

FACTORS INFLUENCING THE REGIONAL GROWTH STRATEGY OF THE KENYA COMMERCIAL BANK LIMITED

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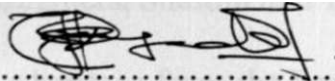
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A Management Research Project Report Submitted in partial fulfillment of the requirements of the Degree of Master of Business Administration, School of Business, University of Nairobi.

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DECLARATION

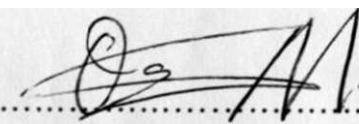
This Management Research Project is my Own Original Work and has Not Been Presented for A Degree Qualification in this or Any Other University or Institution of Learning.

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DEDICATION

I dedicate this work to my wife, Faith Kamanda.

A good wife is her husband's pride and joy. (Proverbs 12: 3)

And to my daughters, Shalom and Tiffany.

Children are a heritage from the Lord. (Psalms 127: 3)

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ACCRONYMS AND ABBREVIATIONS

CPA	Comprehensive Peace Agreement
CSR	Corporate Social Responsibility
EAU	East African Union
EU	European Union
GNP	Gross National Product
IMF	International Monetary Fund
KCB	Kenya Commercial Bank Limited
KESSULO -	Kenya South Sudan Liaison Office
MNC	Multi-National Company
NGO	Non-Governmental Organization
SPLA	Sudan People's Liberation Army
UN	United Nations

ABSTRACT

The objective of this research was to establish the regional growth strategy that KCB is pursuing, reasons for the growth strategy and highlight the factors that have affected strategy.

The study was case based and utilized both primary and secondary data collected from the bank's staff and documents respectively. The study targeted all the managers in the Strategy and Change Division of KCB and all the managers who have been to the various regional markets to undertake feasibility studies. The data was collected with the help of structured questionnaires.

The data was analyzed using Statistical package on Social Sciences with the help of descriptive statistics i.e. frequencies, mean scores and standard deviations as well as content analysis. Major findings show the strategy being pursued by the bank is market development and the preferred mode of entry is registration of fully owned subsidiaries and mergers and acquisitions. The reasons for KCB's regional growth strategies are attractive regional market, desire to follow competition and customers, grow market size, inducement by host Governments, reduction of operational costs, desire to boost corporate image, answer needs, namely reconstruction of formerly devastated infrastructure and meet the demand for banking services, take advantage of harmonized tax regime, tap new opportunities, leverage on the regional integration and free trade frontiers, to stay ahead of competition, and grow shareholder value. The study found out that factors that have affected the regional growth strategy are tough expatriate workers' policies, low labour quality, legal complexity, delay in processing of licenses, fragility of the legal and regulatory framework, poor infrastructure, inferior brand perception, high cost of doing business, high staff turnover, uncertainty in peace agreements, political risks and suspicions.

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

1.1.1. Regional Growth Strategy

According to Ball and McCulloch (1993), managers are always under pressure to increase the sales and profits of their firms, and when they face a mature, saturated market at home, they begin to search for new markets outside their home country. One of the plausible options is to venture into the regional market.

Regional growth strategy refers to expansion of a company's business to other countries within close proximity of the country in which a company was established and domiciled. According to Rowe (1994), competing in other markets requires a different perspective than competing in domestic markets. How to enter a foreign market, how best to interact with customers, how to manage foreign joint ventures or subsidiaries effectively, and how to determine vulnerability and risks are examples of considerations pertinent to international competition.

Regional growth is a key strategic issue which, according to Grosse and Kujawa (1995), requires top-management decisions, large amounts of the firm's resources, affects the firm's long-term prosperity, is future oriented, has multifunctional and multibusiness consequences and require considering the firm's external environment. From the foregoing, it is clear that venturing into a new market constitutes a major strategic decision that must be well considered and appraised.

Kenya Commercial Bank, a Kenyan indigenous bank started a regional growth strategy in 1997 when it opened its first foreign subsidiary in Tanzania. The strategy has picked momentum in the last one year with the opening of branches in Southern Sudan and announcements that it would be opening branches in Uganda and Rwanda in the near future.

1.1.2. Kenya Commercial Bank Limited

According to the Central Bank of Kenya website (2006), there are currently 45 commercial banks operating in Kenya with paid up capital of Kshs 46.20 billion. They are regulated by the Central Bank of Kenya through the Banking Act, Prudential Guidelines and other applicable Acts and regulations. Among the leading players in the banking industry, KCB ranks highly. It is the largest indigenous bank in Kenya in terms of asset base and branch network.

According to the KCB website (2006), the history of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India, opened a small branch in the coastal town, Mombasa. In 1958 Grindlays Bank of Britain merged with the National Bank of India to form the National and Grindlays Bank. In 1970, the Government of Kenya acquired 60% shareholding in National and Grindlays Bank and renamed it the Kenya Commercial Bank. In 1976, the Government acquired 100% of the shares to take full control of the largest commercial bank in Kenya. The Government has over the years reduced its shareholding in the Bank to the current 26% with the public owning the remaining 74%.

A wholly owned subsidiary, Savings and Loan (K) Ltd. was acquired in 1972 to provide mortgage finance. In April 1997, another subsidiary, Kenya Commercial Bank (Tanzania) Limited was incorporated in Dar-es-salaam, Tanzania to provide a wide range of financial products to the emerging economies of this region and facilitate cross border trade following the revival of the East African Co-operation. In December 2005 Kenya Commercial Bank (Sudan) Limited was incorporated as a wholly owned subsidiary of Kenya Commercial Bank. Its establishment was in line with the Bank's regional expansion strategy, which was underpinned by its vision to be the "Best Bank in the Region".

Since incorporation, KCB has achieved tremendous growth to emerge as a leader in Kenya's banking and financial sector. In 1970, the bank had 32 full- time branches, of which 25 were located in rural areas, five in Nairobi and two in Mombasa. Currently, the KCB Group has the widest network of outlets in the country, comprising 95 full-time

branches and 35 satellite branches all of which represent over 55% of the total banking outlets in Kenya. Of the total outlets, 80% are located in the rural areas, with representation in all Kenya's administrative districts.

1.2. The Research Problem

According to the Market Intelligence (2006), KCB opened a subsidiary in Dar-es-Salam, Tanzania in April 1997 and followed it up with another one in Southern Sudan in December 2005. It has reported that it will soon open similar subsidiaries in Uganda and Rwanda and subsequently to the greater East African region, in pursuit of its vision of being, "The best bank in the region." The aggressive regional growth strategy has been accorded top management backing following the creation in 2005, of a position of Deputy Managing Director, who is in charge of strategy and subsidiaries. It is noteworthy that the regional growth comes in the wake of the creation of East African Union and the signing of peace deals in Sudan and Somali. It is likely that the events can partly explain the reasons for the bank's strategy. The implementation of the strategy however has not been all smooth sailing. It has been nine years since the bank opened its first subsidiary in Tanzania in 1997. Yet it has not commenced operations in Uganda despite the country attracting many Kenyan companies. It is likely that the Tanzanian operations were not picking up as earlier envisioned or the legal, political, institutional and economic fundamentals in the region were not deemed to be favorable enough for the commencement of banking operations. The research problem is therefore to consider the reasons for the bank's new growth strategy and the factors that have affected the strategy.

Some of the studies undertaken in this area include, 'Factors considered by Kenyan firms when deciding to establish subsidiaries in Uganda and Tanzania' (Kimata, 2003). The study found out that political stability, access to new customers and risk exposure, amongst others were factors considered by firms. The study took a comparative approach, where it compared the attractiveness of the East African countries to business. It concluded that Kenya was more attractive. Another study, 'Perceptions of opportunities in the regional Economic Groupings by Kenyan Entrepreneurs: A Case of Kenya National Chamber of Commerce and Industry' (Kuria, 2005), found out that entrepreneurs perceive opportunities available to be of high and moderate potential due to

increased market size. However increased market size alone is unlikely to be the sole reason for KCB's new strategy. It is therefore necessary to establish all the other reasons. Ohaga, (2005) carried out a study on, 'The strategic responses of commercial banks in Kenya to changes in their environment.' He concluded that changes in the environment had resulted to a strategic response of geographical diversification. While it is likely that KCB has also taken geographical diversification strategy as a response to changes in the environment, it is unlikely that it is the only motivator.

While the studies carried out so far have attempted to look at the reasons for companies' investment in East African countries, they do not address factors that relate specifically to the banking sector, nor do they address the factors affecting regional growth strategy.

1.3. The Research Objectives

- (i) To establish the regional growth strategy that KCB is pursuing.
- (ii) To establish reasons for KCB's regional growth strategy.
- (iii) To establish factors affecting KCB's growth strategy.

