

**STRATEGIES USED BY KENYA COMMERCIAL BANK WHEN  
ENTERING INTERNATIONAL MARKETS**

**BY**

**MAURICE MOGIRE NYAKUNDI**

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION.**

**SCHOOL OF BUSINESS,**

**UNIVERSITY OF NAIROBI**

**NOVEMBER 2010**

## DECLARATION

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

Signed .....

Date .....

MAURICE NYAKUNDI

D61/70934/2008

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

Signed .....

Date .....

Dr. JOHN YABS,

LECTURER,

SCHOOL OF BUSINESS,

UNIVERSITY OF NAIROBI

## **DEDICATION**

To my parents Mary and Francis who have ensured I have excelled in life in all aspects. May the Lord Almighty bless you forever. To my Brothers Allan and Daniel, Sister Irene and Niece Angel who have braved my carping and assisted when they could, they make life worth living.

## **ACKNOWLEDGEMENTS**

To the almighty God for being the pillar in my life and for the strength He has given me. I also appreciate my parents' efforts to support me throughout school.

To Dr John Yabs my supervisor for his valuable guidance, support and dedication through the period of study.

To my respondents for taking time off their busy schedules to fill my questionnaires, replying emails and answering my telephone calls.

To my friends for their moral support, guidance and undying effort leading to completion of the project.

## **ABSTRACT**

Today, banks are operating internationally in order to reach out to more customers and increase their profitability. In their quest to venture into the international markets, the banks tend to use different challenges that could be similar to other banks or that are special to that particular bank. This study sought to find out which strategies have been used by Kenya Commercial Bank as it expands its horizons to the international markets. The bank's major strategies revolved around the entry mode, expansion and operation strategies which the bank sought to use while entering into these markets. The main strategies included competitive advantage, return on investments and the market analysis portfolios expansion and operation strategies included, market penetration, product development and wholly owned subsidiaries. The study used primary data collected from senior managers of the bank by way of a questionnaire. This was the most appropriate method of collecting data as it involved the key people who make decisions regarding the banks expansion programs.

The study found out that strategy analysis and implementation was really important in the bank's decision of entering the international markets. The different markets of the country determined the nature of the business environment. Its regulations thus determined how safe the bank felt its operations would be. The competition in these countries determined how the bank would approach the market and how this reflected on the business. The bank also had to foresee growth in these regions so as to do business there.

Competitive Advantage was the most chosen mode of entry strategy for the bank as it sought to enter these markets. Market demand greatly affected the location of the branches. Product

development as an expansion strategy affected the decision of which products to promote as some are focused on some age brackets. Product development also affected entry especially in Muslim affiliated countries as they do not have conventional banking. Mode of operation, which was the wholly owned foreign subsidiaries, determined how seamlessly the bank operations would flow. New products and services of competitors determined how much customers the bank got and their volumes in relation to the products offered. In conclusion, the project hopes to help assist other local banks who would wish to do international business on how to come up with the best strategy while internationalizing. The study also aims to assist the management of the bank to deal with past problems and create best strategies while moving to other countries.

## TABLE OF CONTENTS

Declaration .....	ii
Dedication .....	iii
Acknowledgement.....	iv
Abstract .....	v
List of Charts.....	ix
CHAPTER ONE: INTRODUCTION.....	1
Background .....	1
1.1.1 Foreign market entry strategies.....	3
1.1.2 Kenya Commercial Bank Limited .....	6
1.2Statement of the problem .....	8
1.3Objectives of the study.....	10
1.4Significance of the study.....	10
CHAPTER TWO: LITERATURE REVIEW .....	12
2.1Introduction .....	12
2.2 Strategies of internationalization .....	12
2.2.1Entry mode strategies.....	12
2.2.2Expansion strategy models .....	16
2.2.3Logistics for expansion.....	18
2.3Operation strategies .....	19
CHAPTER THREE: RESEARCH METHODOLOGY.....	22
3.0Introduction .....	22
3.1Research Design.....	22
3.2Data Collection.....	22
3.3Data Analysis .....	23
CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS .....	24
4.0Introduction .....	24
4.1Entry mode strategies.....	24
4.2Expansion strategies.....	26
4.3Operation Strategies.....	27

<b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>30</b>
5.0Introduction .....	30
5.1Summary .....	30
5.2Conclusion.....	31
5.3Recommendations .....	33
5.4Limitation .....	33
REFERENCES .....	34
APPENDICES .....	36
Appendix I: Letter of introduction .....	36
Appendix II: Questionnaire.....	37



## LIST OF FIGURES

Figure 2.2.1.1 Growth Share Matrix.....	24
Figure 2.2.1.2 General Electric Model.....	25
Figure 2.2.2.1 Ansoff's Product – Market Matrix.....	25

## LIST OF CHARTS

Chart 4.1.1 Competitive Advantage.....	24
Chart 4.1.2 Return on Investments.....	25
Chart 4.1.3 Growth share matrix.....	25
Chart 4.1.4 General Electric Portfolio.....	26
Chart 4.2.1 Expansion Strategies.....	26
Chart 4.3.1 Wholly owned foreign subsidiaries.....	27
Chart 4.3.2 Consolidation .....	28
Chart 4.3.3 Strategic alliances .....	28

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Today almost all major firms have offices in major cities around the world. International business has played a major role in the economy growth of countries. International business is where by a firm engages in commercial activities between countries. The service sector industry, to be specific the banking sub-sector, plays an important role in international business. Many banks have come up with mergers and acquisitions, joint ventures, strategic alliances, consolidation and many other collaborative partnerships in different countries to better serve their international business community.

