

**CONTROL MEASURES USED BY EQUITY BANK TO
INFLUENCE OPERATIONS IN ITS SUBSIDIARIES IN
EAST AFRICA**

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DECLARATION

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

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

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DEDICATION

I dedicate this work to my mother Agnes Nyambura King'ori who started me off financially on this quest and for her moral support during the duration of my studies at the University of Nairobi and to my brother Felix Kibira King'ori who will hopefully finish his studies soon.

ABSTRACT

This research project was a case study that sought to find out the control measures used by Equity Bank to influence operations on its subsidiaries in East Africa. Equity Bank Limited is a Kenyan bank that is incorporated and registered under the Kenyan Companies Act CAP 486. It trades in the Nairobi Stock Exchange and the Ugandan Securities Exchange. Even after being declared technically insolvent in 1993, Equity Bank Limited has risen from the ashes to emerge as a leader in the finance sector and has been awarded several awards such as 'best bank in retail banking'. Over the years, it has spread its wings to open up subsidiaries in the East African region and has several branches spread out in Uganda, Tanzania, Rwanda and South Sudan. International business involves trade across a nation's borders. Globalization has played a large role in the increase of international business. International business is usually carried out by private enterprises and government. Private enterprises usually engage in international business to increase profits. International business led to growth of the multinational corporations. Multinational corporations are firms that are headquartered in one country but have operations in one or more countries. To ensure that their branches met set goals, MNC's use control on their subsidiaries. Control is a management practice whose aim is to ensure that plans set in motion are being followed and that corrective measures are taken to ensure that deviations from the set plan are rectified. Control is a multidimensional management practice and it is a process where one entity influences the operations of another entity through the use of power, authority and other bureaucratic, formal and informal mechanisms. The study used primary data which was collected using an interview guide with open-ended questions. The data was obtained from two branch managers of Equity Bank and one Relationship Officer. Content analysis was then used to analyse the respondents view on the control mechanisms used by Equity Bank Limited. From the data gathered, it was found that Equity Bank Limited uses a variety of control methods on its subsidiaries. These methods involved different mechanisms that can fall into three broad categories of output control, behavioral control and organizational culture and clan control. Output control methods include financial measures, how organizational goals are being followed and through the use of operating budgets. Behavioral methods of control are related to organizational structure, appraisal of staff and following laid down rules and procedures. Organizational culture and clan control are implicit methods of control such that employees find themselves doing certain things because it is expected of them. The findings and discussion on the study have been presented in continuous prose. The conclusions of the study were that the bank headquarters controls its subsidiaries both strategically and structurally. Strategic measures of control are geared towards ensuring that organizational goals are met and employees are kept on track through evaluation and corrective measures taken where there are deviations. By using strategic control methods, the organization achieves efficiency through monitoring company processes Structural control methods deal stemming from the organizational structural and define roles and responsibilities for everyone. It defines the reporting system and how information is cascaded in the organization. A summary of the findings and recommendations are given at the end of the study.

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LIST OF ACRONYMS

EBL.....	Equity Bank Limited
EQT.....	Equity
IT.....	Information Technology
MNE.....	Multinational Enterprise
MNC.....	Multi National Corporation

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

International business is the study of business transactions taking place across national borders for purposes of satisfying the needs of individuals and organizations (Rugman and Collinson, 2009). It refers to all commercial transactions- private or government- between two or more countries. Private companies undertake such transaction for profit purposes while governments may not do so for profit purposes. These transactions include: sales, investments and transportation. Companies engage in international business for various reasons among them being: expand sales, diversify sources for sales and supplies, acquire resources, and minimize competitive risks, profit advantages and because of growth opportunities arising from certain government policies and regulations (Rugman and Collinson, 2009). International business and trade led to the development of multinational corporations/ enterprise where a company has set up operations in two or more nations to take advantage of growing populations, better laws and regulations and diversifying their markets (Bennet,2009). Going international presents new challenges as a result of new environments, different regulations and different cultures. As result, there is need for an international firm to prepare long term strategic goals touching on the effectiveness of getting market shares and efficiencies of getting rising profits.