1.4. Importance of the Study

The findings of this study will be important to the following groups of people:

- (i) Managers of KCB who may benefit from an independent analysis of the bank's regional growth strategy.
- (ii) Managers of financial institutions who may be interested in pursuing a similar regional growth strategy.
- (iii) Scholars who may be interested in studying why businesses pursue regional growth strategy.
- (iv) Departments of Government of Kenya that provide relevant investment information to interested investors.
- (v) Stakeholders in the civil society who may seek to know what factors investors consider before committing their funds across the national borders.

CHAPTER TWO: LITERATURE REVIEW

2.1. Growth Strategies

2.1.1. Regional Growth Strategies

According to Ennew et al. (1995), a common framework for the analysis and determination of growth strategies is Ansoff's Product/Market opportunity matrix. In developing a strategy for growth, the organization must determine whether to concentrate on existing or new products/services and existing or new markets. This suggests four possible options which are outlined in the following figure; market penetration, market development, product development and diversification, the first three of which are regarded as intensive strategies, while diversification is regarded as a form of extensive growth.

Figure 2.1.1: Ansoff's Product/Market Opportunity Matrix

Product or Service	Customer	
	Existing	New
Existing	Market Penetration	Market Development
New	Product Development	Diversification

Source: Byars L. Lloyd (1991). *Strategic Management Formulation and Implementation: Concepts and Cases*, 3rd Edition, New York: Harper Collins Publishers, pp 193.

(Adapted from H. Igor Ansoff, *Corporate Strategy*, New York: McGraw Hill 1965, pp 109)

Market Penetration

According to Ennew et al. (1995) and Byars (1991), the focus of market penetration is increased sales through greater control in a market in which a firm already has a product or service. This may be achieved by means of increased and more effective positioning

and targeting, delivery and promotional activities. The strategy aims at attracting customers from competition, stimulation of more usage or consumption, or attracting new customers.

Market Development

Market development strategy consists of introducing the organization's existing products or services to customers other than the ones it currently serves. This may be achieved through opening of operations in new regions or countries. It is essentially important for the organization to understand the number, needs and purchasing patterns of the new customers and to determine the organization's adaptability to new markets.

Product Development

An organization using product development strategy creates a new product or service for existing customers. Product development may be a modification of existing products, advancement of delivery systems or expansion of services. The organization must consider the impact of the new product or service to the existing ones and the organization's ability to deliver the product or service.

Diversification

With a diversification market strategy, an organization offers a new product or service to new customers. There is therefore a simultaneous focus on new product or service and new markets in an endeavor to pursue 'newness' outside the mainstream of present business. The strategy must be preceded by development of a considerable knowledge of the new customers' needs and making certain that the new product or service meets those needs.

Competitive Strategies

According to Ennew et al. (1995), in addition to the various growth strategies, banks may also consider competitive strategies, which include among others, being a market leader. In this case, a bank emphasizes on market share, economies of scale and a strong distribution network. Market challenger on the other hand emphasizes on market share but together with aggressive pricing, delivery and promotional tactics. A market follower

attempts to maintain or build a market share and profitability, and focusing on cautious marketing tactics. A market nicher focuses on niches with respect to products and markets. It does not try to offer all financial services to all the market.

2.1.2. Entry Modes

Pearce and Robinson (1991), Garland and Farmer (1986), Ball and McCulloch (1993) and Ansoff and McDonnell (1990), are unanimous on the various entry modes. However, of all the modes that investors can adopt, the ones service industries such as banks can adopt are joint venture, strategic alliances, mergers, consolidations, or wholly owned foreign subsidiary.

Joint venture is a project in which two or more parties invest. According to Rugman et al. (1985), joint venture is usually undertaken by a multinational corporation (MNC) and a local partner. The MNC brings its firm-specific advantage (in knowledge, technology, or capital) to the operation while the host-country partner traditionally brings knowledge of the environment.

Strategic alliance is a cooperative arrangement between two or more companies. The partners in the alliance seek to add to their competencies by combining their resources with those of the other firms with a commitment to reach an agreed goal. Stanbic has entered into such an agreement with Nile Commercial Bank Pic of Sudan in an arrangement titled Value Transfer Service.

Merger refers to a combination of two corporations in which only one company survives and the merged corporation goes out of existence. The one that survives is usually the MNC and the local company goes out of existence. A regional example is the Standard Bank which merged with Uganda Commercial Bank in February 2002. Uganda Commercial Bank went out of existence.

Consolidation refers to a combination in which two or more companies join to form an entirely new company. The individual joining companies cease to exist and a new company, bearing a new neutral name is formed.

Wholly owned foreign subsidiary refers to 100% ownership of operations in a foreign market by an MNC. This is the strategy that KCB has adopted in its operations in Tanzania and Southern Sudan and it is expected to adopt the same strategy in Uganda and Rwanda.

2.2. Reasons For Growth Strategies

2.2.1. Proactive Reasons

According to Ball and McCulloch (1993), firms go abroad for a number of reasons all of which are linked to the desire to either increase profits and sales or protect them from being eroded by competition. They are attracted by economies of other countries where they are not doing business, which are growing at a considerably fast rate or a rising GNP/capita and population growth, which appear to be creating markets that are reaching the "critical mass" necessary to become viable candidates for their operations.

The capacity to obtain greater profits is also a motivation to regional growth. Profits can be increased either by increasing total revenue or decreasing total costs. Regional growth enables a firm to increase its total revenue. This is particularly so when a firm establishes operations in a country where there is less competition. For instance, regional countries such as Rwanda, Burundi and the Southern Sudan region are yet to provide competition of the magnitude experienced in Kenya.

According to Brooke (1996), other factors that motivate companies to invest beyond national borders include the need to protect shareholders at home from trade recessions and the need to go international when competitors, suppliers, and customers do. The author also alluded to the need for more profitable uses of under-employed resources at home in capital and equipment, personnel and know-how.

Davidson (1980) says the decision to extend a business beyond national borders is motivated by marketing, cost, investment climate and general considerations. Marketing factors comprise of the need to grow the size of the market, desire to maintain or enhance market share in a defined region, desire to advance the products or services of company, and dissatisfaction with the existing market arrangements. Cost factors refer to the desire

to be near the source of supply of raw materials, availability of cheap labor and other production costs, availability of capital/technology, and financial inducements by host governments. Investment Climate factors refer to general attitude toward foreign investments, political stability, limitation of ownership, currency exchange regulations, tax structures and familiarity with the country being considered. General factors include corporate image, prestige and management enthusiasm.

Deresky (1991) lists the following proactive reasons for a company moving beyond its national borders: Economies of scale, International markets, resource access and cost savings. Economies of scale are achieved when higher levels of output spread fixed costs over more units, thus lowering the per-unit cost. International markets become necessary when expansion opportunities become limited at home. A mature product or service with restricted growth in its domestic market often has 'new life' in another country, where it will be at an earlier stage of its life cycle. Resource access and cost savings refer to availability of raw materials and other resources, and lower labour costs (for production, service, and technical personnel), all of which entice companies to operate internationally because they enable lower unit costs and have proved a vital ingredient to competitiveness for many companies.

Vernon and Wells (1981) as quoted by Rowe et al. (1994), say that a firm should 'go international' if there are profitable offensive and defensive functions it can perform in other countries. Among the possible objectives are: becoming a financial intermediary abroad, becoming geographically diversified, taking advantage of a technological lead, and creating a market abroad.

Ball and McCulloch (1993) claims that occasionally, a firm will set up operations in the home country of a major competitor with the idea of keeping it so occupied defending that market that it will have less energy to compete in the home country of the first company.

Ansoff and Mc Donnell (1990) suggest that risk diversification is one key motivator for regional growth. By operating in multiple geographical markets, firms reduce risk

exposure due to stability of earnings. This is because earnings from different countries will be imperfectly correlated since they experience the stages of the different business cycles at different times.

Thomson and Strikland (2003) enumerate five reasons why firms pursue geographical diversification, namely diminishing growth prospects in its present business, opportunities to add value for its customers or gain competitive advantage by broadening its present business to include complementary products or technologies, attractive opportunities to transfer its existing competencies and capabilities to new business arenas, cost saving opportunities that can be exploited by diversifying into closely related businesses and availability of financial and organizational resources to support diversification effort.

2.2.2. Reactive Reasons

According to Davidson (1980), the decision to extend a business beyond national borders is also motivated by the need to overcome barriers to trade. Barriers to Trade refer to the deliberate government instituted measures to curtail trade with other countries. Another form of barrier to trade is strong nationalistic tendencies, whereby local customers express preference to local products. Deresky (1997) explains that tariffs, quotas, buy-local policies, and other restrictive trade practices can make exports to foreign markets too expensive and too impractical to be competitive. Businesses therefore set up operations in such countries to circumvent the barriers.

Companies also operate beyond national borders in order to serve clients who relocate to other countries. According to Ball and McCulloch (1993), service companies will establish foreign operations in markets where their principal accounts are, to prevent competitors from gaining access to those accounts. They know that once a competitor has been able to demonstrate to top management what it can do by servicing a foreign subsidiary, it may be able to take over the entire account. For instance, KCB's early plunge into Southern Sudan is seen in the context of following NGOs and UN agencies with which it has had business dealings in Lokichoggio. The institutions are considered the most profitable source of banking business in the region.

