenya. The company's vision is "to be the champion of the socio-economic prosperity of the people of Africa".

Equity Bank retains a passionate commitment to empowering its clients to transform their lives and livelihoods. Through a business model that is anchored on access, convenience and flexibility, the Bank has evolved to become an all inclusive financial services provider with a growing pan African footprint. Equity Bank's business model and its visionary leadership has continued to earn local, regional and global accolades and recognitions. The model is also studied in some of the leading business schools in the world, as other developing countries in Africa and Asia seek to learn from Equity's low margin, high-volume model. Equity Bank in 2010 established the Equity Group Foundation. This innovation and creative vehicle has fully transformed the concept of philanthropy and corporate social responsibility. While Equity Group Foundation champions the socio-economic transformation of the people of Africa and seeks partnerships along six cluster thematic areas, Equity Bank provides the infrastructure of delivery hence reducing the operational costs for the Foundation and increasing the rate of return on any social investment. The six social thematic areas of focus are: education and leadership development; financial literacy and access; entrepreneurship, agriculture, health, innovations and environment.

Equity Bank has been at the forefront of establishing auto branches in areas previously shunned by the so-called high street banks, including residential areas. It is the Bank's rapid growth and expansion into previously ‘unbankable’ segments that has inspired an emergence of more innovative financial products, including Mkesho, an electronic money transfer platform that partners the Bank and mobile phone operator Safaricom Limited. The past few years have also seen the proliferation of new products in the area of Islamic banking, automatic teller machines (ATMs), plastic and electronic money, amongst others within the banking sector. On the cutting edge of all this innovation is Equity Bank, whose reputation as the most people-friendly bank is firmly entrenched. Its partnership with mobile phone operators Safaricom, Telkom and Yu has created mobile money platforms that are unprecedented in terms of size, convenience and efficiency. These products are slowly transforming this financial market into the ‘Silicon Valley’ of East Africa. In its 20 years in operation, Equity has demystified banking from the rich-man preserve image it used to have to a necessity for all and sundry.

Armed with the confidence of the people of East Africa as its greatest asset, Equity always seeks to enhance this confidence by continually producing cutting-edge products which make banking easy and relaxed, friendly and fast and convenient.

1.2 Research Problem

From the foregoing background studies, most commercial banks have failed to implement the expansion strategy successfully. Their excuse to failure of implementation include culture complexities, it’s a high capital intensive, and more so Globalization which is a key issue for many banks and increasingly more so for Kenyan Banks, which often announce plans for international expansion. There are many reasons as to why Kenyan Banks are putting more effort into global expansion but they can be summarized into three main. First is the limited growth option in the domestic market. Most banking products are becoming mature and the industry is rapidly consolidating in Kenya. Second is the substantial market growth outside Kenya. Relative to the Kenyan banking industry, there are emerging giants such as Rwanda and Uganda and where the banking sector is projected to grow rapidly. The third reason is the increasing need for integrated regional and global services from the existing Kenyan customer base.

Kenyan companies are globalizing and need more advanced and integrated services, which global banks with large global networks are much better positioned to provide. Global banks are moving in line with these changing customer needs, posing a threat to Kenyan banks. Therefore, even just to defend their core customer base, Kenyan banks need to expand internationally and enhance their global capabilities. For Kenyan banks globalization is no longer a peripheral issue but increasingly becoming a matter of survival. The importance of globalization will only grow but this is something that you cannot just rush given the significant challenges and its complexity. Kenyan banks will have to develop well thought international expansion strategies to overcome the challenges and grow into truly international players. Banking sector in Kenya plays a very important role in the economic development of any country. Banks are the backbone for the economic development of any country. They increase saving from increasing investments in the country by offering loans on deposits by their customers, they contribute in employment in a country, facilitate transfer of money from one party to another, offer loans to government and feasible general public, increase capital formation and encourage balanced development. With globalization most commercial banks have expanded internationally which has resulted to increased competition leading to a reduced market share of the players in the market as well as their profits. With the scramble for the market population, banks have devised different expansion strategies of how to expand their business to survive in the competitive environment.

Despite the many studies that have been carried on expansion strategies that are used in the banking industry and other industries, not so much research has been done on the various expansion strategies that banks use to expand to international markets. The question this study seeks to address is; what are the strategies used by Equity bank to expand internationally?