The future of international business in this environment is vital in international relations, it assists nations in establishing international contacts, it facilitates transfer of goods and services between countries, and it improves the standard of living of people by bringing in required goods and services. International firms are adopting global approach in organizing their enterprises to serve the world market. Most firms today organize their operations based on the region, the service they are rendering or a combination of the two. Due to the changing trends of the international firms banks have to therefore align themselves to better serve their clients and to take on opportunity present in the regional market. Many commercial banks offer short as well as long term loan financing to international businesses. Many countries have banks backed by government funding to provide funding for exporters and importers. Banking sector plays a crucial role of catalysts in international market. Due to technology advances in banking sector, communication gap and delays in international business have really narrowed down.

Multinational corporations constantly need various currencies for their operations and to hedge against foreign exchange risk. International banks provide foreign exchange services to their commercial business clients to complete their business transactions. The bank acts as a broker between commercial customers and foreign exchanges around the world. International businesses receive payments in foreign currencies for their export; the income it receives from foreign investments and income received from licensing agreements with foreign firms. International businesses use foreign exchange market to pay foreign firms for its products and services and when it makes direct investment in foreign country. International banks play major roles in these transactions.

International business has been going through the most fundamental and far reaching process of change of the post war period. The implications of this change pose a significant challenge both to the industry and government throughout the world and promise to alter not only the nature and structure of competition but also the balance of economic power, (Gilligan, 1989). Prominent amongst the causes of this change are shifting demographic profiles, political intervention in the market mechanism and an increasingly and malevolent market environment in which only the fast moving and proactive organization is likely to prosper, (Gilligan, 1989). Due to this paradigm shift there has been an imbalance in economic power but there is a new relationship between industrially developed and developing countries based on equality, developing countries have requested equal respect in all international trade negotiations. This is the New International Economic Order (NIEO).

Increase in globalization has also contributed to companies re-examining the manner in which they do business internationally forcing companies to adopt global strategies for survival. Thus

there is a rapid growth of strategic alliances between firms in various parts of the world in a desperate attempt to gain the economies of scale in production, distribution and marketing. The current interest by business firms in international markets can be attributed in large part to shifts in demand and supply characteristics in markets throughout the world as well as the ever changing competitive environment. Supply in domestic markets (productive capacity) is exceeding demand thus the urge to go international. (Albaum et al 1998)

Companies have had to respond by increasing penetration in the current markets by getting extra market share from existing consumer market base; develop new products for the existing markets, extend markets by finding new users for the existing basic offering; or widening activities through finding new markets around core activities. All these are in response to changes in the environment. The process of finding new markets therefore has prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home countries. Selection of foreign markets and entry modes therefore lies at the heart of any business for any organization that aspires to operate internationally (Sarkar and Carusgul, 1996). It is therefore necessary that an organization that is venturing into international markets carefully selects which markets to enter and entry modes to ensure they remain competitive.

### **1.1.1 Foreign market entry strategies**

All companies operate within an environment, this environment is said to be turbulent. Strategic management is the conduct of drafting, implementing and evaluating cross-functional decisions that will enable an organization to achieve its long-term objectives. For companies planning to venture in international business then entry mode and operations strategies are very important. A firm will fail in a foreign market because of inappropriate entry and operation strategies, a wrong

strategy will lead to a firm's failure abroad and at home as well, a firm's foreign market entry strategy is directly related to the firm's performance. An appropriate strategy will be an important source of competitive advantage abroad. An inappropriate strategy, on the other hand, will be a competitive liability leading to a competitive disadvantage. A firm, therefore, shall not just enter a market by any strategy, but shall consider carefully how to enter a market.

There are various modes that a firm can use to enter and operate in foreign markets. For a given foreign market a firm can use different modes for different products, depending on competitive advantages that may be gained. Before moving into the new market careful selection of the foreign markets is important for success, a good market is one which matches the firm, that is, a market whose circumstances or environment fits the resources of the firm. Foreign market selection should be done in such a way that ensures for a best match between the firm and the selected foreign markets. Foreign market selection can be done with the help of certain tools or models. A good model is one which embodies the Strengths Weaknesses Opportunities and Threats (SWOT) analysis as an in-built factor in its evaluation process. SWOT analysis is important for matching the firm to its global market environment. The major foreign market selection models that a bank can use may include the competitive advantage model, return on investment model, Boston Consulting Group (BCG) Growth Share Matrix, and The General Electric Model.

After careful selection of the market to invest, a firm now embarks on the entry mode and operation strategies. In the service industry and banking subsector a firm may choose to enter and operate through management service contract, licensing, franchising, joint ventures, strategic alliances, mergers, consolidation or wholly owned foreign subsidiary. The mode of entry depends on firm specific variables which include firm's objectives and policies, degree of control

desired of a foreign market, firm's resources, risk which includes economic, financial and political risks, flexibility, familiarity with the foreign market, corporate strategies for worldwide activities requires high-control entry modes, size of the firm, transferability of competitive advantage are appropriate if the firm's competitive advantage is a domestic market location specific and inter-firm transferability of resources like brand names and patents can easily be transferred to other firms through licensing as an entry mode.

Environmental variables can also be considered which include market growth, intensity of competition, market infrastructure, production location, foreign market country risk, government policies and regulations of the foreign market and domestic market, local market conditions and location specific advantages. The level of involvement in the new market is important this is determined by the operation strategy that has been chosen by the bank this determines the ownership and hence commitment. Higher ownership gives high powers of management and vice versa.