Deresky (1997) further highlights the following reactive reasons for a company moving beyond its national borders: international competition, regulations and restrictions and customer demands. Under international competition, Deresky explains that if left unchallenged, competitors who already have international operations or investments may get so entrenched in foreign markets that it becomes difficult for other companies to enter at a later time. In addition, the lower costs and market power available to these competitors operating globally may also give them an advantage domestically. Regulations and restrictions by a firm's home government may become so expensive that companies will seek out less restrictive foreign operating environments. Operations in other countries frequently start as a response to customer demands, or as a solution to logistical problems. Certain customers, for example may demand that their supplying company operate in their local region so that they have better control over their supplies, forcing the supplier to either comply or lose the business.

Garland and Farmer (1986) explain that owing to the benefits multinational companies offer to host countries, the governments of the countries in turn offer incentives such as tax holidays, accelerated depreciation, rent-free land and buildings, outright grants, low interest loans, loan guarantees, subsidized energy or transportation rates, infrastructural improvements such as better roads access and free professional training. Firms may therefore be attracted to a country to take advantage of the incentives.

^/According to Ansoff and Mc Donnell (1990), firms go international in order to satisfy management's desire for international expansion. In order to achieve faster growth, which the domestic market may not provide, managers may only fulfill this through international expansion because going international may create an aura of importance which can influence customers and managers derive satisfaction and pride managing international companies, not to mention the attractive salaries and perquisites that go with it.

^According to Byars (1991), one of the most important reasons why firms decide to pursue a foreign growth strategy is the value held by either the top manager or the top-

management team. Many top managers equate growth with their own personal effectiveness. In other words, growth of their business indicates their personal effectiveness as managers. Furthermore, many top executives have stock options as part of their compensation package. They know that if growth of the business leads to growth in the price of their organization's stock, then they will benefit directly through an increase in their own net worth. Byars however cautions managers not to pursue too much growth in the short run because it can result to inefficiencies that can prove disastrous in the long run. It is for this reason that the management must answer the following three questions before embarking on a growth strategy: Are company financial resources adequate? If the company is stopped short in its strategy for any reason, will its position be competitively viable? Will the government regulators permit the company to follow the strategy it has chosen?

Success of a business at home may prompt the management to venture out so that it can replicate the success in other countries. The success at home may be leveraged on successful adoption of modern management techniques, highly skilled personnel, use of good information communication technology (ICT), and innovative products, amongst other factors.

2.23. Theories of International Trade and Investment

Theories of International Trade and Investment advanced over the years also attempt to offer explanations why companies invest beyond their national borders. Some theories note that home governments play a critical and facilitating role in enabling local businesses to invest beyond national borders.

Robock and Simmonds (1989) wrote on international trade theory, explaining that, "with its long history and high refinement, the pure theory of international trade continues to shape much business thinking and, even more so, the actions of government." The international trade theory includes the theory of absolute advantage, which was propounded by Adam Smith in his book, The Analysis of the Origin of the Wealth of Nations, published in 1776 and the theory of comparative advantage, which was explained in David Ricardo's book, On the Principles of Political Economy and Taxation,

published in 1819. The two theories held that countries should specialize in production of the commodities in which they enjoy absolute and comparative advantage respectively and trade with other countries which enjoy the same advantages in other products.

Another theory, known as factor proportion theory or Heckscher - Ohlin (H - O) theory was propounded by Eli Heckscher and expanded by his former student Bertil Ohlin. It takes the premise that a country that is well endowed in particular factors of production should concentrate on the production of the product(s) requiring the factors that it is endowed in. It can then trade with other countries that specialize in production of other products. Wassily Leontief carried out further studies on the factor proportion theory and to his amazement, he discovered that a country such as USA, though endowed with capital was producing and exporting labour intensive products, hence its reference as Leontief Paradox theory. The theory has been contested variously.

In 1966, Raymond Vernon propounded the Product Life Cycle theory, in which he reasoned that every product goes through four stages namely; product introduction, growth, maturity and decline stages. Once a product reaches maturity, it is introduced to a new market, where it reverts to new product stage. This ensures that the life of the product is prolonged. In the 1980s Paul Krugman and others developed the Economies of Scale and Imperfect Competition Theory. The theory is founded on the premise that a business expands to new markets in order to achieve internal and external economies of scale. Michael Porter has in the 1990s propounded the theory of Competitive Advantage of Nations in which he argued that a nation's competitiveness depends on the capacity of its industries to innovate and upgrade.

Another relevant theory is the theory of International Investment. According to the theory, a firm seeks to invest in a different market for different reasons, namely; seeking opportunities, knowledge, political stability, markets and materials; exploiting market imperfections; and in order to internalize and protect proprietary information possessed by the firm and its people.

The above theories and others explain why firms and home governments aggressively seek for opportunities for trade and investments in other countries.

The Kenya government for instance has played a key and leading role in seeking and facilitating peace talks to end civil war in the regional countries. In 1985, for instance Kenya played host to Uganda peace talks after the country experienced several coup d'etat in quick succession and unending civil wars. The talks played a part in eventually ushering in President Yoweri Museveni in 1986. Following a period of relative peace in the country, Kenyan companies and nationals began streaming in the country for business. In the case of Sudan, most of the peace negotiations were held in different venues in Kenya. It is noteworthy that the critical peace agreements were all signed in Kenyan towns of Machakos, Naivasha and Nairobi. Kenya's efforts were motivated in large part by the realization that peace in the neighboring country would provide enormous business and trading opportunities to Kenyan companies and individuals. It is no wonder that various initiatives have been taken to encourage and assist Kenyans invest in Southern Sudan. One such initiative by the Kenyan government has been the opening of the Kenya South Sudan Liaison Office (KESSULO), which has been charged with the responsibility of collaborating with the Sudanese government with a view to facilitating Kenyans investments to the region. It is serving as an important advisory bureau and information bank for companies and individuals who have an interest in Southern Sudan.

Despite all the compelling reasons why companies should seek for investment and trade opportunities beyond their borders and the theories that have been propounded over time, most companies are prudent in deciding where and when to invest. They have to consider and appraise the business environment of the country under review.

23. Factors Affecting Growth Strategies

23.1. External Factors

Pearce and Robinson (1991), who refers external factors as environmental factors defines them as factors originating beyond, and usually irrespective of, any single firm's operating situation. Many authors are unanimous on the environmental factors business people should consider before investing in a particular location. These factors should

influence the managers' decision on whether or not to invest in a country. According to Pearce and Robinson (1991), Garland and Farmer (1986), Ball and McCulloch (1993), the factors to be considered include economic, physical, political, legal, socio - cultural and labor forces.

Economic forces concern the nature and direction of the economy in which a firm intends to open operations. A firm must consider such factors as availability of credit, the level of disposable income, and the propensity of people to save. Prime interest rates, exchange rates, inflation rates, and trends in the growth of the gross national product (GNP) are some of the other economic factors to consider. A good investment destination should ideally have favorable and stable balance of payments, exchange and interest rates among other economic fundamentals. Population factors, such as the size, growth rate, distribution and demographics should also be of importance to the management of a firm. These factors are relevant in evaluating the market size, the availability of labour, location of business, and other such considerations. Levels of economic development, such as urbanization and infrastructure, which encompasses roads, rail, and air network, communication, security, housing, financial insurance, and technology amongst others. The higher the level of infrastructure development, the more attractive is the country as an investment destination. Urbanization if backed by economic development may also be good for investment, otherwise it may raise security concerns.

The physical forces refer to the location of a country, who its neighbors are, what its major cities are, as well as the political and trade relationships with its immediate neighbors and other countries. It also refers to the service features or topography which refer to mountains, plains, deserts and bodies of water, all of which impact on the way business is carried out. Availability of natural resources is also an important consideration. It includes mineral and agricultural products, wildlife, outlets to the sea, energy sources and forests amongst others. A country that is endowed with natural resources easily attracts foreign investments. Climatic conditions are regarded by Ball and McCulloch (1993), as the most important element of the physical forces because it, more than any other factor, sets the limits on what people can do both physically and economically. Where the climate is harsh, there are few human settlements, but where it

is permissive, generally there are great clusters of population. Investors tend to follow human settlements.

Under the political forces, the factors to consider include the ideological forces that affect business. Such names as communism, socialism, capitalism, liberal, conservative, left wing, and right wing are used to describe governments, political parties, and people. Each has implications on business. For instance communism and socialism are associated with government ownership of business and means of production. The other consideration is the ownership of businesses by the government. This is a practice of governments even in capitalist countries. The government may be a sole or part owner of business. Sometimes the government may even be a monopoly in a particular industry. In other businesses, the government may be a large buyer of certain goods and services. Nationalism as a powerful emotional force is a critical consideration in making investment decisions. Nationalism has been referred to as the "secular religion of our time", and it refers to loyalty to one's country and pride in it based on such shared common features as race, language, religion, or ideology. Investors may therefore invest in order to take advantage of nationalism.