1.3. Research Objective.

The research objective of the study will be to determine the strategies used by Equity bank to expand internationally.

1.4 Value of the study

The study will be important to the various users of this research information who would include government regulators, Equity Bank, other banks, investors and academia.

This study will be very valuable to the regulators like Central Bank of Kenya considering the pivotal position played by Equity bank in the Kenyan banking industry, according to CBK (2008) Kenya had 4.5 million banks customers as at September 2008 and by the end of February 2009 Equity bank accounts had over 3million accounts. This implies that Equity bank currently holds over 50% of all the bank accounts in Kenya. Other regulators who might be interested in Equity bank case study include Kenya bankers Association and capital markets authority.

This study will also be beneficial to equity Bank in that it will expose the gaps in its strategies which if addressed in time will help it to deter competition. It will also identify the strategies it can leverage to sustain its competitive edge. The study will also make significant contribution to current and potential investors of East Africa as it will provide a lot of insight on the strategies they can use to expand internationally.

The study will also be useful to investment bankers and investors as it will give them an gainful insight on the Equity bank business model. The value of extra business information can be appreciated by the recent collapse of very celebrated businesses like AIG and Lehman Brothers. The investors can also have offshore accounts in other countries as this is also a mode of saving.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature on strategies used by to expand internationally. The review uses the theoretical literature that generally discusses an overview of the concept of international business, the various modes of expansion strategies.

2.2 Theoretical Foundation of the Study

The study focuses on the expansion strategies, diversification, market penetration, market development, business acquisition strategy and product development strategy.

2.3 International business

International business includes all commercial transactions (private sales, investments, logistics, and transportation) that take place between two or more regions, countries, and nations beyond their political boundaries. Usually private companies undertake such transactions for profit. These business transactions involve economic resources, such as capital, natural, and human resources used for international production of physical goods and services, such as finance, banking, insurance, construction, and other productive activities. International business arrangements have led to the formation of multinational enterprises (MNE), which are companies that have a worldwide approach to markets and production or companies with operations in more than one country. An MNE is often called a multinational corporation (MNC) or transnational company (TNC).Internationalization is the process of increasing involvement of enterprises in international markets, although there is no agreed definition of internationalization. There are several internationalization theories which try to explain why there are international activities.

Those entrepreneurs who are interested in the field of internationalization of business need to possess the ability to think globally and have an understanding of international cultures. By appreciating and understanding different beliefs, values, behaviors and business strategies of a variety of companies within other countries, entrepreneurs will be able to internationalize successfully. Entrepreneurs must also have an ongoing concern for innovation, maintaining a high level of quality, be committed to corporate social responsibility, and continue to strive to provide the best business strategies and either goods or services possible while adapting to different countries and cultures

2.4 Expansion Strategies

An expansion strategy can be defined as a strategy aimed at winning larger markets share or a tactic used by management to expand the consumer market for company's products. Expanding for the sake of it is often dangerous, it's therefore important to develop expansion strategies to ensure business is expanding in the right direction. According to Wheelen and Hunger, (1995), growth is a seductive strategy for two principal reasons: a growing firm offers many opportunities for advancement, promotions and internal jobs and expansion itself is exciting and ego enhancing tom the management.

Gluek (1988) observes that expansion/growth strategies are adopted by firms because they require them for long run survival in volatile industry environment. Expansion is also seen as a managerial motivation since many managers want to be associated with growing firms and would even be remembered for having played a key role in the growth of firms. They also require growth with effectiveness.

2.4.1 Diversification Strategy

Diversification refers to expanding business fields to new markets, new products, or both while retaining strong core businesses (Yokohama 2007).Diversification has not been limited to the banking industry, retail chains have also successfully diversified to banking. In Kenya mobile phone companies have also diversified into money transfer services. Frequent and successful new products introductions are essential for organic growth and competitive differentiation. The numbers of new product introductions have increased dramatically across the globe (Davis 2007).This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience. For business to adopt a diversification strategy, therefore it must have clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

Diversification may take place within firms existing areas of specialization or may result into a firm going into new areas. The major reasons for diversification may be in response to specific problem or as a general policy for growth. Diversification is a corporate level strategy and spreading of risks has been central to the concept of diversification. Hills & Jones (2001) states that over any reasonable length of time in many industries competition can be viewed as a process driven by innovation. Denis and Rose (2001) reveals that this strategy entails firms moving into both new and markets and new products sectors perhaps involving major changes in technology and marketing methods. Johnson and schools (2002) identify diversification to be a strategy which takes the organization away from its current markets or products. Diversification strategy is useful when an organization marketing system does not show much additional opportunity for growth and if the opportunities outside the core marketing systems are superior.