However, organic growth and licensing have been regarded as the main strategies for banks business expansion. This importance of monitoring the environment has been emphasized by West and Olsen (1989), who maintain that the information resulting from this process can be used for strategic purposes. It is their view that the increased complexity, the acceleration in the rate of change and the variability in the environment and resulting trends have brought about a need for management to develop methods of monitoring the environment. In respect of expansion in the banking sector, Hoffman and Schniederjans (1990) stress that although it offers many benefits to the firms operating in this sector, there are also many complex issues associated with global expansion. Some of these issues have been identified by Dymsha (1972) who highlights the following as most relevant; firms must deal with multiple political, economic,

legal, social and cultural environments as well as various rates of change within each of them. Kenya Commercial Bank is in a turbulent and ever changing environment which is very competitive therefore the most appropriate strategy should be selected for prosperity when entering international markets.

### **1.1.2 Kenya Commercial Bank Limited**

KCB Group is the largest financial services organization in East Africa, with an estimated asset base in excess of US\$2.49 billion, as of November 2009. KCB Group has the widest network of banking outlets comprising of over 200 branches and over 280 ATM machines in Kenya, Rwanda, Southern Sudan, Tanzania and Uganda. The bank has a wide network of correspondent relationships totaling to over 200 banks across the globe for a seamless facilitation of their international trade requirements. The banks vision is to be the preferred financial solutions provider in Africa with global reach. Its mission is to grow its existing business whilst building the platform to be the preferred financial solutions provider in Africa with global reach. (KCB Booklet 2009)

The history of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa eight years later in 1904, the bank extended its operations to Nairobi, which had become the head quarters of expanding railway line to Uganda. The next major change in the bank's history came in 1958. Grindlays Bank merged with the national bank of India to form the National and Grindlays Bank. Upon independence in 1963, the government of Kenya acquired 60% shareholding in National and Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the government of Kenya acquired 100% ownership of the bank's share to take full control of the largest commercial bank in



Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. The government has reduced its shareholding in KCB to 23% as of December 2008. In 1972, Savings & Loan (Kenya) limited was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross border trading.

In May 2006, KCB extended its operations to Southern Sudan following licensing by the Bank of Southern Sudan. The subsidiary has six branches. In November 2007, the first branch of KCB Uganda limited opened in Kampala, Uganda following licensing by the Bank of Uganda. The subsidiary has eleven branches. In 2008, KCB expanded to Rwanda, where the first branch opened in Kigali in December 2008. Currently the branch has nine operational branches. A subsidiary is expected to be opened in Burundi during 2010. KCB has more than 150 branches throughout Kenya, making it the largest banking network in the region. It has the largest number of own branded ATM's in Kenya. Since 2004, all of the branches in Kenya have been rebranded as part of a wider corporate branding exercise. KCB has partnered with Pesa Point to increase the number of ATM points customers can access their funds.

Owing to its popularity in the market and unique position as the regional bank, KCB has experienced immense growth in both infrastructure and business volumes in the recent past. The bank serves close to one million customers spread across the region and boasts the largest balance sheet of any indigenous commercial bank in the region (over USD 2.4 billion). The bank provides a wide range of banking services; from corporate banking and trade finance products through propositions for small to medium enterprises and individual clients, to mortgage finance and credit card facilities. The bank is planning to increase further its regional footprint to ensure

increased reach and convenience for its customers. It plans to open 50 new branches across East Africa outside Kenya and also install a commensurate number of ATMs. It also reviews its products and services to tailor them to specific customer needs and add variety to their offering. As the regional bank, it is committed to working with other stake holders to boost the region's capacity to conduct trade among members. The bank has already provided an improved information technology platform that facilitates online real-time one-branch banking, fast transmission of payments and easy access to funds wherever their customers may be in the region. The banks' ultimate dream is to be a Pan- African bank, supporting growth and development for a majority of people in Africa into the foreseeable future.

## **1.2 Statement of Problem**

When entering international markets banks usually have difficulty in coming up with the appropriate strategy that will ensure success or near success in their entry mode and operations. The problem of this study was to find out the strategies used by Kenya Commercial Bank Ltd while entering international markets.

Mugambi (2006) observed that the bank should have addressed various challenges facing it so as to improve on quality of service. They include change management, organizational factors to encourage employee initiative, standardize procedures, and empower staff and conflict resolution. She however did not include strategies adopted while internationalizing its services. Kiptugen (2003) observed that KCB had addressed its changing competitive situation by formulating and implementing strategic responses that included restructuring, marketing, information technology, and culture change. These responses had generally improved the banks competitiveness. However there still was the need for more strategic actions that needed to be

undertaken by KCB in order to enable the bank to fully match the environment in which it operated. He also noted that the bank should be more proactive rather than reactive in managing its changing competitive situation. However, he did not emphasize that coming up with the correct strategies of internationalization KCB would be proactive and will ensure that they are ahead of competition. Therefore, expansion strategy is vital to the adaptation of the changing business environment. According to the Government of Kenya economic survey (2000), implementation of structural adjustment program and subsequent market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses faced increased competition and registered low profits and even losses.

The strategies used by KCB in their international markets was debatable KCB chose to retain its abbreviation as the trade name and this did not augur well with some cultures. Some strategists felt that the bank should have changed the name in these markets so that it can represent not a Kenyan bank, but rather an international bank. The customers thus opted to bank in their indigenous banks as they felt that these banks represented them and they were more loyal to these banks than to KCB.

Another challenge was staff incompetence. It is an inherent rule in some of these countries that their locals should have a majority percentage of the jobs and expatriates should only be employed if the organization requires expertise that locals cannot give like in Rwanda for an example. Following the background of this study, it is only those commercial banks that are able to adapt to the changing environment and adopt new expansion strategies can be guaranteed hope of survival. Some of the forces of change that have greatly influenced the banking industry include intense competition, regulation, and technological advancement. Strategic expansion in the banking industry demand that companies should have effective systems in place to counter

unpredictable events that can sustain their operations and minimize the risks involved through expansion strategies. Which kind of strategies when entering international markets has Kenya Commercial Bank adopted?