An important factor under political forces is adequate government protection of business and its personnel from terrorism and invasion. Regardless of a government's ideology, it is recognized world over that its most primary function is protection of its people and more so of the economic activities. They must be protected from attacks and destruction or robbery by terrorists, bandits, revolutionaries, and foreign invaders. Where the government has abdicated, or is unable to perform the role, the country is considered a bad investment destination. The issue of government instability and sudden changes in government policy may affect business. Of importance to business is the capacity of the government to maintain itself in power or the stability or permanence of a government's policies. Businesses thrive in an environment of stable governments and permanent or at most gradually changing policies. Where the contrary is the case, businesses would consider such an environment hostile. Moreover, the effects on business of traditional hostilities between peoples and nations cannot be underestimated. Hostilities can be between different ethnic groups within the same country or between different countries.

For instance the hostilities between Hutu and Tutsi in Rwanda, which resulted in the 1994 genocide or the hostilities between Israel and the neighboring Arab countries. Both are considered undesirable for business.

Legal forces refer to the legal complexity of a country due to its many sources of law such as customary law, constitution, national laws, treaties and international organizations. Businesses can only thrive in an environment of stable and predictable legal system. Where the sources of law are too many and confusing, investors may be unwilling to commit their funds. The issue of taxes is also critical. Taxes frequently have purposes other than the raising of revenue. For instance, they may be used for the purpose of discouraging consumption of certain products. What is regarded in the UK as 'Sin Tax' is punitive tax on beer, cigarette and other products considered harmful. Where taxes levied are very high, investors would rather keep away from such a country or industry. Another major consideration is the protection of intellectual property rights. Countries need to evolve strong legal provisions for the protection of intellectual property rights. Where such provisions are lacking, property rights are infringed resulting in colossal losses to investors.

Risk is another factor under legal forces. Of concern to businesses is the risk of confiscation, nationalization and expropriation. The risk is usually associated with political instability, which could bring to power autocratic rulers or strong racial feelings, which could lead to deprivation of ownership rights and expulsion. This happened in 1972 in Uganda, under President Idi Amin Dada, who confiscated businesses owned by Asians before expelling them. The issue of wage, price and currency exchange controls is also of concern. Countries that are under economic controls are unattractive to investors, who prefer to operate under liberalized markets where forces of demand and supply determine wages, prices, exchange rates. On the other hand, investors look forward to an environment with business or industry regulatory framework. This is the law that is enacted with the aim of regulating particular industry or business. Such laws as Banking Act, Micro-Finance Act, among others are essential for investors carrying out such businesses. They would have to critically study the relevant law in order to satisfy

themselves that their interests are protected. Having no law may be as bad as having a bad law because it creates uncertainty and the law that is eventually enacted may be bad.

Under the socio - cultural forces, the main factor to be considered is language, which refers to the symbols, whether verbal or non-verbal that people use for communication. The ease with which the local language can be learnt is commensurate with the ease with which business can be done in the country. Moreover, the capacity of the local people to learn a new language particularly a language that is used internationally such as English or French makes it easier to carry on business in the country. It should be noted however that Anglophone or Francophone African countries find it easier to do business in other Anglophone or Francophone countries respectively, due to the ease of communication. However, even internationally, a common language is being adopted. According to Ball and McCulloch (1993), the use of English as a business *lingua franca* is spreading in Europe so rapidly that it is replacing French and German as the most widely spoken language among Europeans. They also note that when a Swedish businessman talks to a Japanese businessman, the conversation will generally be in English. Another consideration is the education, which refers to the learning or acquisition of knowledge, skills, attitudes, and values that are important for life in a society. Education may occur through formal or informal learning process. It is much easier to do business in a country where the rate of literacy is high because labor is available and literate people are generally more receptive to new ideas and products. This is because they are able to understand advertising, labeling, research work, product design and development, and instruction manuals.

Under the labor forces, factors to be considered include forces beyond the management control that affect the availability of labor. Such factors include the labour quality and quantity. Quality refers to the attitudes, education, and skills of available employees. Quantity refers to whether there are enough available employees with the skills and so forth required to meet business needs. A good investment destination should have an abundance of labour quality and quantity. Of concern also is the expatriate workers policies. Some countries have very stringent rules pertaining to expatriates or guest workers. For instance, Tanzania demands that an expatriate can only be hired if it can

justifiably be proven that there is no local skill available. This was evident in 2005, when the government denied Nation Media Group journalists work permits and expelled those who were already in the country. Such rules must be well considered before making an investment decision.

23.2. Other Factors

According to Grosse and Kujawa (1995), a factor that can impede foreign investment is foreign investment controls. They range from the rejection of all foreign direct investment, as formerly existed in several communist countries, to limits on the activities of foreign-owned firms, such as limits on profit repatriation and other financial transfers.

Grosse and Kujawa also mention cartels as an impediment to foreign investments. Cartels may be difficult to penetrate, particularly where they have dominated a particular industry. They may also use underhand methods to keep away potential investors. Where a market is dominated by cartels, would-be investors may choose to keep off.

Gerry and Kevan (2002) contend that financial and business strategies need to be matched. Business strategy even though well formulated, may fail at the implementation stage if the financial resources are not adequate.

According to Thomson and Strikaland (2003), failure to have a capable management team may impede effective strategy execution. They further contend that staffing the entire organization with talented people is necessary in order to assemble the human resources and knowledge base needed for effective strategy execution. Failure therefore to have capable management team and talented 'critical mass' may affect a firm's growth strategy.

According to Ansoff and McDonnell (1990), entry into a foreign market will cost more and consume more time than a comparable diversification at home. Further, the objectives which can be attained through a foreign entry will be limited by the nature of the opportunities. For instance, a move from a mature domestic market to an emerging market in another country will improve future profits but will not improve the current profitability. On the contrary, it will depress it because the emergence stage typically

requires heavy short-term investments. The management that is hard pressed to show good short-term results may therefore find it difficult to invest in new markets due to the likelihood of eroding current profits.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Research Design

This was a case based study of KCB. The research sought to investigate the regional growth strategy of the bank, reasons for the strategy, and the factors that have affected the implementation of the strategy. KCB was chosen due to its unique position of being the oldest and largest local indigenous bank, which has taken the lead in aggressively pursuing regional growth strategy. In all likelihood, other banks may follow suit if the KCB 'experiment' proves successful. Market Intelligence (2006) terms KCB's regional growth as an achievement that is a milestone for Kenyan banks. It contends that it is the first time a local, domestic, indigenous Kenyan bank has taken the first crack at being the top bank in an overseas market outside Kenya. Data was drawn from the organization to bring out the key findings that shed light on the subject. The case study method was chosen in order to allow for a thorough and detailed examination of the subject under consideration.

3.2. Data Collection Method

In this study, both primary and secondary data was used.

Primary data was collected from all the five managers in the Strategy and Change Division of KCB, who include the Divisional Director, Business Analyst and other managers who have been involved in the designing and implementation of the regional growth strategy. Teams of managers drawn from different business units who have been to the various regional markets for feasibility study of the markets were also targeted as respondents. Another critical source of primary data was two management staff who did a short stint in the Tanzanian subsidiary. The Deputy CEO, who is in charge of the bank's subsidiaries and strategy was also targeted. The data was collected through questionnaires and face-to-face interviews. The managers were divided into two strata. The first stratum comprised of the two directors, who are concerned with strategy and policy formulation while the second stratum was comprised of the managers, who are concerned with the business analysis and implementation of the strategy as well as those who have worked in the Tanzanian office.

This type of questionnaire and interview was previously effectively used by Muthuiya (2004), who carried out a case-based study in his MBA project titled "Strategy Implementation and its challenges in Non Profit Organizations in Kenya - The case of AMREF- Kenya.

Secondary data was obtained from the KCB Strategic Plans manual and other internal documents that contain relevant and reliable information. Obeli (2004), in his MBA project, 'Evaluation of risk in the price to book value ratio of firms at the NSE' effectively used this type of data collection method.

33. Data Analysis Techniques

Data from the primary and secondary sources was analyzed using descriptive statistics. Reasons for regional growth strategy and factors affecting the strategy by KCB were evaluated and ranked using frequencies, mean scores, standard deviations and content analysis. It was represented in tabular forms. The findings were presented visually using tables.

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1. Introduction

This chapter contains summaries of data findings together with their possible interpretation. The chapter has been divided into two sections. The first section analysis the regional growth strategy KCB is pursuing and reasons for the strategy. The second section analyses the factors affecting the bank's regional growth strategy. The researcher divided the respondents into two stratum. Stratum one targeted 2 respondents, the Deputy CEO and the Divisional Director, Strategy and Change Division. The former was unavailable due to scheduled foreign travel and pressure of work prior to and subsequent to the travel. The later fully completed and returned the questionnaire. The response rate was 50%. Stratum two targeted 15 managers, out of whom 12 completed and returned the questionnaires. The response rate was therefore 80%. Overall, the response rate was 76%. Data was also obtained from secondary sources.