2.4.2 Business Acquisition Strategies

It's one of the strategies used by companies to beat competition and expand internationally by accelerating their pace of growth. Firms can strategically benefit from mergers and acquisitions by acquiring new customers and markets, cost reductions through synergies and obtain new products and technologies (SAP 2008).

Mergers and acquisitions are the most popular form of growth strategy according to a survey by Boston chapter of the association for corporate growth conducted in new England USA. Other proponents of this strategy are Welch & Welch (2005) and Gaughan (1999).

2.4.3 Market Penetration Strategy

It's the name given to expansion strategy where the business focuses on selling existing products into existing markets. According to Pearce and Robinson ,(2011) market penetration seeks to achieve four main objectives: first is to maintain or increase the market share of current products- this can be achieved by a combination of competitive pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling and secure dominance of growth markets, secondly to restructure a mature market by driving out competitors: this would require a much more aggressive promotional campaign, supported by pricing strategy designed to make the market un attractive for competitors. Third objective will be to increase usage by existing customers.

The main rationale for this approach is that by thoroughly developing and exploiting its expertise in a narrowly defined competitive arena, the company achieves superiority over competitors that try to master a greater number of product and market combination (pierce and Robinson, 2011).

2.4.4 Market Development Strategy

This is where the business seeks to sell its existing product into new markets. It consist of marketing present products, often with only cosmetic modifications to customers in related market areas by adding channels of distribution or changing the content of advertisement or promotion (pearce and Robinson, 1991).

Hills and Jones,(2001) states that a company pursuing this strategy wants to capitalize on the brand name it has developed in one market segment by locating new market segments in which to compete. Sing market development strategy a company or business unit can capture a larger share of an existing market for current products. However, developing new markets does not necessarily involve geographic market extension (keogon and Evans, 1998, small bone et al, 1995_.The extent to which is necessary varies between locations and also between industrial sectors, differences in the extent of local market opportunities (smallboneete al, 1995), Growing firms in a local locations remain active in extending their markets geographically which is a reflection of their limited local marker opportunities.

2.4.5 Product Development Strategy

This strategy may require the development of new competences and requires the business to develop modified products which can appeal to existing markets. It involves substantial modification of existing products or the creation of new but related products that can ne marketed to current customers through established channels. This strategy if often adopted either to prolong the life cycle of current products or to take advantage of a favorite reputation of a brand name. The idea is to attract satisfied customers to new products as a result of their positive experience with the firms initial offering, changes in business environment create demand for new products or services at the expense of established provision (Johnson et 1l ,2005). Product development is important for maintaining product differentiation and building market share.

Barringer and Ireland (2008) observed that in many fast paced industries, new product development is a competitive necessity. Product innovation can be broaden an industry’s customer base, rejuvenate industry growth and widen the degree of product differentiation among rival sellers. Successful new product introduction strengthen a company’s position, enabling a firm to compete better and even to outdo its competitors who insist on sticking with their old products or are slow to adapt to new changes.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter discusses the research design and methodological procedures that will be used in data collection and analyses. The discussion includes the research design, data collection and data analysis.

3.2. Research Design

The study employrd a case study on the various strategies used by Equity bank in expanding internationally. Saunders et al,(2009)say that case study portrays an accurate profile of persons, events .This design provides researchers with a profile describing relevant aspects of the phenomena of interest from an individual, organizational and industry-oriented perspective. It presents data in a meaningful form that helps the researchers to understand the characteristic of a group in a given situation, to think systematically about aspects in a given situation, offer ideas for further research and helps to make certain simple decisions. Miller (1991), case study is the process of collecting data in order to answer questions concerning the status quo of the subject study.

3.3. Data Collection

The study used mainly the primary data and secondary data. The primary data was supplemented through interview guide filled by the director of strategy and expansion, three operations manager, three credit managers and five operations managers who were drawn from operations and credit departments. The interview guide consisted of different parts, part one dealing with the back background information, part two, expansion strategies adopted by the bank part three the challenges they are facing.