Chang and Taylor (1999) define control as “the process by which one entity influences to varying degrees the behavior and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms.” Using

this definition, control can be done through the organizational structure which show who reports to whom and from whom direction will be sought. The chain of command is important as it eases communication in the organization. Apart from structural control, strategic control is also used to ensure that subsidiaries comply with the set goals of the whole organization. As such, control refers to the processes that a multinational corporation uses to ensure that their subsidiaries operate in a particular way that is determined by the multinational headquarter. This is done to ensure that subsidiaries do their part to achieve organizational goals (Chang and Taylor, 1999)

Equity Bank Limited is one of the commercial banks in Kenya. Its predecessor is the Equity Building Society and it is a public company that trades in the Nairobi Stock Exchange and the Ugandan Securities Exchange (www.equitybankgroup.co.ke). It belongs to the banking and finance industry and as of 2012, it had over 6000 employees in Kenya and it has subsidiaries in the East African region. It enjoys the largest customer base in Kenya mainly because of offering products suited to low- income areas, promotion of agribusiness focusing on rural banking. The company has attracted a lot of global accolades and recognition and developing countries in Africa and Asia hope to learn from the bank's low margin, high- volume model. Equity Bank Limited is also known for its corporate social responsibility especially in the education sector where it has made an impact in its Wings to Fly programme. In this programme, the bank invests in thousands of high school children through their school fees and mentoring them during the holiday sessions. Equity also picks the best district performers in K.C.S.E. offering them employment in their banks and supporting them when they get to the university. The

bank has transformed the lives of many people by offering access to loans to low- income earners.

1.1.1 Concept of International Business

International business is a term used to collectively describe all commercial transactions- private and government that take place between two or more regions, countries and nations beyond their political boundaries (Bennet, 1999). In most cases, private companies undertake such transactions for profit while governments may undertake such transactions for political reasons and not necessarily for profit. International business refers to all business activities that involve cross- border transactions of goods, services and resources between two or more nations. The transaction of economic resources include capital, skills and people for the international production of physical goods and services for example banking, insurance, finance and construction.

The conduct of a company's international operations depends on its particular objectives and the means with which to carry those objectives. The operations affect and are affected by the competitive environment of the company as well as by physical and societal factors. The company's operation objectives can include sales expansion, resource acquisition and risk minimization (Rugman and Collinson, 2009). The means of achieving these objectives can be done by using different modes such as importing, exporting, licensing, franchising, direct investment, management contracts and portfolio investments. A company can also use functions such as marketing, accounting, global manufacturing, finance, global manufacturing and supply chain management to achieve

its objectives. The company's organization structure, choice of country and the control mechanisms it employs will also help the company achieve its objectives.

1.1.2 Control Measures Used By Multi- National Corporations

Control is a management practice that involves among other things the types of strategic performance and control standards used in different areas of production, marketing and finance (Farmer and Richman, 1966). Multi- national corporations use a wide range of mechanisms to keep control of their subsidiaries abroad. These measures include: share capital in the case of joint ventures, active participation in the board of directors, staff expatriation, technology transfer, staffing of key management positions, training and employee socialization. Multi- national corporations do not necessarily embrace all these measures to control their subsidiaries but they will combine different measures to suit their needs.

International control processes should include strategic planning where a company should adopt its resources and objectives to the different changing markets. The company's long range strategies should be developed and internal resources analyzed. A good organizational structure should be developed that should take factors such as nature of organization's policies into consideration. The organization's location of decision making should also be determined and it can vary from time to time to adapt to the changing environment, changing products and overall objectives of the organization (Venkateswaran, 2009).