4.2. Regional growth strategy being pursued by the bank

According to Ennew et al. (1995), a common framework for the analysis and determination of growth strategies is Ansoff's Product/Market opportunity matrix. In developing a strategy for growth, the organization must determine whether to concentrate on existing or new products/services and existing or new markets. One of the questions posed to the respondent was whether the bank would market the existing products to the new markets or it would launch new products designed specifically for the new markets (Appendix II, Q 12). The response was that the bank would initially introduce the existing products to the new markets. The bank would therefore adopt the market development strategy. According to KCB website (2006), the bank's entry into the Tanzanian and Southern Sudan markets was through registration of fully owned subsidiaries. On the question of whether the bank is likely to use any other entry modes (Appendix II, Q 14), the respondent revealed that the bank is considering mergers and acquisitions besides fully owned subsidiaries.

43. Reasons for pursuing the regional growth strategy by KCB

The respondent was to rate the following factors as having influenced the Bank's decision to invest in the region in a five point Likert Scale, as shown below:

1= Not important at all; 2= Little important; 3= Moderately important

4= Very Important; 5= Extremely Important.

The responses are presented in Table 4.3.1 below.

Table 43.1: Importance of reasons for the region growth strategy of KCB

Factors	Score
Attractive regional market	5
Follow competition	5
Follow customers	4
Grow market size	4
Inducement by host governments	4
Reduced operational cost	4
Boost corporate image	3
Cheap labor	3
Keep potential competitors busy	3
Promise of higher profits	3
Protection from trade recession	3
Risk Diversification	3
Unfavorable home market	3
Management enthusiasm	2
Saturated home market	2

Attractive regional market and desire to follow competition were extremely important factors in the bank's decision to invest in the region. Following customers, growing market size, inducement by host governments and reduced operational cost were very important. Boosting corporate image, cheap labor, preoccupy potential competitors, promise of higher profits, protection from trade recession, risk diversification and unfavorable home market were moderately important in the decision, while management enthusiasm and saturated home market were of little importance in the decision.

The other reasons for pursuing the regional growth strategy by KCB were captured through an open-ended question (Appendix II, Q1). They were given as pursuit of the bank's vision, address needs, namely reconstruction of formerly devastated infrastructure, and meet the demand for banking services, take advantage of harmonized tax regime,

serve migrant customers, tap new opportunities, leverage on the regional integration and free trade frontiers, run ahead of the competition, and grow shareholders' value.

4.4. The extent to which the revival of East African Community motivated KCB to pursue Regional Growth Strategy.

The respondent, in response to an open-ended question (Appendix II, Q 2), alluded to the influence of the revival of East African Community on KCB's regional growth strategy. However, the process towards an East African Federation is dragging thereby affecting the bank's strategy. The anticipated achievement of a Federation and its attendant free labor movement were key incentives for the bank's regional growth strategy.

4.5. The extent to which the signing of comprehensive Peace Agreement in Sudan motivated KCB to pursue Regional Growth Strategy.

The CPA was among other things, a ceasefire prerequisite. The economic and business potential in Sudan is a key motivator for the bank's strategy and obviously, the CPA was necessary to allow for the tapping of the economic and business potential. The CPA was drawn on an international platform and is subject to several other global covenants, all of which are meant to guarantee peace. Peace is immensely critical to business prosperity.

4.6. Factors Affecting KCB's Growth Strategy

Pearce and Robinson (1991), who refers external factors as environmental factors defines them as factors originating beyond, and usually irrespective of, any single firm's operating situation. Many authors are unanimous on the environmental factors business people should consider before investing in a particular location. These factors should influence the managers' decision on whether or not to invest in a country. According to Pearce and Robinson (1991), Garland and Farmer (1986), Ball and McCulloch (1993), the factors to be considered include economic, physical, political, legal, socio - cultural and labor forces. The factors affecting KCB's growth strategy are economic, physical, political, legal, socio-cultural, labor and other factors such as tough foreign investment controls. The respondents were to rate on a scale of 1 to 5 how much the factors are affecting KCB's growth strategy, in which:

1= No adverse effect; 2= Little adverse effect; 3= Moderate adverse effect
 4= Great adverse effect; 5= Extremely great adverse effect

A mean score (MS) ($0 < N.A < 1.5$) is taken to present no adverse effect (N.A), MS of ($1.6 < L.A < 2.5$) is taken to present little adverse effect (L.A), MS of ($2.6 < M.A < 3.5$) moderate adverse effect (M.A), MS of ($3.6 < G.A < 4.5$) great adverse effect (G.A), while a mean score ($4.6 < E.A < 5.0$) is taken to represent extreme adverse effect (E.A). A standard deviation of greater than 1.5, (>1.5) implies a significant difference in opinion among respondents.

4.6.1. Economic Factors

Economic forces concern the nature and direction of the economy in which a firm intends to open operations. A firm must consider such factors as availability of credit, the level of disposable income, and the propensity of people to spend. Prime interest rates, exchange rates, inflation rates, and trends in the growth of the gross national product (GNP) are some of the other economic factors to consider.

Table 4.6.1: Economic Factors

Economic	Mean Score	Std Dev
Low levels of disposable income	3.30	1.10
Lack of credit	3.10	1.30
Poor infrastructure development	2.70	1.19
Instability of exchange rates	2.60	1.11
Low pace of economic development	2.60	1.28
Instability of interest rates	2.50	1.02
Population size/ Growth	2.10	1.22

According to Table 4.6.1, low levels of disposable income (3.30), lack of credit (3.10), poor infrastructure development (2.70), instability of exchange rates (2.60), and low pace of economic development (2.60) were factors that were at least moderately affecting KCB's growth strategy, while instability of interest rates (2.50) and population size/ growth (2.10) were seen as having little effect in the growth strategy. The standard deviations were relatively low, indicating a close agreement in the responses.

4.6.2. Physical Factors

The physical forces refer to the location of a country, who its neighbors are, as well as the political and trade relationships with its immediate neighbors and other countries. It also refers to the service features or topography which refer to mountains, plains, deserts and bodies of water, all of which impact on the way business is carried out. Availability of natural resources is also an important consideration.

Table 4.6.2: Physical Factors

Physical	Mean Score	Std Dev
Poor economic relationship with neighbors	2.90	1.14
Poor political relationship with neighbors	2.80	0.98
Unfriendly service features/ topography	2.50	1.20
No natural resources	2.00	1.10
Harsh climatic conditions	1.40	0.66

According to Table 4.6.2, physical factors moderately affecting the growth strategy were poor economic relationship with neighbors (2.90) and poor political relationship with neighbors (2.80). Unfriendly service features/ topography (2.50) had little effect, while harsh climatic conditions (1.40) was least likely to affect the growth strategy.

4.6.3. Political Factors

Under the political forces, the factors to consider include the ideological forces that affect business. Other factors are strong nationalism as a powerful emotional force, adequate government protection of business and its personnel from terrorism and invasion, hostilities between peoples and nations, and stability of government and government policies amongst others.

Table 4.6.3: Political Factors

Political	Mean Score	Std Dev
Strong Nationalism	3.10	1.30
Government ownership of business	2.40	1.28
Hostilities between ethnic groups	2.30	1.19
Instability of government policy	2.30	1.27
Instability of government	2.20	1.47
Insecurity	2.20	1.54

According to Table 4.6.3, strong nationalism to a moderate extent was affecting KCB's growth strategy (3.10). On the other hand government ownership of business (2.40), hostilities between ethnic groups (2.30), instability of government policy (2.30), instability of government (2.20) and insecurity (2.20) were of little effect to the growth strategy.

4.6.4. Legal Factors

Legal forces refer to the legal complexity of a country due to its many sources of law such as customary law, constitution, national laws, treaties and international organizations. Businesses can only thrive in an environment of stable and predictable legal system.

Table 4.6.4: Legal factors

Legal	Mean Score	Std Dev
Legal complexity	3.40	1.20
Lack of industry/ business regulation	3.10	1.37
High risk of confiscation, nationalism or expropriation	2.60	1.43
Wage, price or currency controls	2.50	1.36
Tough tax laws	2.30	1.19

From Table 4.6.4, one can infer that the legal factors that moderately affected the strategy were legal complexity (3.40), lack of industry/ business regulation (3.10) and high risk of confiscation, nationalism or expropriation (2.60). Wage, price or currency controls (2.50) and tough tax laws (2.30) were of little effect to the growth strategy.

4.6.5. Socio- cultural Factors

Under the socio - cultural forces, the main factor to be considered is language, which refers to the symbols, whether verbal or non-verbal that people use for communication. The ease with which the local language can be learnt is commensurate with the ease with which business can be done in the country.