Another primary data source as is observation by the researcher during various visits Equity bank main branch in Kenya and this was also supplemented with the Chief Executive Officer interviews with the media. Secondary data from published sources such as newspapers, websites, annual, financial statements and the financial performance data available at the Nairobi stock exchange.

3.4 Data Analysis

The interview guide was checked for consistency and data organized through content analysis. Content analysis is the systematic qualitative description of the composition of the object or material of the study. It involves observation and detailed description of objects, items or things that comprise the sample (Muganda 2003).

The case study involves a single organization and that the study solicits for data which is qualitative in nature and that it does not limit the respondents on the answers. Content analysis involves observation and detailed description of objects, items or things that comprise the object of the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents and discusses the analysis of the data collected from the various respondents. The data was also analyzed using the procedures indicated in chapter three above. The data analyzed in this chapter is based on the interview guide questions which were presented to the respondents by the researcher. The data is presented in prose according to the thematic areas covered in the interview guide.

Five senior managers of the bank were interviewed. One manager was from Equity Bank Kenya, the other one from Equity Bank South Sudan, one from Equity Bank Rwanda, one from Equity bank Tanzania and the last one were from Equity Bank Uganda. Their responses were written down and used for data analysis. Secondary data was also used. This was gotten from World Bank reports, Equity Bank financial reports and annual reports from the banks website. The use of secondary data was necessary to support the data received from interviews with the six senior managers in Rwanda, Tanzania, Uganda, Kenya and South Sudan. Interview guide was used to obtain information from the informants. The structured interview guide is suitable because it makes the study more interactive hence facilitates the gathering of information from the respondents. The target respondents were six senior managers of the bank in Kenya, South Sudan, Tanzania, Rwanda and Uganda. Data collected was qualitative in nature and therefore analyzed through content analysis.

4.2 General information

The study sought to collect some background information about the respondents that were interviewed. The interviewees were requested to indicate the departments that they worked in the Bank. From the interviews conducted, the interviewees worked in various departments including: operations, strategic management and public relations. Some of the interviewees had worked in other departments prior to joining the departments they were working at the time of this study. The study further wanted to establish the length of period that the respondents had worked with the Bank so as to assess their understanding of expansion strategies applied by the Bank. From the interviews conducted, the interviewees had worked with the Bank for varying period of time ranging from three years to fifteen years. The interviewees had joined the Bank at different times. Some had joined the Bank straight from campus while others had joined the Bank from other institutions.

The study further sought to establish from the respondents the motivations to Equity Bank that made it think of expanding business to the East African market. From the interviews, the interviewees indicated that there were various reasons for the Bank expanding across the East African market. These included the need to unlocking the client value by exploiting opportunities in the East African region; growth of business to expand the revenue base, the organization's regional/global clients were demanding the Bank's local presence to understand the local issues for effective/efficient resolutions; competitive pressure from established locations meant that the Bank had to be proactive in scanning for new markets; The East Africa Protocol offered a solid case for Equity Bank venturing.

The study further sought to establish whether the Bank had evaluated the expansion strategy to use in entering the East African market. From the interviews, the study established that the Bank did evaluate the expansion strategies by considering the various strategies at their disposal. In addition, in order to come up with a suitable expansion strategy, the market expansion committee evaluated the advantages and disadvantages of those strategies proposed. The strategies differed from one country to another because of the different market dynamics across the East African market. Evaluation of expansion strategy involved setting up a committee that studied each county unique issues, including the key external environmental factors, Political/Legal, study of existing players and levels of competition, availability of qualified staffing, cost of doing business, investment incentives among others.

4.3 Market Expansion Strategies

The respondents were of the opinion that the strategy of FDI was the best as far as expansion strategies are concerned. Though FDI was employed in the banks expansion into the two markets of South Sudan and Rwanda, the mode of execution in the two markets was verydifferent. All the managers interviewed in Kenya, Uganda, Tanzania, South Sudan andRwanda all agreed that if the bank was to move in any other country, then the same method of FDI would be used.