### **1.3 Objectives of the Study**

The objective of the study was to establish strategies used by Kenya Commercial Bank while expanding to international markets.

### **1.4 Significance of the Study**

The study will make managers of KCB have a better understanding and appreciation of the expansion strategies that relate to the industry. The study will also assist other bank managers make appropriate decisions following the sample strategies that have been implemented by the KCB to successfully expand their operations.

The study will provide insights on the strategies that can enhance the banks growth, and hence guide in the way an investor will make a decision. KCB are now undertaking their 2<sup>nd</sup> Rights Issue, an investor may need to know the strategies being adopted by KCB to necessitate his/her decision.

The study will assist users understand the prospects of development in the banking industry and appreciate them. This is important because any cost implications, employment of human resources which may be imposed by KCB will be accepted. The users will also be able to predict the future of KCB and prepare to conform.

The study will avail material for reference by future researchers and academicians on the same topic of strategies used in entering international markets. The study will also highlight other

topics of future research like the relations between strategies adopted and different industry competitors in international markets especially in East Africa

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presented a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The research drew materials from several sources which are closely related to the theme and the objectives of the study. The review was undertaken in order to eliminate duplication of what has been done and provide a clear understanding of existing knowledge base.

### **2.2 Strategies of internationalization**

An international business is an entity which engages in between multiple countries. Whatever the size or nature of a firm, it is clear that an increasing number of managers are going to deal with international business in future and workforce diversity. International management demands a contingency approach to complex and dynamic environments each of which has its own unique requirements (Deresky, 1997). The astute international manager will analyze the new environment, anticipate how it may affect the future of the home company and then develop appropriate strategies and operating styles (Deresky, 1997). Within the larger context of global trends and competition, the rules of the game for the international manager are set by a country; its political agenda, its technological status and level of development, its regulatory environment, its comparative and competitive advantages and its cultural norms.

#### **2.2.1 Entry mode strategies**

There are various entry mode strategies that can be utilized by a firm one is the competitive advantage model which is also known as the market opportunity model is useful in cases where the firm's main aim is to enter those foreign markets that represent a market opportunity to the

firm that they will certainly enjoy advantage over competitors. In this model a firm must first identify foreign market business opportunity as represented by unsatisfied needs in the foreign market, secondly they should determine the specific success requirements of the foreign market business opportunity these are the specific resources required to effectively exploit the opportunity, they should then assess the firm's core competences and determine how well they match the success requirements of the foreign market.

Core competences are activities or things that the firm can do better than its other activities. And finally determine whether the firm has distinctive competences regarding the foreign market business opportunity, distinctive competences refer to things that the firm can do better than its competitors. A firm can select for entry, those countries in which the result of analysis show that it has a competitive advantage.

In the Return on investment (ROI) model a firm calculates the Return on investment a country can offer if investment is done that country it is computed by; estimating the current market potential then forecasting the future market potential, the firm should also forecast the sales potential by estimating its probable market share not leaving out the costs and the profits. These can be used to calculate the Return on investment which is a fraction of the earnings before interest and taxes to the capital employed which may be the value of total assets or equity plus long term debt. This fraction may be expressed as a percentage to get the rate of return the estimated rate of return should be high to cover for firms normal target rate of return and the risk and uncertainty of the new market.

A firm can opt to select to use the BCG Growth share matrix which is a portfolio model.

### Figure 2.2.1.1 BCG Matrix

Relative Market Growth

Relative

Market Share

The BCG Matrix a chart that had been created by Bruce Henderson for the Boston Consulting Group in 1968 to help corporations with analyzing their business units or product lines, it was designed to help a company determine the appropriate portfolio of business to hold. It is important in a company's overall strategic business plan in the domestic market.

The model helps a firm to classify all its strategic businesses units (SBU's) according to the growth-share matrix of market growth rate verses relative market share. This application can be extended to global business management; a firm's expected relative market share is evaluated by comparing its expected market share in the foreign market with that of the largest competitor in the market. If the firm's expected market share is larger than that of the largest competitor, the firm's market share is categorized as high relative to that of the competitor. The converse applies where the firm's market share is smaller. The expected market growth rate of a firm's business is evaluated by comparing the rate with the average growth rate of the industry. If that of the firm is lower than that of the industry in the foreign market, it is classified as low, and vice versa. The model gives a firm four options of Cash cows, Stars, Question marks, and Dogs. Cash Cows; are countries where the firm's product is likely to enjoy only a low market growth rate, but where the market share is likely to be high. Stars; are countries where both the market growth rate and market share are likely to be high. Question Marks; are countries where the market growth rate is



likely to be high and the market share likely to be low. Dogs; are countries where both the market growth rate and market share are likely to be low, a similar analysis is done for the competitor. Ideally, a firm would choose foreign markets according to the following order: Enter stars first, enter question marks second, enter cash cows third and avoid entering the dog.

Another portfolio model that a firm may use is the General Electric model it is also known as the Market attractiveness – Competitive position model;

### **Figure 2.2.1.2 General Electric Model**

High  
Market Attractiveness  
Low

High

Low

Competitive position of the firm



It represents a refinement of the BCG model. Although initially designed for domestic market strategies, the model can be applied in selection of foreign markets and strategies of entry and operation in such markets, this model gives an organization four distinct decisions regarding foreign markets; Invest/grow markets; Countries identified with these cells represent very attractive markets and markets where the firm is likely to enjoy a good market position. These are countries where the firm can invest and grow because the firm is likely to enjoy the best competitive advantage to exploit the market opportunity. Harvest/divest/joint venture/combine markets; Countries identified with these cells are not attractive and the firm also lacks the competitive strengths to gain a good competitive position. Entry into such markets can be made through licensing strategy. If a firm was already in such markets, the best strategies would be those of harvesting or divestment. That is, any cash generated would be maximized and used for maintaining market share, if divestment is not done immediately. Dominate/divest/joint venture markets; countries represented by this cell are attractive, but the company lacks the competitive strengths to exploit the market potential.