Control approaches are always determined by the multinational's philosophy of control the economic environment in which the subsidiary is operating in. A number of

performance measures can be used as control techniques. These include financial performance, quality performance and personnel performance. Financial performance is based on the profits and Return on Investment (ROI). Return on Investment is measured by dividing net income before taxes by the costs of investments. Return on Investment is a popular as a control and evaluation measure as it measures how well a subsidiary manager is using the investments at his command (Rugman and Collinson, 2009). Quality performance measures how customers are treated and how products and procedures benefit the customer. Performance of personnel is the periodic appraisal of the staff to find out if they are on track to meet the organization's goals.

1.1.3 Multi- National Corporations in Kenya

Multinational corporations are firms that are headquartered in one country but have operations in one or more than one other country (Rugman and Collinson, 2009). Multinationals play a key role in international trade. Multinational corporations in Kenya offer financial infrastructure and also invest in the social and economic development in the country. According to the Kenya Bureau of Statistics Economic Survey 2007, there are about 213 multinationals operating in Kenya. Kenya not only plays host to multinational corporations but it is also home to multinational corporations that have subsidiaries in other nations. Apart from offering employment opportunities to Kenyans, multinational corporations also have corporate social responsibilities that promote the welfare of Kenyans. Of these multinational corporations, 13 are banks that are foreign owned. Some locally owned banks such as K.C.B., Co-operative Bank and Equity Bank Limited are multinational banks headquartered in Kenya but with subsidiaries in the East African region.

1.1.4 Equity Bank Group

Equity Bank Group is a public company in the banking and finance industry. The bank is incorporated and registered under the Kenyan Companies Act Cap 486 and licensed under the Kenya Banking Act (Chapter 488). Michael (2010) observes that the new banking model involve cross- border business that allows banks to set up branches outside their home country and enter new countries and regions. Equity Bank Limited headquarters are located in Upperhill, Nairobi and it has subsidiaries in Uganda, Southern Sudan, Rwanda and Tanzania. Its main products are loans, mortgages, investments, debit and credit cards. The bank was founded in October 1984 as Equity Building Society and was originally a provider of mortgage financing especially for customers in the low income population. Even after being declared technically insolvent in 1993, Equity Bank Group returned the following years and it has severally been voted the” best bank in retail banking”. Equity Bank Group stock is traded at the Nairobi Stock Exchange under the symbol EQTY and in June 2009 the Group’s stock was cross- listed in the Ugandan Securities Exchange under the symbol EBL (www.equitybank.co.ke).

In 2010, the bank established Equity Group Foundation. This innovation and creative vehicle has fully transformed the idea of corporate social responsibility and philanthropy. Equity Group Foundation champions for the socio- economic transformation of people and seeks partnerships along six thematic areas which are: education and leadership development, financial literacy and access, entrepreneurship, agriculture, health, innovations and environment. The infrastructure delivery of the foundation is delivered by Equity Bank Group thus reducing the operating costs of running the foundation.

By 2012, Equity Bank had more than 8 million customers making it the largest bank in terms of customer base in Africa and having nearly half of the bank accounts in Kenya. By the end of March 2013, the Group posted a profit before tax of Kshs. 4.52 billion up from Kshs. 3.73 billion during the same period in 2012. Profit after tax jumped by 22% to Kshs. 3.21 billion from Kshs. 2.63 billion posted during the same period last year. It remains its commitment to empowering its clients to transform their lives and livelihoods. Its business model is anchored on accessibility, affordability and flexibility. The bank has over the years evolved to become an all-inclusive financial services provider with a growing pan African footprint. The bank also employs alternate delivery channels such as Visa branded automated teller machine cards, points of sales where customers can pay for goods and withdraw money, internet and mobile and agency banking (www.equitybankgroup.co.ke).