Table 4.6.5: Socio-cultural Factors

Socio- Cultural	Mean Score	Std Dev
Low education/ literacy levels	3.10	1.04
Unfamiliar local language (s)	2.80	1.60
Local peoples inability to learn a new language	2.10	1.04

Table 4.6.5 shows that low education/ literacy levels (3.10) and unfamiliar local language (s) (2.80) were the socio-cultural factors with moderate effect on the growth strategy, while local people's inability to learn a new language (2.10) had little effect on the growth strategy.

4.6.6. Labor Factors

Under the labor forces, factors to be considered include forces beyond the management control that affect the availability of labor. Such factors include the labor quality and quantity. Quality refers to the attitudes, education, and skills of available employees. Quantity refers to whether there are enough available employees with the skills and so forth required to meet business needs.

Table 4.6.6: Labor Factors

Labor	Mean Score	Std Dev
Tough expatriate workers' policies	3.70	1.27
Low labor quality	3.60	0.92
Low labor quantity	3.20	1.17
Strong labor movements	2.50	1.12

According to Table 4.6.6, tough expatriate labor policies (3.70) and low labor quality (3.60) were greatly affecting the growth strategy. Low labor quantity (3.20) was moderately affecting the strategy while strong labor movements (2.50) had little adverse effect.

4.6.7. Other Factors

According to Grosse and Kujawa (1995), a factor that can impede foreign investment is foreign investment controls. They range from the rejection of all foreign direct

investment, as formerly existed in several communist countries, to limits on the activities of foreign-owned firms, such as limits on profit repatriation and other financial transfers.

Table 4.6.7: Other factors

Other Factors	Mean Score	Std Dev
Tough foreign investment controls	3.30	1.27
Erosion of KCB's revenue in the short-term	2.20	1.08
1 Capability of KCB's management team	1.60	1.28
KCB's financial capacity	1.50	1.02

Table 4.6.7 shows that tough foreign investment controls (3.30) to a moderate extent affected the growth strategy. Other factors with little effect on the growth strategy were erosion of KCB's revenue in the short-term (2.20) and capability of KCB's management team (1.60). KCB's financial capacity (1.50) had no effect.

Other factors affecting the regional growth strategy which were captured through open ended questionnaire (Appendix II, Q 5-9) and secondary data include delay in processing of licenses, fragility of the legal and regulatory framework, poor infrastructure, inferior brand perception, high staff turnover, uncertainty in peace agreements, poor infrastructure, judicial limitations, suspicions and political risks, and high costs of doing business.

Given the foregoing, the researcher combined and ranked all the factors having great or moderate effect on the growth strategy of the bank. The ranking is presented in Table 4.6.8 below.

Table 4.6.8: Summary of factors affecting the regional growth strategy of KCB

Factors	Mean Score	StdDev
Tough expatriate workers' policies	3.70	1.27
Low labour quality	3.60	0.92
Legal complexity	3.40	1.20
Low levels of disposable income	3.30	1.10
Tough foreign investment controls	3.30	1.27
Low labour quality	3.20	1.17
Low education/literacy levels	3.10	1.04
Strong nationalism	3.10	1.30
Lack of industry/business regulation	3.10	1.37
Poor economic	3.30	1.10
Lack of credit	3.10	1.30
Poor economic relationships with neighbors	2.90	1.14
Poor political relationships with neighbors	2.80	0.98
Poor infrastructure development	2.70	1.19
Instability of exchange rates	2.60	1.11
Low pace of economic development	2.60	1.28
High risk of confiscation, nationalism or expropriation	2.60	1.36

Although unfamiliarity of local language(s) was highlighted as a major factor with M.S. of 2.80, the standard deviation was 1.60, which was above the 1.50 permitted. The difference in opinions among the respondents was too high to be representative of the true position. Other factors affecting regional growth strategy were found to be delay in processing of licenses, poor infrastructure, inferior brand perception, high staff turnover, uncertainty in peace agreements, political risks and suspicions.

CHAPTER FIVE: CONCLUSION

5.1. Introduction

This chapter discusses the findings gathered from the analysis of the data, as well as the conclusions reached. The chapter incorporates the various suggestions and comments given by the respondents in the questionnaires. Findings have been summarized alongside the objectives of the study, conclusions have been drawn from the study and the recommendations for action are given.

5.2. Summary, Discussions and Conclusions

This study was undertaken to address three key objectives, namely to find out the regional growth strategy of KCB, to find out the reasons for the strategy and to establish the factors affecting the strategy.

Major findings show the strategy being pursued by the bank is market development and the preferred mode of entry is registration of fully owned subsidiaries and mergers and acquisitions. The reasons for KCB's regional growth strategies are attractive regional market, desire to follow competition and customers, grow market size, inducement by host Governments, reduce operational costs, desire to boost corporate image, answer needs, namely reconstruction of formerly devastated infrastructure and meet the demand for banking services, take advantage of harmonized tax regime, tap new opportunities, leverage on the regional integration and free trade frontiers, to stay ahead of competition, and grow shareholder value. The study found out that factors that have affected the regional growth strategy are tough expatriate workers' policies, low labour quality, legal complexity, delay in processing of licenses, fragility of the legal and regulatory framework, poor infrastructure, inferior brand perception, high staff turnover, high cost of doing business, uncertainty in peace agreements, political risks and suspicions.

On the question of the regional growth strategy being pursued by the bank, findings revealed that the bank is pursuing market development strategy. This implies that the bank is taking to the new markets, products that are already tested and accepted in the Kenyan market. This is a safe strategy especially considering that the new markets may not be

significantly different from the Kenyan market. Otherwise diversification strategy would be more appropriate whereby the bank develops new products specifically suited for the new markets. It further emerged that the bank has a strategy for the new markets, namely market challenger, that is, a strategy to attain the largest market share through adoption of aggressive pricing, delivery and promotional tactics.

The bank has so far entered Tanzanian and Sudan markets. In both markets, it has entered through registration of fully owned subsidiaries. This green field strategy may be responsible for some of the challenges such as delay in processing of licenses and inferior brand perception. The alternative is the grey field approach, where the bank would enter through an already established bank. The licenses and branding issues would already be dealt with.

On the issue of the reasons for the regional growth strategy, the extremely important ones are the attractiveness of the regional market and to follow the competition. Some of the regional markets such as Southern Sudan and to some extent Rwanda are 'virgin' markets. With few banks operating in the markets and reconstruction work on the infrastructure being undertaken, the potential for growth is enormous. In other regional markets such as Tanzania and Uganda, most multinational banks are already operating in the markets and KCB is therefore following them.

Very important reasons for the strategy include the bank's endeavor to follow clients, to grow its market size, to take advantage of the inducements offered by host governments, to take advantage of the reduced operational costs and to be ahead of the competition. With companies tending to operate in more than one country, it is in the interest of the bank to follow the clients, many of who may prefer to deal with only one bank that is able to service them across the region. KCB is the first indigenous bank to go regional and to that extent therefore, it is setting the pace for other indigenous bank. It also emerged from the findings that the bank is keen to participate in the reconstruction of the regional economies and to boost its image in the market. While it was not apparent from the study, it is likely that success in the regional market would be a precursor for future plunge into the continental market and eventually into the global market.

There are several factors affecting the bank's regional growth. The most critical one was tough expatriate workers' policies with M.S. of 3.70. This is indicative of the bank's desire to use ethnocentric strategy, where the top managers are hired from the mother country, Kenya to run their operations, a position that is made difficult by the policies of the respective countries. This is compounded by the next most critical factor, namely low labour quality with M.S. of 3.60. While policies make it difficult for the bank to hire expatriates, low labour quality makes it difficult for the bank to hire local staff. Another related factor that was highlighted is high staff turnover. The few 'quality' staff available must be very marketable and therefore receive better offers from other MNCs that are also constrained by the tough expatriates' policies.

The study also found out that the bank faces the challenge of legal complexity which had an M.S. of 3.40. Open ended questions also revealed that fragility of the legal and regulatory framework also present major challenges to the bank. While Southern Sudan is just beginning to evolve a judicial and regulatory network, Rwanda may not have developed a regulatory network given that there aren't many players in the banking sector. The bank therefore operates in a risky environment given that the legal and regulatory frameworks that are eventually developed may not be conducive to its operations.

Suspensions and political risks were mentioned as some of the other challenges affecting the bank's strategy. The history of a number of the regional countries is replete with coups, ethnic hostilities and poor relations with neighbours. While the conditions are in the decline, the possibility of their recurrence presents a challenge to any business. Unfortunately, these are risks that are hard to mitigate against. The bank will therefore continue to operate under the risky conditions.

Other challenges are tough foreign investment controls and low levels of disposable income with M.S. of 3.30. Foreign investment control is a problem that will persist only as long as efforts towards formation of East African Federation are unsuccessful. Once the federation is formed, free movement of labour, goods and services will be possible

across the region. Low level of disposable income is a challenge that will be addressed as the economies of the region continue to grow. The bank may therefore take comfort in the realization that the problem may be persistent only in the short and medium term.