This may be due to the firm not having the right products or market expertise. The firm could strengthen its position by having a joint venture with either a local firm or competitor in the market. Generally, no investments should be made; these markets pose difficult choices for the firm. Selectivity markets; this situation is more complex than the other areas of the matrix and the firm will need to assess carefully each case before making a decision. It is difficult to maintain the market share in such markets, because competition tends to be extreme and intense. If a firm has a unique competence or competitive advantage such as technological breakthrough, the firm could even enter the market and work toward building market share.

### **2.2.2 Expansion strategy models**

Ansoff (1957) created a simple model to look at expansion strategies regardless of which industry the company operates in. Ansoff's product/market growth matrix, attempts to show that business growth depends on whether it markets new or existing products in new or existing markets. According to Lynch (2003) the output from the Ansoff's product/market growth matrix is a series of suggested growth strategies that set the direction for the business strategy.

**Figure 2.2.2.1 Ansoff's Product – Market Matrix**





Source: Kevan Scholes et.al, Exploring Corporate Strategy, (2002)

Market Penetration; this is the growth strategy where the business focuses on selling existing products into existing markets. A market penetration strategy is used when a business is focusing on markets and products it knows well. With good marketing information system it is possible to have good information on competitors and on customer needs. It is therefore unlikely, that this strategy will require much investment in new market research. It may be done by encouraging customers to buy more than before, or by winning customers from competitors in the same industry (Ansoff, 1957).

Market development; in this strategy the business seeks to sell its existing products into new markets. Many possible ways of approaching this strategy, include new geographical markets; for instance exporting the product to a new country or by creating new distribution channels and different pricing policies to attract different customers to create new market segments. This may

also be done by reaching customers who have not tried the products before. Product development; refers to a growth strategy where a business aims to introduce new products into existing markets. This strategy requires the development of new competencies and development of modified products, which can appeal to existing markets, new product dimensions or packaging. This strategy is more involving and more risky (Ansoff, 1989), in adopting this strategy, the firm must decide whether they want to lead or follow, and in which market segments. It must also decide whether to select the entire market as its relevant market and challenge all the competitors, or start with only certain segments or narrow market niches before expanding to the entire market. Diversification/Expansion; this is the most risky of all the four growth strategy because it involves a firm moving into markets in which it has little or no experience and introducing products that it has never worked on before. To successfully implement a diversification strategy, a business must undertake a proper analysis of the market and project the cash flows that may be obtained in order to make an informed decision (Scholes, 2002).

Market expansion strategy developed by Ansoff is same as the extension strategy in the Product Life Cycle since it is an existing product in a new market. It can also be linked with Boston consulting Group's question mark or star as the product being re-launched must be a product that is successful and either in the introduction or growth stage in the product life cycle. During the growth stage in the Product Life Cycle, a company expands market share by trying to get new people to try the product and existing customers to buy more. The company should therefore use market expansion. At the decline stage, the company should try to re-launch the product, which would be using product or market expansion (Stanton, 1994).

### **2.2.3 Logistics for expansion**

Logistics includes the means of expanding the operations of the company resource facilities and location strategies for implementation. Strategies for logistics for expansion include: growth strategies; which include product development strategies, market development strategies and innovation. Stability strategies include; conglomerate and concentric strategies, marketing strategies and some innovation strategies. A firm can also use survival strategies which include; retrenchment, turn around strategies, sale of company assets and reduction of costs in all departments. Strategic alliances can be used by a firm to stabilize the company in future these includes joint ventures, mergers and acquisitions, formation of cartels and collaboration within industries.

### **2.3 Operation strategies**

Corporate operation strategies are long term strategies that usually assist the company to expand they include generic and business strategies. The level of involvement in a foreign market is crucial depending on the firm's capabilities, Deresky (1997). Management service contract is a long-term agreement of up to ten or more years to provide a management service to a firm. Such contracts are more suitable in service businesses than in manufacturing businesses, the business is usually run under the management service provider's internationally recognized name rather than the property owner's name, the management service provider earns management fees often expressed as a percentage of gross revenues. In addition, the service provider may earn extra profits on any supplies and materials it sells to the managed firm and most of the middle management and staff usually are local personnel.

Licensing may be seen as an extension of contract manufacturing but it involves the licensee in a wider sphere of responsibility and activities. The licensee may be required to not only to

manufacture the product/ offer a service, but also to market and distribute the product/service in an assigned territory. Another mode of entry is through franchising this is a particular form of licensing in which the franchiser makes a total marketing programme available, including brand management advice in the franchising agreement the franchisee agrees to a total operation being prescribed. Joint ventures is a popular mode of entry and operation it is a project in which two or more parties invest in joint ventures the international firm owns an equity position and management voice in the foreign firm. Thus, the international firm shares both in the ownership and management of the foreign firm. This therefore results in the formation of a new company in which the parties have shares. The international firm has enough equity to have a voice in management but not enough to completely dominate the venture.

A strategic alliance is a term which is sometimes used interchangeably with corporate coalitions, strategic partnerships, and competitive alliances. Strategic alliances are cooperative arrangements between two or more companies; the partners in an alliance seek to add to their competencies by combining their resources with those of other firms with a commitment to reach an agreed goal. Strategic alliances tend to be contractual rather than equity arrangements, Partners tend to be of comparable strength and resources, but this is not always the case. A Merger is a combination of two corporations in which only one company survives and the merged corporation goes out of existence. In a statutory merger, the acquiring company assumes the assets and liabilities of the merged company and in a subsidiary merger; the target company becomes a subsidiary or part of a subsidiary of the parent company. The major types of mergers are; horizontal mergers vertical mergers and conglomerate mergers.