1.2 Research Problem

Michael (2010) observes that the new model banking involves cross border business that allows banks to set up branches outside their home country and enter new countries and regions. As companies enter into new markets, changes happen to both risk and profit. The management's perception to risk exposure grows in light of gradual development of experience. As a firm goes international, it can achieve satisfactory performance in three ways: effectiveness, efficiency and competitive strength (Venkateswaran, 2009). Effectiveness deals with gaining a market share, efficiency is about raising profits while competitive strength is how it performs in relation to other firms within the same industry. As when dealing in its home country, a MNC has to develop plans that will steer to greater heights. These plans will be in operation for the whole organization as it

has one vision despite operating in various countries. The plans have to be implemented by personnel and the company will evaluate if the plans are going so they can take corrective action if necessary.

Venkateswaran (2009) observes that MNCs face increasing challenges from various sources. One such challenge is that of different market environment in the host country which could be different from the multinational's home country. Another challenge is operating in an environment whose rule and regulations are different. With this in mind, a multinational has a challenge because subsidiaries must follow the set plans of what is decided by headquarters yet they have more information about how their specific environment operates. A multinational has to come up with answers to various questions such as: What decisions should be made by subsidiary managers and which decisions have to be made at the headquarters? How do we ensure that we get timely information? How do we evaluate staff to ensure goals of the company are being met?

MNCs, therefore, face a challenge of having their subsidiaries follow the set objectives while at the same time wanting the subsidiaries adapt to the local market needs. A multinational company, therefore, has to balance the level at which it intends to control the subsidiary so that the objectives of the whole organization are met. At the same time, the subsidiary should be left some degree of latitude in doing some things and making some decisions to take advantage of the market where it operates. A multinational corporation should therefore identify what it aims to control in the subsidiary. Once this is identified, the multinational should then develop the means of how to control the factor identified. The means should be simple and communicated within the organization as they will provide the way in which a subsidiary is evaluated.

For a multinational company to fully benefit there is need to for it to evaluate the control measures that are to be used on their subsidiaries. Considering that a subsidiary is an agent of the headquarter and that agents are risk- averse, headquarters should determine how subsidiaries should operate so they contribute to overall organizational goals. Previous studies done on multinational subsidiaries include a study done by Kagocha(2012) where he studied ‘The Internationalization of Banks: A Case Study of Kenyan Banks’. Sila (2012) researched on ‘The Corporate Parent- Subsidiary Relationship and the Strategy of the Subsidiary at Barclays Bank, Kenya’. Another related study is that of Ogemba (2012) whose study was on ‘Combined Competitive Strategies by Commercial Banks in Kenya in the Changing Global Environment: A Case Study of Equity Bank’. So far, no study has been done on the control measures used by Equity Bank Limited on its subsidiaries in East Africa. This study therefore aims to fill the knowledge gap by answering the question, “What control measures are used by Equity Bank Limited to influence operations on its subsidiaries in East Africa?”

1.3 Research Objective

The objective of this study was to determine the control measures used by Equity Bank Limited headquarters in Nairobi to influence the operations of its subsidiaries in the East African region.

1.4 Value of the Study

This study will be beneficial to members of the academic world as it adds knowledge to existing body of control theories used by multinationals on their subsidiaries. The study will also benefit other researchers who may use this study as reference material.

This study will be valuable to the staff and management of Equity Bank Limited as it will highlight the reasons why headquarters control their subsidiaries. More understanding as to why subsidiaries are controlled may help ease tension of staff who wonder why they have to follow what bank management at the headquarters say instead of them being allowed to set their own objectives. The bank management will benefit further as a further understanding of control will be shown.

The government and other policy makers will also benefit since they will get more knowledge in the different control mechanisms used by multinational corporations on their subsidiaries. As firms continue growing and expanding, this study can act as a reference point as to the measures that can be used to control subsidiaries so that the overall organizational goals are met.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of related literature on the topic to be studied by various authors, analysts and researchers. The materials used have been drawn from various sources related to the theme of the study and its objectives.