High cost of doing business within the region can be seen in relation to poor infrastructure, which affects the growth strategy to a moderate extent (MS of 2.70). Such infrastructure includes road, rail and air networks and telecommunication network, all of which can greatly affect capacity or raise the cost of doing business.

5.3. Limitation of the Study

A number of the targeted respondents were not able to respond to the questionnaire due to diverse reasons. While the Deputy CEO was out of the country and was very committed prior to and subsequent to the travel, one manager was on leave while two others feared they would compromise the bank's confidentiality.

The study lumped the various regional markets into one. It therefore assumed that they possess similar characteristics and can be judged wholesomely. However, the reality is that there are unique characteristics affecting each market and the strategy and factors affecting the growth strategy may differ from one market to another.

5.4. Suggestions for Further Research

While the study considered the regional growth strategy of KCB, reasons and factors affecting the strategy, no attempt was made to pass a value judgment on the strategy. It is likely that bank's strategy will turn out to be one of the smartest decisions by the bank. It is equally likely that the strategy will with time prove a drain on the bank's resources without resulting in tangible benefits for the bank and its shareholders. A study can therefore be done to evaluate the appropriateness or otherwise of the strategy.

Another area that can be studied is to establish the extent to which each of the factors affecting regional growth strategy is likely to impede growth. For instance, how bad are the expatriate workers' policies or how low is the labour quality in the region? These are

questions that can give rise to a future study or studies, which would challenge the regional policy makers to improve their markets' attractiveness.

Finally, since this study was case based and confined itself to factors affecting the KCB, it would be in order for studies to be carried out on non-banking sectors or a cross section of sectors. Such a study would highlight other factors that are unique to the sectors.

5.5. Recommendations for Policy and Practice

KCB has compelling reasons for pursuing the regional growth strategy given that there have been changes in the environment such as the formation of EAU, signing of CPA and increased local competition that justify such a strategy. However, some of the markets such as Sudan and to some extent Rwanda are so subsistence that immediate benefits should not be reasonably expected to materialize. The bank should therefore have a more long term view of the markets. However there is a risk that the bank will do the groundwork in the markets only for the competition to come in when the markets are 'ripe' and snatch away clients. The bank should therefore build customer loyalty that will withstand entry of new players. The bank should further adopt Michael Porter's generic strategies in the regional markets, namely differentiation, cost leadership, and focus (niche). This will give the bank competitive advantage even when other players venture into the markets.

The bank should introduce a staff exchange program where it sends some of its staff from the Kenyan market to work in the regional markets in exchange of the staff in the regional markets working in Kenya. This would have the twin benefits of exempting the Kenyan staff from the tough expatriate workers policies and offering practical training to staff of the new markets.

KCB should also alone or in conjunction with other organizations who have regional presence lobby the regional governments to deal with some of the issues that are detrimental to business. Such issues as expatriate workers' policies, delay in issuing licenses, high costs of doing business, low labour quality amongst others can be addressed through actions by the governments. Moreover, the bank should in some of its

Corporate Social Responsibility (CSR) initiatives target the entire East African region. For instance, the bank should use its privileged position in the Kenyan motor sports to lobby for an event covering the East African region. This would create goodwill and address the poor brand perception problem.

The bank may also need to reconsider its entry modes both in the markets they are already in and the new markets. Buying off or merging with existing banks may enable the bank to stamp its authority in those markets more quickly and overcome some of the problems it has had to deal with such as delayed licensing and poor brand perception. However cost, ownership and other implications must be carefully evaluated before embarking on such a strategy.

With suspicions and political risks that characterize some of the regional countries thereby affecting KCB's growth strategy, the bank needs to develop an exit strategy which it can activate when circumstances become unfavourable. This is important in ensuring that the bank does not incur huge capital as well as human losses. Such a strategy would involve closely monitoring the environment and where conditions deteriorate to certain preset parameters, the exit strategy is activated.

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APPENDIX I

LETTER OF INTRODUCTION

23rd August 2006

Charles Kamanda
Kenya Commercial Bank
Treasury Division
Head Office
NAIROBI

Dear

REQUEST FOR RESEARCH PROPOSAL DATA

I am a student undertaking a degree in Master of Business Administration at the University of Nairobi.

I am carrying out a research proposal project in partial fulfillment of the degree requirement.

The research proposal topic is, '**Factors Influencing Regional Growth Strategy of the Kenya Commercial Bank Limited**'.

I kindly request you to fill in the attached questionnaire. The information you give will be used purely and solely for academic purposes and will be treated with utmost confidentiality.

Should you require a copy of the research paper, I will gladly oblige.

Regards,

Yours Faithfully,

Charles Kamanda

C.C. **Dr. Martin Ogutu**
Research Supervisor

APPENDIX IV

QUESTIONNAIRE II ss

PART A

1. KCB management has been very enthusiastic about the bank's regional growth strategy. What are the major reasons for pursuing the strategy?
2. To what extent has the revival of East African Union motivated KCB to pursue regional growth strategies?
3. To what extent has the signing of Comprehensive Peace Agreement (CPA) in Sudan motivated KCB to pursue regional growth strategies?
4. To what extent has the signing of peace deal in Somali motivated KCB to pursue regional growth strategies?

5. It took 9 years since the bank opened its first foreign subsidiary in Tanzania for it to open the second subsidiary in Southern Sudan? What caused this long delay in the pursuit of the strategy?
6. The Ugandan market has been attracting Kenyan companies. Why has KCB kept off the market until now?
7. And Rwanda?
8. Could you enumerate the challenges you have encountered in the pursuit of the regional growth strategy. To what extent have the challenges affected the implementation of the strategy?

9. What are the financial implications to KCB, of opening a foreign subsidiary and is the bank in a position to fund all the operations without raising more funds from the shareholders?
10. Does the bank intend to continue marketing its existing products in the local market or will its focus shift to the new regional markets?
11. Does the bank intend to continue launching new products into the local market?
12. Will the bank offer the same products it has to the new markets or will it launch new products that are specifically designed for the new markets?
13. Which of the following strategies will the bank adopt in the new markets?
(Tick as appropriate)
- Market Leader (Attain largest market share)
 - Market Challenger (Attain largest market share and adopt aggressive pricing, delivery and promotional tactics)
 - Market Follower (Maintain market share but adopt cautious marketing)
 - Market Nicher (Offer specific products to only some specific market)

14. KCB has so far ventured into new markets by incorporating fully owned subsidiaries. Are there plans to use any other entry mode and if so which one(s)?

PART B

In order of importance, how do you rate the following factors as having influenced your decision to invest in the region?

	Extremely Important	Very Important	Moderately Important	Little Important	Not important at all
1. Attractive regional markets []		]	[] []	(!] [] [	
2. Promise of higher profits []					
3. Reduced operational costs []				[1	
4. Increased revenues [1]			[1]		
5. Protection from trade Recession [1]		]	I 1 I		
6. Follow competition [1]			I]	[1	
7. Follow customers [1]			[1 I 1		
8. Grow market size []		[]	[]	[]	[]

9. Advance KCB services	[			
10. Unfavorable home market	[	]	[	]
11. Cheap labor	[	]	[	]
12. Capital/Technology availability	[	]	[	]
13. Inducement by host governments	[	1	[	]
14. Boost corporate image	[	]	[	]
15. Management enthusiasm	[	]	[	1
16. Saturated home market	[	]	[	]
17. Keep potential competitors busy	[	]	[	]
18. Risk Diversification	[	]	[	1
19. Overcome barriers to trade	[	]	[	]
20. Response to customer needs	[	]	[	1
21. Deployment of excess capacity	[	]	I	1

Thank you for taking time to respond to the questions.

APPENDIX III

QUESTIONNAIRE II r

On a scale of 1 to 5, where 1 represents no adverse effect, 2 little adverse effect, 3 moderate adverse effect 4 great adverse effect and 5 greatest adverse effect, how would you rate the following factors as likely to affect KCB's growth strategy in **Rwanda**? Please tick as appropriate,

a) Economic

	1					5
1. Lack of credit	[					[1
2. Low levels of disposable income	[	I	1	[	1	[1
3. Low pace of economic development	[	I	1	[	1	[1
4. Population size/Growth rate	[	[	1	[	1	I 1
5. Instability of exchange rates	[	[	1	[	1	[1
6. Instability of interest rates	[	I	" 1	[	1	[I
1. Poor infrastructure development	i	[	1	[	]	[1

b) Physical

	1					5
8. Poor political relationship with neighbors	[	[	]	[	]	[1
9. Poor economic relationship with neighbors	[	[	]	[	]	[]
10. Unfriendly service features/topography	[	[	]	[	]	[1