A Consolidation is where by two or more companies join to form an entirely new company, all the combining companies are dissolved and only the new entity continues to operate. In a



consolidation, the original companies cease to exist, and their stockholders become stockholders in the new company. Wholly owned foreign subsidiaries represent the greatest commitment to foreign markets. Ideally, wholly owned means 100% ownership by the international firm, in practice, however, the firm usually achieves the same results or powers even by owning 95% or slightly less. It is not the completeness of ownership that matters, but the completeness of control. A firm can obtain wholly owned foreign subsidiaries in the following two ways; acquisition which is by buying out an existing foreign producer or joint venture or by new investment, often referred to as Greenfields investment. This occurs when the firm builds or develops its own facilities from scratch but acquisition is advisable because it is a quicker way of entering a foreign market than starting from scratch. The foreign market selection model and the entry mode and operation strategy lies on firm and the specific variables of the firm and environment it is in.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

This chapter represented the research design, population, sample, data collection method and data analysis techniques that were used to achieve the objective of the study.

### **3.1 Research Design**

The study was case study. The study sought to determine the strategies that are used by Kenya Commercial Bank while entering new international markets. The research collected data from a broad number of the bank's senior management about the international markets that the bank is operating in the different countries. The design was chosen because it described the relationships that exist between the variables without bias.

### **3.2 Data Collection**

The study relied heavily on primary data collected by way of questionnaire that was filled by the senior managers of the bank persons who make strategic decisions within the bank. It targeted senior managers in KCB those who make strategic decisions on market entry, senior managers who are already in the existing markets and strategy heads in the different divisions. It targeted Senior Managers; the questionnaire package included a letter of introduction and one questionnaire. Follow up was done via personal visits, telephone calls and e-mail to facilitate responses and also to enhance the response rate. Secondary data was collected from various documents including Banking Surveys and Economic Reviews from Central Bank Supervision annual reports. Each respondent was asked to fill the questionnaire to the best of their

knowledge. It was designed to assure complete anonymity and copies of the questionnaire sent to each respondent. The research instrument was administered and responses collected by the researcher.

### **3.3 Data Analysis**

Data was subjected to cleaning by ensuring the data was correctly and accurately filled. Missing information was clarified through telephone calls. The data coded in a tabular form and developed into a database structure. The reports were generated through graphs which were used to interpret and derive conclusions from the analyzed data in relation to the research question and objective. Interpretations were made and conclusions drawn.

## **CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS.**

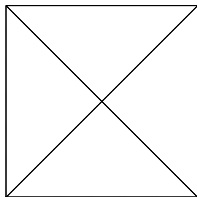
### **4.0 Introduction**

Senior managers in the bank assisted to fill in the questionnaires. They helped provide necessary information in regards to the strategies used when entering international markets. The key to the questionnaire was; for not at all – 1, little extent – 2, moderate extent – 3, great extent – 4, very great extent – 5.

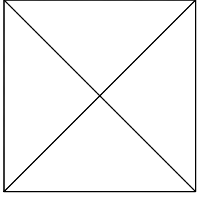
### **4.1 Entry mode strategies**

Majority of the respondents agree that nearly all the entry mode strategies are being used to a certain extent the Return on investment as a strategy of entry mode and the General Electric model portfolio were the most selected strategies for entry. The strategies and entry mode helps the investor confidence and knowledge to avoid misplacement of investments gaining competitive advantage is the preferred choice of entry mode strategy.

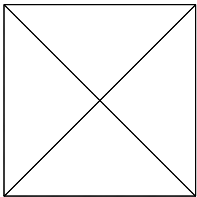
#### **Chart 4.1.1: Competitive Advantage**



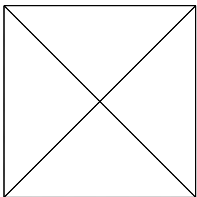
#### **Chart 4.1.2: Return on Investment**



**Chart 4.1.3: Growth Share Matrix**



**Chart 4.1.4: General Electric portfolio**

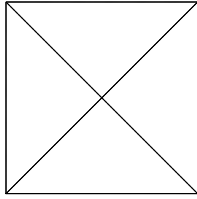


## **4.2 Expansion strategies**

Diversification was the most used expansion strategy but the respondent also believed that it was not being used alone but in conjunction with other strategies of expansion as product development and market penetration market development was the least used expansion strategy.

15 of the 18 respondents selected Expansion/diversification as the most preferred expansion strategy.

**Chart 4.2.1: Expansion strategies**

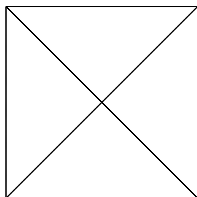


90% of the respondents held that the expansion strategies have been successful to a great extent and the rest 10% suggested that they have been to a very great extent. In general they were all in agreement that the expansion strategies have been successful.

### **4.3 Operation strategies**

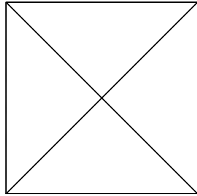
There were eight operational strategies that were in the questionnaire for the respondents which were management service contract, licensing, franchising, joint ventures, strategic alliances, mergers and acquisitions, consolidation or wholly owned foreign subsidiary but only three were selected, Consolidation and Strategic alliances have been used to a small extent but the most favoured mode of operation in the international markets that Kenya Commercial bank prefers is the wholly owned foreign subsidiaries.