2.2 Theoretical Foundation of the Study

This study was based on the agency theory and corporate governance. Agency relationship theory refers to relationship between two parties where one is the principal and the other is the agent (Eisehardt, 1989). The agency theory assumes that agents are self- interested, risk- averse rational actors who want to exert less effort and higher capabilities than they have. Thus, the goals of the principal and the agent are not aligned because they have different interests. Corporate governance is the system in which organizations are directed and controlled. A governance structure specifies the distribution of rights and responsibilities among the different stakeholders in the organization. Governance specifies the rules and procedures of making decisions in corporate affairs and provides a mechanism for monitoring the actions, policies and decisions of a corporation.

2.3 International Business

The term international business refers to all international dealings of country with regard to the exchange of goods, services and information for commercial purposes (Hill and

Jones, 2011). International business has been enhanced by globalization of economies. Globalization has several facets including globalization of markets, production and human resource. With competition in the local markets becoming more and more concentrated through direct or indirect competition, companies have had to explore external markets for their goods and services and to also seek for resources. The rise of international trade and globalization has brought about the rise of the Multinational Corporation. A multinational corporation is any business that has productive activities in two or more countries (Hill, 2011). To operate in various countries, multinational corporations use subsidiaries where they invest a lot of resources. It is therefore prudent for them to establish various ways of controlling the subsidiaries to ensure they remain tuned to the overall corporation's goals

2.4 Control Measures Used by Multinational Corporations

George and Jones (2011) define organizational control as the process whereby managers monitor and regulate how efficiently and effectively an organization and its members are performing the activities necessary to achieve set organizational goals. With control, an organization is able to keep an organization on track and anticipate events that may happen and develop ways of mitigating against negative impacts. Control helps in keeping employees focused and motivated and it also aims at taking corrective measures if there are any deviations on the set organizational goals (George and Jones, 2011).

Control is also the process by which one entity influences to varying degrees the behavior and output of another entity through the use of power, authority and a wide range of bureaucratic, cultural and informal mechanisms (Chang and Taylor, 1999). MNCs use a

wide range of mechanisms to keep control over a subsidiary. These mechanisms include having a share capital in joint ventures, expatriation of staff, active participation in the board of directors, staffing key management positions, training and socialization and technology transfer (Rabbiosi, 2011). Different control theories have been put forward to explain why multinational corporations need to control their subsidiaries. The agency relationship theory explains best why there is need to control a subsidiary. The agency relationship theory is between two parties where one is the principal and the other is the agent (Eisehardt, 1989) In the case of multinational corporations, the headquarters is the principal while the subsidiary is the agent. The agency theory assumes that agents are self- interested, risk- averse rational actors who want to use less effort and higher capabilities than they are allowed. Thus the goals of subsidiaries and their headquarters are not aligned.

The control process can be broken down into four main parts. In the first part there is need to establish what will be evaluated. This involves having standards of performance, goals or targets which are measurable. The second part involves having performance measured. Managers can have two things measured: actual outputs resulting from behavior of staff and measuring behavior itself (George and Jones, 2011). Thirdly, actual performance is compared with the set performance standards. Lastly, the results are evaluated and corrective action taken if set targets are not being met.

The level of headquarters control refers to the level of centralization or decentralization of decision making authority that headquarters will exercise over its subsidiaries (Venkateswaran, 2009). The control mechanisms involve different measures. First, a corporate culture can be used to enforce the corporation's explicit bureaucratic controls.

This can be in the form of how staff dresses, keeps time and how they relate with other work colleagues. Secondly, a corporation can use different coordinating methods to control subsidiaries. Here, headquarters can develop teams with members of staff from different countries, establish liaisons among subsidiaries and base rewards partially on global results so that subsidiary managers are committed to the organization's goals. Lastly, reports can be used to control subsidiaries. Reports are always needed by headquarters to allocate resources, correct plans and reward staff. Reports should be accurate and timely as they are used to make decisions on how to use capital, human resource and technology.