11. No natural resources	[]	[1	[1	[]	[1
12. Harsh climatic conditions!	]]	I 1	[1	()	[1

c) Political

	1	2	3	4	5
13. Government ownership of business	[]	[1	[1	I]	[1
14. Strong Nationalism	[]	[1	I 1	I I	I 1
15. Insecurity	[]	[1	[1	I 1	I 1
16. Instability of government	[]	[1	[1	I 1	[1
17. Instability of government policy	[]	[1	I 1	I 1	I 1
18. Hostilities between ethnic groups	[1	[]	[]	I 1	[1

d) Legal

	1	2	3	4	5
19. Legal complexity	I]	[1	[1	[1	[1
20. Tough Tax laws	[1	[1	I 1	I 1	[1
21. High risk of confiscation, nationalism or expropriation!	]]	[1	[1	[1	[1
22. Wage, Price or currency controls	[]	[1	[1	1 1	[1
23. Lack of industry/business regulation	]]	[1	[1	I 1	[1

e) Socio-Cultural

	1	2	3	4	5
24. Unfamiliar Local Language(s)	[1	I 1	[1	[1	[1

25. Local peoples inability
to learn a new language [1] [1] [1]

26. Low education/literacy
levels [] I 1 I 1

f) Labour

	1	2	3
27. Low labour quality	[]	I 1	I 1
28. Low labour quantity	[]	I 1	I 1
29. Tough expatriate workers' policies	[1]	I]	I 1
30. Strong labor Movements	[1]	I]	I 1

g) Other factors

		2	3
31. Tough foreign investment controls	[]	[]	I 1
32. KCB's financial capacity	[]	[]	I 1
33. Capability of KCB's management team	[]	[1]	I 1
34. Erosion of KCB's revenue in the short-term	[]	[1]	I 1

Thanks for taking time to respond to the questions.

APPENDIX IV

QUESTIONNAIRE II ss

On a scale of 1 to 5, where 1 represents no adverse effect, 2 little adverse effect, 3 moderate adverse effect, 4 great adverse effect and 5 greatest adverse effect, how would you rate the following factors as living affected KCB's growth strategy in **Southern Sudan**? Please tick as appropriate,

a) Economic

	1	2	3	4	5
1. Lack of credit	☐	☐	☐	☐	☐
2. Low levels of disposable income	☐	☐	☐	☐	☐
3. Low pace of economic development	☐	☐	☐	☐	☐
4. Population size/Growth rate	☐	☐	☐	☐	☐
5. Instability of exchange rates	☐	☐	☐	☐	☐
6. Instability of interest rates	☐	☐	☐	☐	☐
Poor infrastructure development	☐	☐	☐	☐	☐

b) Physical

	1	2	3	4	5
8. Poor political relationship with neighbors	☐	☐	☐	☐	☐
9. Poor economic relationship with neighbors	☐	☐	☐	☐	☐
10. Unfriendly service features/topography	☐	☐	☐	☐	☐

No natural resources [] [] 1 1
; Harsh climatic conditions! [] [1 1

c) Political

3. Government ownership

of business [] I 1 I

4. Strong Nationalism [] 1 1

15. Insecurity [] [1 I

16. Instability of government [1 1 1

17. Instability of government policy [] I 1 I

18. Hostilities between ethnic groups [] 1 1

d) Legal

1 2 3

19. Legal complexity [] 1 1

20. Tough Tax laws I 1 I 1 I

21. High risk of confiscation, nationalism or expropriation [1 1 1

22. Wage, Price or currency controls I 1 I 1 '

23. Lack of industry/ business regulation [1 [

e) Socio-Cultural

1 2 3

24. Unfamiliar Local

Language(s)	[]	1 1	1 1
-------------	----------	-----	-----

Local peoples inability to learn a new language	[]	[]	1 1
--	----------	----------	-----

6. Low education/literacy levels	1 1	1 1	1 1
-------------------------------------	-----	-----	-----

f) Labour

	1	2	3
27. Low labour quality	[]	[1	I
28. Low labour quantity	1 1	1 1	I
29. Tough expatriate workers' policies	[]	I	
30. Strong labor Movements	[]		1

g) Other factors

31. Tough foreign investment controls	[1	I	1	^	'
32. KCB's financial capacity	[1	I	1	•	1
33. Capability of KCB's management team	[1	I	1	I	1
34. Erosion of KCB's revenue in the short-term	[1	I			

Thanks for taking time to respond to the questions.

APPENDIX IV

QUESTIONNAIRE II ss

On a scale of 1 to 5, where 1 represents no adverse effect, 2 little adverse effect, 3 moderate adverse effect, 4 great adverse effect and 5 greatest adverse effect, how would you rate the following factors as having affected KCB's growth strategy in **Tanzania**? Please tick as appropriate,

a) Economic

	1	2	3	4	5
1. Lack of credit	[]	[]	[]	[]	[]
2. Low levels of disposable income	[]	[]	[]	[]	[]
3. Low pace of economic development	[]	I]	I]	[1	[1
4. Population size/Growth rate	I]	[]	[]	I 1	I 1
5. Instability of exchange rates	[]	[]	[]	[]	1 1
6. Instability of interest rates	[]	[]	[]	[]	[]
7. Poor infrastructure development	[]	[1	1 1	I 1	I I

b) Physical

	1	2	3	4	5
8. Poor political relationship with neighbors	[]	[1	1 1	1 1	' 1
9. Poor economic relationship with neighbors	I]	[1	I I	' '	'
10. Unfriendly service features/topography	I]	I I			1 1

11. No natural resources

12. Harsh climatic conditions!

c) Political

13. Government ownership
of business

14. Strong Nationalism

15. Insecurity

16. Instability of government

17. Instability of government
policy

18. Hostilities between
ethnic groups

d) Legal

19. Legal complexity

20. Tough Tax laws

21. High risk of confiscation,
nationalism or expropriation

22. Wage, Price or currency
controls

23. Lack of industry/
business regulation

e) Socio-Cultural

24. Unfamiliar Local
Language(s) [

25. Local peoples inability
to learn a new language [] **I 1 I 1**

26. Low education/literacy
levels [] [] []

f) Labour

	1	2	3
27. Low labour quality	[1	[1	[]
28. Low labour quantity	j]	[]	[]
29. Tough expatriate workers' policies	[1	[]	I 1
30. Strong labor Movements	[]	[]	[]

g) Other factors

	1	2	3
31. Tough foreign investment controls	[]	[]	[]
32. KCB's financial capacity [J	[]	[]	[]
33. Capability of KCB's management team [J	[]	[]	[]
34. Erosion of KCB's revenue in the short-term	[]	[]	[]

Thanks for taking time to respond to the questions.

APPENDIX IV

QUESTIONNAIRE II ss

On a scale of 1 to 5, where 1 represents no adverse effect, 2 little adverse effect, 3 moderate adverse effect, 4 great adverse effect and 5 greatest adverse effect, how would you rate the following factors as likely to affect KCB's growth strategy in **Uganda**? Please tick as appropriate.

a) Economic

	1	2	3	4	5
1. Lack of credit	[]	[]	[]	[]	[]
2. Low levels of disposable income	[]	[]	[]	[]	[]
3. Low pace of economic development	[]	[]	[]	[]	[]
4. Population size/Growth rate	[]	[]	[]	[]	[]
5. Instability of exchange rates	[]	[]	[]	[]	[]
6. Instability of interest rates	[]	[]	[]	[]	[]
7. Poor infrastructure development	[]	[]	[]	[]	[]

b) Physical

	1	2	3	4	5
8. Poor political relationship with neighbors	[]	[]	[]	[]	[]
9. Poor economic relationship with neighbors	[]	[]	[]	[]	[]
10. Unfriendly service features/topography	[]	[]	[]	[]	[]

11. No natural resources [] [] [] []
12. Harsh climatic conditions [] I [] I [] []

c) Political

- 1
13. Government ownership
of business []
14. Strong Nationalism []
15. Insecurity | 1
16. Instability of government!]
17. Instability of government
policy [1
18. Hostilities between
ethnic groups [|

d) Legal

- 1
19. Legal complexity [1
[]
20. Tough Tax laws
21. High risk of confiscation,
nationalism or expropriation [|
22. Wage, Price or currency
controls []
23. Lack of industry/
business regulation [|

e) Socio-Cultural

- 1
24. Unfamiliar Local
Language(s) [1 [I []

25. Local peoples inability
to learn a new language [] **I** **1** **I**]

26. Low education/literacy
levels [] I 1 I 1

f) Labour

	1	2	3
27. Low labour quality []	[]	[]	[]
28. Low labour quantity []	1	[]	I]
29. Tough expatriate workers' policies []	[]	I 1	I 1
30. Strong labor Movements []	[]	[1	[]

g) Other factors

	1	2	3
31. Tough foreign investment controls I]	[]	[]	
32. KCB's financial capacity (J []	[]		
33. Capability of KCB's management team []	[]	[]	
34. Erosion of KCB's revenue in the short-term []	[]	[]	

Thanks for taking time to respond to the questions.

APPENDIX VII

SECONDARY DATA COLLECTION QUESTIONNAIRE

Source Document

1. What regional growth strategy is the bank pursuing?

2. What are the major reasons for pursuing the regional growth strategy by KCB?

What factors affect the regional growth strategy?