#### **Chart 4.3.1: Wholly owned foreign subsidiaries**



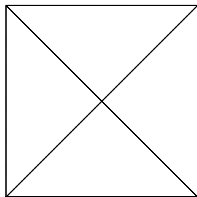
17 of the 18 respondents held that to a very great extent wholly owned foreign subsidiaries is the chosen mode of operation.

### **Chart 4.3.2: Consolidation**



Apart from using the wholly owned foreign subsidiaries some respondents believed that consolidation is being used to a moderate extent

### **Chart 4.3.3: Strategic Alliances**



Also a small number of the respondents also thought that strategic alliances have been used by Kenya Commercial bank to a moderate extent.

The implementation of the expansion strategies has improved the financial standings of the bank by increasing the asset base raised the bank groups' profit, performance the market share and employment have also increased due to expansion. The financial standing according to the respondents has improved by an average of 46% since that has been pegged to the expansion for the increase. Internationalization of KCB has come with many other advantages which include the bank market coverage, reputation, confidence, employment and a good understanding of the international markets hence giving them a competitive advantage over the rest of its competitors.

The state of expansion of the banking industry was thought to be intense by 7 of the respondents and very intense by the remaining 11. The state of expansion in the banking industry is high especially due to competition in this turbulent environment. One respondent believed that KCB has experienced problems while going international especially in Uganda where they don't have a saving culture but due to education on money saving the trend on bank deposits has actually transformed to the advantage of KCB.

All the respondents were in agreement that the expansion has improved the bank overall performance by increasing the economies of scale, asset base, competitive edge, market share, spread of risk and increase in profits.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.0 Introduction**

This chapter gives a summary of the research conclusions. It also offers a number of recommendations useful to the banks managers, scholars, planners, policy makers and other banks who may want to expand their territory to international markets.



## 5.1 Summary

This study sought to find out strategies used by the bank as it entered into international markets. It targeted the senior managers who were in a position to tell these strategies. It used primary data which was collected using a questionnaire. Data was edited for completeness and consistency. The main strategies for entry mode included competitive advantage and Return on investment, for expansion strategies diversification and product development were the most utilized strategies in the operation strategy wholly owned foreign subsidiaries is the most chosen mode of operation for KCB in the international market. The expansion strategy differs with the market being targeted market penetration is used mainly in Sudan and Rwanda; diversification is used mainly in Kenya, market development being used in Tanzania and Uganda whereas product development is being used in all the markets to curb competition.

There are rapidly changing customer needs and financial institutions are competitive in nature and change is not rapidly deployed. The legal framework in some countries like Uganda has had a cessation on entry of foreign banks and the operation mode strategies. In other countries like Sudan, the bank has had to set standards for the banking industry as there were no other banks operating in the country at the time the bank was entering therefore wholly owned foreign subsidiaries is the most preferred.

The bank had not thought of operating in Sudan or Rwanda because of political instability. Once the politics normalized, the bank got an opportune time to venture into these countries. It had the opportunity to be the market leader. Market penetration is one of the strategies that were used in these countries. The bank operates mostly in English speaking countries. Rwanda was the first French speaking country to operate in; the staff was mainly from Kenya and mostly did speak

French or Kinyarwanda. The bank had to act quickly and train locals so that they could at least get people who could communicate with the customers to ensure smooth entry into the markets.

The bank also anticipated refutation or some antagonism by the locals. The customers in these tended to favor the local banks to a foreign bank that had a Kenyan name. These countries also had a different banking culture from that of the Kenyans. Customers had no saving initiative especially Rwandese and Ugandans who felt safer with their money than it being in a bank since they feared for war and no saving culture generally. The bank also adopted Kenyan strategies for the international markets. After sensing the rejection of their services, they chose to custom make products for the specific markets. Conventional banking also posed a problem especially in Islamic dominated countries like Sudan.

## **5.2 Conclusions**

This section will give 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 move to the other countries. The entry mode strategies were vital factors for the bank to consider as they entered international markets. Of most importance were competitors, the investment amount, the competitive advantage and understanding of the market is of importance. The politics of the country determined the expansion and the operation mode to be utilized in a particular business environment. Its stability thus determined how safe the bank felt its operations would be. The state of expansion of the banking industry affects to a great extent the bank's decision in response to competition.

The different markets affected the decisions of entry mode strategies into the international markets. Competitive Advantage, Return on investments, growth share matrix and general

electric portfolio were key considerations prior to the bank's entry into the international markets. The bank had to foresee growth in these regions so as to do business there. Employment of locals was a strategy that the bank can always use to encourage banking especially for the locals and the foreign name in use.

The management believed that the expansion strategies had increased the banks image, reputation, understanding of the international market, employees with more international experience these has given the bank a competitive edge on the competition. The operation strategies have been marred with the stringent regulations that have been set by the different countries that the bank operates in. Logistics of operation and expansion on the basis of this has forced the management to ensure critic thinking to ensure success. Ugandans and the Rwandese have been beneficiaries training on banking skills for their local staff.

The success of the expansion strategy was determined by competition and how lucrative the business was. New products and services of competitors determined how much customers the bank got and their volumes in relation to the products offered. The legal factors did not really pose a challenge as the laws practiced in the mother country were similar to those of the international markets.

### **5.3 Recommendations for further research**

There is a chance of finding more in this field like what were the challenges that the bank faced while entering these markets. Also it would be of interest to find out the competitors strategies while entering the same markets and which strategies they use. The bank has successfully used

various strategies and is even increasing the branch network in these markets and is seeking to enter other markets in the region like Burundi.

#### **5.4 Limitations**

There was misinterpretation of data but it was clarified by telephone follow up to clarify the points that were not understood.