FDI is an internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant and equipment. FDI's involve ownership and control of a company in a foreign country. It involves opening of wholly owned subsidiaries which are operations in a host country that are fully owned by foreign parent firm, a wholly owned subsidiary, the firm owns 100% of the stock. Establishing a wholly owned subsidiary can be done in two ways. The firm can either set up a new operation in that country often referred to as a Greenfield venture or it can acquire an established firm in that host nation or use it to promote its products. Greenfield investing is usually offered as an alternative to another form of investment, such as mergers and acquisitions, joint ventures or licensing agreements, a firm can obtain wholly owned foreign subsidiaries through acquisition that is buying out an existing foreign producer or joint venture or new investment often referred to as Greenfields investment.

4.3.1 Market Expansion Strategy in Uganda

From the interviewees' responses, the study established that the plans by the group to firm its foothold in Uganda were in line with the Bank's overall strategy of increased regional presence. The Bank used acquisition strategy whereby it acquired a well established microfinance institution in Uganda: Uganda Microfinance. Uganda Microfinance was a leading micro-financier in the East African Country. The microfinance was then offered 11.3 million new shares in Equity Bank valued at 147 shillings each. The acquisition strategy worked well for the Bank as Uganda Microfinancehad strong foundations in the Ugandan Market and was well known and accepted. After acquiring Uganda Microfinance, Equity Bank opened branch network in several locations in Uganda to make it readily accessible by customers. This promoted the level of confidence among the Ugandan citizens hence ready acceptability.

An acquisition is a combination in which one company, the acquirer, purchases andabsorbs the operations of another, the acquired, the resources, competencies and competitive capabilities of the newly created enterprise end up much the same whether the combination is the result of acquisition or merger. Acquisition has become a popular mode of organizations expanding into foreign markets mainly due to its quick access. The acquired institution already has a well laid out structure which enables quick role out of the organizations' operations. Acquisition strategy offers the fastest, and the largest, initial international expansion of any of the alternative. Acquisition has been increasing because it is a way to achieve greater market power. The market share usually is affected by market power. Therefore, many multinational corporations apply acquisitions to achieve their greater market power.

4.3.2 Market Expansion to South Sudan

The interviewees' indicated that the Bank moved to South Sudan through a Greenfield strategy. The bank started by establishing a single branch in Juba. As opposed to the acquisition strategy adopted in Uganda, the bank opted to start its operations through opening its own branches. The business environment in South Sudan presented somewhat different aspects from those in Uganda. Majority of the customers in the South Sudan market were Kenyan businesses men who were ready and willing to be associated with the Bank. The interviewed manager from South Sudan recommended the same approach of Equity Bank opening its own branches to be adopted by the bank to move into other new markets, he however observed that it would be necessary to buy an existing 'outfit' should the market be an already existing market. This, he noted would reduce the costs associated with expansion.

The interviewer noted that getting the right talent was an issue in both markets (Uganda and South Sudan) and that market acceptance had also been a challenge as the bank was seen as a Kenyan foreign bank. They also pointed out that getting work permits for expatriate staff still remained a major challenge which made the Bank make use of locals who at times did not have what it takes to deliver on the Bank's objectives. The respondents further added that small branch network was also seen as an issue by customers that operated in the region.

4.3.3 Market Expansion Strategies to Tanzania

Equity bank used Greenfield strategy in expanding to the Tanzanian Market. In November 2012, Equity Bank Group officially launched operations in Tanzania as it sought to enhance its market share within the East African region while replicating its successful business model in other parts of the larger EAC. The launch saw the unveiling of their head office in Dar es Salaam. The respondents indicated that the Bank went into Tanzanian financial industry by opening their own branch networks with the Head office. This was a bold move to expand into a new market because majority of the local customers had heard of the way the Bank had changed peoples' lives in Kenya and other East African region where it had opened offices before.

4.3.4 Market Expansion Strategy in Rwanda

Equity Bank Used green field strategy in expanding to the Rwanda market. The bank started by establishing a single branch in Kigali. As opposed to the acquisition strategy adopted in Uganda, the bank opted to start its operations through opening its own branches. This was a little hard for a start but the bank was determined to use its well established business name in the banking industry in other East African Countries to succeed in Rwanda.

The interviewees indicated that the Bank aimed at revolutionalizing the financial market by targeting those initially excluded from the formal financial system. This gave the Bank an upper hand as it was easily accepted among the citizens hence the success story in Rwanda. Slowly the Bank was able to grow its customer base and open other branches within Kigali. The Bank's growth in Rwanda can be attributed to many Kenyan link and Kenyan success story for the Bank which provided more faith among the customers.

4.4 Challenges Facing Foreign Markets

Like in the home market Kenya, the interviewees indicated that the Bank faced a lot of competition in Uganda, Rwanda, South Sudan and Tanzania markets. All the interviewees confessed of even a tougher market abroad. They indicated that legal and regulatory frameworks were major challenges to foreign businesses. They added that in order to get all approvals to either acquire an existing bank or set up new operations, many approvals were required.

The interviewees further indicated that with the signing of the East Africa Community (EAC), it meant that being part of the trading block imposed many challenges. Instead of having an exclusive playground, the competition was opened up such that the fittest was the one who survives. The interviewees pointed out that it was difficult to replicate the exact Equity Bank financial model into the four markets as the markets presented some unique features not exhibited in other markets. This was largely due to environmental factors such as culture, political stability and generally the economy of the foreign market.

The interviewees further noted that getting the right talent was a challenge in the four EAC markets because the employees recruited did not clearly understand the banking model that the Bank applied. Whenever the Bank tried o second Kenyan staff to these Countries, the interviewees indicated that getting work permits for expatriate staff remained a major challenge. They further added that small branch network was a challenge by companies that operated in the region. With all these challenges, it was, therefore, a preoccupation of banks to be efficient to be able to compete favorably.

Another challenge identified by the interviewees included political uncertainties and war like situation that acted as blockages to growth of trade as the Bank had to counter severe opposition by some environment friendly organizations. A fresh challenge that a global trade business has to bear these days in some specific nation is the danger of bombing, violence or terror campaigns.

The interviewees further noted that another challenge involved difficulty in penetrating the already established markets. The financial markets in the EAC market had some key players who were already well established and also protected their market by locking in their customers. Multinational banks such as Stanbic, Barclays and Standard Chartered Bank had already set their foot and captured a substantive market share. However, to counter these challenges, Equity Bank had unique products and it was only a matter of time before residents in the foreign market could embrace the bank’s products.

The interviewees further identified cost of operation as a key challenge because cost of operations had risen given the difficulties brought about by technology and infrastructure costs incurred in delivery of banking products to its customers within the larger EAC market. To counter this challenge, the interviewees noted that the bank had encouraged the continuous and innovative ways of minimizing these costs by the use of technology such as mobile banking, internet banking and Automated Teller Machines. The banks also committed to having a competent work force through training and development programmes.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the findings of the research and draws conclusions from the major findings. The study was a case of Equity Bank. The main objective of the research was to determine the strategies used by Equity bank to expand internationally. This chapter seeks to bring out the main findings of the research and offer recommendation based on the results of the study.

5.2 Summary Conclusion

From the findings presented in chapter four above, the interviewees worked in various departments including: operations, strategic management and public relations. Some of the interviewees had worked in other departments prior to joining the departments they were working at the time of this study. The interviewees had worked with the Bank for varying period of time ranging from three years to fifteen years hence were more conversant with the expansion strategies that the Bank adopted.

There were various reasons for the Bank expanding across the East African market. These included the need to unlocking the client value by exploiting opportunities in the East African region; growth of business to expand the revenue base, the organization's regional/global clients were demanding the Bank's local presence to understand the local issues for effective/efficient resolutions; competitive pressure from established locations meant that the Bank had to be proactive in scanning for new markets; The East Africa Protocol offered a solid case for Equity Bank venturing.

The study established that the Bank did evaluate the expansion strategies by considering the various strategies at their disposal. The strategies differed from one country to another because of the different market dynamics across the East African market. Evaluation of expansion strategy involved setting up a committee that studied each county unique issues, including the key external environmental factors, Political/Legal, study of existing players and levels of competition, availability of qualified staffing, cost of doing business, investment incentives among others.