### **REFERENCES**

Aguilar, F.J. (1967), *Scanning the Business Environment*, Macmillan, New York.

Altunbas, Y.; Gardener, E. P. M.; Molyneux, P. and MoorE, B. (1996) Efficiency in European  
Banking

Allan M Rugman et al (1995) *“International business; A strategic management approach”* Mc  
GrawHill Inc

- Auster, E. et al (1994), *Information Processing and Management*, Vol. 30 "How senior managers acquire and use information in environmental scanning"
- Bartlett, C.A. et al (1989) "Managing across Borders: The Transnational Solution" Harvard Business School Press, Boston, MA.
- Berger, A.N (1995). "The profit-structure relationship in banking: test of market-power and efficient-structure hypotheses", *Journal of Money Credit and Banking*, Vol. 27.
- Capar N. et al (2003), "The relationship between international diversification and performance in service firms" *Journal of International Business Studies*, Vol. 34.
- Collis, D.J. (1991), "A resource-based analysis of global competition: the case of the bearings industry", *Strategic Management Journal*, Vol. 12.
- Contractor, F.J., Kundu, S.K. et al (2003), "A three-stage theory of international expansion: The link between multinationality and performance in the service sector", *Journal of International Business Studies*, Vol. 34.
- Dibb, S. (1996), "The impact of the changing marketing environment in the Pacific Rim: Four case studies", *International Journal of Retail and Distribution Management*, Vol. 24
- Fahey, L. and King, W.R. (1977) "Environmental scanning for corporate planning" *Business Horizons*, Vol. 20
- Farrell, D. (2004), "Beyond off shoring: assess your company's global potential", *Harvard Business Review*, Vol. 82 No.12.
- Gilligan. C (1989) "International Marketing Strategy and Implementation" Routledge
- Helen Deresky (1997) "International Management; Managing across border & cultures" Addison- Wesley, 2<sup>nd</sup> edition.
- John Ellis et al (1995) "International Business Strategy" Pitman Publishing

Kotler P (1997) *“Marketing Management Analysis, Planning and Control,”* Prentice hall A New Delhi

Michael R Czinkota et al (2007) *“International Marketing” Thomson South- Western, 8<sup>th</sup> edition”*

Philip R Cateora (1996) *“International Marketing” Irwin/ Mac GrawHill, 9<sup>th</sup> edition*

Porter M. (1980) *“Competitive strategy.”* Free press New York.

Prahalad, C.K., et al (1987), *“The Multinational Mission: Balancing Local Demands and Global Vision”* Free Press & Collier Macmillan, New York.

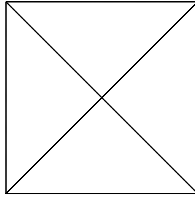
Sarkar M et al (1996) *“Trends in International business literature. A review of international market entry mode research, integration and synthesis”* Free Press & Collier Macmillan, New York.

Stanley Paliwoda (1993) *“International Marketing” Butterworth Heinemann, 2<sup>nd</sup> edition”*

Sullivan, D. (1994), *“Measuring the degree of internationalization of a firm”*, Journal of international Business Studies, Vol. 25 No.2.

## **APPENDICES**

### **Appendix I: Letter of Introduction**



**AUGUST 2010.**

DEAR RESPONDENT,

#### **Letter of introduction**

This questionnaire is designed to collect views on the strategies used by KCB while entering new international markets and the approaches used to implement them.

The study is being carried out as part of management research project in partial fulfillment of the requirements for the award of the degree of Master of business Administration, School of Business, University of Nairobi.

The information collected will be used strictly for academic purposes only and will be treated with utmost confidence. A copy of the final research will be availed to you upon request.

Thank you for your kind assistance.

Yours sincerely,

Maurice Nyakundi,

MBA Student

Dr, John Yabs,

Supervisor

### **Appendix II: Interview Guide**

## SAMPLE QUESTIONNAIRE SCHEDULE

Thank you for taking time to answer this questionnaire.

### **Instructions:**

- (a) Give brief answers in the spaces provided.
- (b) In the boxes given please tick appropriately.

1. What is your position in KCB?

.....  
.....

2. What does your position in the bank entail?

.....  
.....  
.....  
.....

3. In the countries that the bank operates in, what were the major strategies they used to enter these markets?

.....  
.....  
.....  
.....  
.....  
.....



4. To what extent has the following entry mode strategies been used in the bank while entering new international markets?





Others specify (rate accordingly)

.....

.....

.....

.....

5. Which expansion strategies model has been used in the country?

Market penetration ( )

Product development ( )

Market development ( )

Expansion/diversification ( )

6. To what extent have the expansion strategies been successful?

Little extent ( )

Moderate extent ( )

Great extent ( )

Very great extent ( )

7. To what extent has the bank used the following operation strategies while entering new international markets?

[REDACTED]

Others specify (rate accordingly)

.....  
.....  
.....

8. How has the implementation of the expansion strategies improved bank's financial standing?

.....  
.....  
.....

i) If yes above, by what percentage?

.....

9. Apart from financial performance, what other advantages have been gained by the bank from the adoption and implementation of the internationalization strategies?

.....  
.....  
.....  
.....

10. How do you rate the state of expansion in the banking industry?

Very intense	Intense	Moderate	Low	Very-Low
( )	( )	( )	( )	( )

11. Are there any expansion strategies that have adversely affected the bank's performance?

YES

NO

i) If yes, above what corrective measures were pursued to correct the situation and prevent other occurrences in the future?

.....  
.....  
.....  
.....  
.....  
.....

12. Does expansion improve the overall banks performance?

YES

NO

i) Explain?

.....  
.....  
.....

13. Are there any other strategies that are being used while entering these markets?

.....  
.....  
.....

.....

.....

.....

.....