For expansion strategies in different EAC market, however, on overall, the strategy of FDI was the best as far as expansion strategies are concerned. Though FDI was employed in the banks expansion into the two markets of South Sudan and Rwanda, the mode of execution in the two markets was very different. In the Uganda market, the Bank used acquisition strategy whereby it acquired a well established microfinance institution in Uganda: Uganda Microfinance. For the South Sudan market, the Bank moved to South Sudan through a Greenfield strategy. The bank started by establishing a single branch in Juba. As opposed to the acquisition strategy adopted in Uganda, the bank opted to start its operations through opening its own branches. The business environment in South Sudan presented somewhat different aspects from those in Uganda.

For the Tanzania market, Equity bank used Greenfield strategy in expanding to the Tanzanian Market. In November 2012, Equity Bank Group officially launched operations in Tanzania as it sought to enhance its market share within the East African region while replicating its successful business model in other parts of the larger EAC. For the Rwanda market, Equity Bank Used green field strategy in expanding to the Rwanda market. The bank started by establishing a single branch in Kigali. As opposed to the acquisition strategy adopted in Uganda, the bank opted to start its operations through opening its own branches.

On the challenges encountered in expanding to EAC market, the study identified legal and regulatory frameworks as major challenges to foreign businesses. In order to get all approvals to either acquire an existing bank or set up new operations, many approvals had to be sought. The signing of the East Africa Community (EAC), it meant that being part of the trading block imposed many challenges. Instead of having an exclusive playground, the competition was opened up such that the fittest was the one who survives. Getting the right talent was a challenge in the four EAC markets because the employees recruited did not clearly understand the banking model that the Bank applied. Whenever the Bank tried o second Kenyan staff to these Countries, the interviewees indicated that getting work permits for expatriate staff remained a major challenge.

Another challenge identified by the interviewees included political uncertainties and war like situation that acted as blockages to growth of trade as the Bank had to counter severe opposition by some environment friendly organizations. Another challenge involved difficulty in penetrating the already established markets. The financial markets in the EAC market had some key players who were already well established and also protected their market by locking in their customers. Multinational banks such as Stanbic, Barclays and Standard Chartered Bank had already set their foot and captured a substantive market share. Finally, the cost of operation as a key challenge because cost of operations had risen given the difficulties brought about by technology and infrastructure costs incurred in delivery of banking products to its customers within the larger EAC market. To counter this challenge, the interviewees noted that the bank had encouraged the continuous and innovative ways of minimizing these costs by the use of technology such as mobile banking, internet banking and Automated Teller Machines.

5.3 Conclusion

This section gives a summary of the key conclusions made from the findings of the study as discussed in chapter four. From the case study, the bank considered the new markets and the strategy as it made its decisions to expand to other countries. The expansion strategies ranged from acquisition of local firm to green field where the Bank had to set up its own branch network.

On overall, the strategy of FDI was the best as far as expansion strategies are concerned. Though FDI was employed in the banks expansion into the two markets of South Sudan and Rwanda, the mode of execution in the two markets was very different. In the Uganda market, the Bank used acquisition strategy whereby it acquired a well established microfinance institution in Uganda: Uganda Microfinance. For the South Sudan market, the Bank moved to South Sudan through a Greenfield strategy. The bank started by establishing a single branch in Juba. As opposed to the acquisition strategy adopted in Uganda, the bank opted to start its operations through opening its own branches. The business environment in South Sudan presented somewhat different aspects from those in Uganda.

For the Tanzania market, Equity bank used Greenfield strategy in expanding to the Tanzanian Market. For the Rwanda market, Equity Bank Used green field strategy in expanding to the Rwanda market. The bank started by establishing a single branch in Kigali. As opposed to the acquisition strategy adopted in Uganda, the bank opted to start its operations through opening its own branches.

On the challenges encountered in expanding to EAC market, the study identified legal and regulatory frameworks as major challenges to foreign businesses. In order to get all approvals to either acquire an existing bank or set up new operations, many approvals had to be sought. Getting the right talent was a challenge in the four EAC markets because the employees recruited did not clearly understand the banking model that the Bank applied. Whenever the Bank tried o second Kenyan staff to these Countries, the interviewees indicated that getting work permits for expatriate staff remained a major challenge. Another challenge identified by the interviewees included political uncertainties and war like situation that acted as blockages to growth of trade as the Bank had to counter severe opposition by some environment friendly organizations.

The financial markets in the EAC market had some key players who were already well established and also protected their market by locking in their customers. Multinational banks such as Stanbic, Barclays and Standard Chartered Bank had already set their foot and captured a substantive market share. The cost of operation as a key challenge because cost of operations had risen given the difficulties brought about by technology and infrastructure costs incurred in delivery of banking products to its customers within the larger EAC market.

5.4 Recommendations

The findings of the study indicate that the bank used different strategies to expand into different markets across the EAC market. This study recommends that a thorough evaluation of the foreign market needs to be done so as to understand the foreign market dynamic against various expansion strategies so the best expansion strategies are adopted. This would enable successful expansion to such markets. Equity Bank managed to use this analysis hence the reason for application of different expansion strategies in different markets.

This study also recommends that Bank engaged in employee training and development to build the capacity to deliver quality financial services to its customers in the new established financial markets. This will win the heart of customers who will convince their friends and relatives to join the bank hence ensure quick bank growth and sustainability in the foreign market.

5.5 Limitations of the Study

A limitation for the purpose of this study was considered as any condition that affected the achievement of the study objectives. Some of these limitations included difficult to collect all data given the short time the interviewees set for the interviews. The target respondents for this study were busy managers with strict schedule hence making it difficult to have an elaborate interview session. To overcome this limitation, the researcher arranged for telephone interviews after the working hours.

In some instances, the meeting had to be rescheduled owing to the tight schedules that some managers operated and some never had time for the interviews. Another limitation for the study included the confidentiality nature of the information sought. Given the nature of banks operations, bank managers were not quite comfortable with revealing all information during the interview.

5.6 Suggestions for Further Research

The research focused on just Equity bank and specifically its expansion strategies into Rwanda, South Sudan, Tanzania and Uganda. However many organizations in other industries have expanded their markets into the EAC market. This study therefore proposes that further studies be conducted on challenges encountered by Kenyan firms expanding across the EAC market so that it can enable the generalization of study findings.

The study further suggests that future studies be conducted on challenges encountered by firms expanding their businesses into the Kenyan market. For instance, Tanzania Wines Agency exports wine under the Brand “Konyagi” into the Kenyan market. Could future studies seek to establish the challenges encountered by such firms in expanding into the Kenyan market? Many of the existing studies have focused on Kenyan firms expanding to other EAC member countries.

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APPENDICES

APPENDIX A: INTERVIEW GUIDE

EXPANSION STRATEGIES USED BY EQUITY BANK TO EXPAND INTERNATIONALLY

Section A: Background Information

1. Please indicate the department you are currently working in
2. For how long have you been working in this department?
3. Have you worked in other departments within Equity Bank before?
4. For how long have you worked with Equity Bank?
5. What is the motivation for Equity Bank expanding within EAC?
6. How did Equity Bank go about evaluating strategies to apply in expanding within EAC countries?

Section B: Market Expansion Strategies

7. What market expansion strategy did Equity Bank apply in entering in the Ugandan market?
8. What market expansion strategy did Equity Bank apply in entering in the Tanzania market?
9. What market expansion strategy did Equity Bank apply in entering in the Rwanda market?

10. What market expansion strategy did Equity Bank apply in entering in the South Sudan market?

11. How effective were these strategies

Section C: Challenges in Foreign Market Expansion Strategies

12. What challenges did the Bank encounter in applying these strategies?

13. How did the new market respond to the vision and ambitions of the Bank?

14. How did the Bank respond to these challenges?

APPENDIX B. INTRODUCTION LETTER

UNIVERSITY OF NAIROBI

MBA PROGRAMME

Telephone:4184160/5 EXT 208

P.O BOX 30197,
Nrb Kenya

July 14, 2014

Equity Bank Limited

NHIF Building

Nairobi

Attention: Dr James Mwangi

Dear Sir,

INTRODUCTION- ALIKUTEPA PAULINE IGOKI

The above mentioned is a student of Nairobi University, pursuing a Masters in Business Administration. In partial fulfillment of the requirements for this degree, she is required to carry out an international business research project on the strategies used by Equity bank to expand internationally.

I kindly request you to provide the required information to the best of your knowledge by fulfilling out the attached interview guides. The information is strictly for academic purposes and will be treated in the strictest confidence. A copy of the research project will be made available to you on request. Your kind assistance will be highly appreciated.

Alikutepa Pauline Igoki — Dr.JohnYabs

RESEARCHER — SUPERVISOR