Multinational corporations can use either direct or indirect control on their subsidiaries (Venkateswaran, 2009). In direct control, top executives can visit subsidiaries where they can learn first-hand the problems and challenges that the subsidiary is facing. Staffing is another method used in direct control where headquarters determine whom to send to the subsidiary to run it. The corporation's organization structure also forms a control mechanism. By designing a structure that makes the unit highly responsive to the home office requests and communications, the multinational corporation ensures that the subsidiary runs according to the centralized decisions. An organization structure can be established through formal reporting and a chain of command.

Indirect control makes use reports written forms of communication which are sent to headquarters from the subsidiaries. Usually, three sets of reports are needed: statements to meet the national accounting standards and procedures as prescribed by law and other professional organizations in the host country, statements prepared to comply with all the accounting principles and standards as required by the home country and statements

prepared to meet the financial consolidation requirements of the home country. Indirect control methods are preferred as they are less expensive and are usually done monthly. Direct methods like visits by top executives, can be done annually or semi- annually.

Subsidiaries are controlled strategically or structurally. Structural control mechanisms imply measures used to control subsidiaries through the organization structure. An organization structure is the framework around which the corporation is organized that tells members how the organization is put together and how it works (Wien, 2010). An organizational structure describes how staff members are accepted, how leadership is chosen and how decisions are made. Three elements of structure are inherent in an organization structure namely: governance, rules by which the organization operates and distribution of work.

Strategic mechanism measures are not directly related to the organizational structure. Strategic measures used to control subsidiaries are strategic planning, financial control and strategic control. By using strategic planning, a corporation focuses on a few core businesses with headquarters actively participating in formulating strategies with the subsidiaries. The aim is to help subsidiaries make better decisions and can be done by corporate socialization where job rotations across subsidiaries and management development programs are considered. This builds identification with the company and also helps in building commitment to the company. In their study, Gupta and Govindarayan (2009) differentiate between lateral and vertical socialization. Lateral socialization refers to mechanisms such as job transfers to other subsidiaries and participation in multi-subsidiary executive programmes. Vertical socialization refers to mechanisms such as job transfers to corporate headquarters and participation in corporate

mentoring programmes. Another strategic planning mechanism is resource sharing or allocation (Wien, 2010). Resources such as marketing, manufacturing, research and development are allocated among subsidiaries and shared amongst subsidiaries or between headquarters and subsidiaries. Resource sharing limits the flexibility of a subsidiary as there has to be coordination and consultation on the use of particular resources.

Financial control is usually done through performance evaluation which can be tied to compensation. Subsidiary managers are responsible hence accountable for the performance of their subsidiaries. The subsidiary management competition is used as a mechanism to align the goals of subsidiaries with those of headquarters (Wien, 2010). Reward is offered for meeting the goals of headquarters. Budgeting is also used to control subsidiaries. Subsidiary management is tasked with preparing budgets where they show projected cash inflows, cash outflows and costs. The budgets are used to help plan for the subsidiaries and also to control them. Operating budgets can be used as measurement tool where headquarters can evaluate how a subsidiary manager is utilizing organizational resources to meet organizational goals (George and Jones, 2011).

Monitoring and evaluation is a form of strategic control used by headquarters to control subsidiaries. Wien (2010) suggests that agency problems can be overcome and control established by headquarters through the separation of risk-bearing and management functions. It is the work of headquarters to control their subsidiaries. Headquarters should evaluate the performance of subsidiaries and once it allocates resources to the subsidiaries it should follow up to ensure that the subsidiary utilizes the resources to meet the overall organization's goals.

2.5 Multinational Corporations in Kenya

A multinational corporation is a company that is headquartered in one country but has operations in one or more countries (Rugman and Collinson, 2009). Multinational companies are interchangeably referred to as the Multi-national enterprise or the Transnational company (Hill, 2011). Companies become multinational for a variety of reasons. The first is to diversify against the risks and uncertainties of the domestic market business cycle. By setting up a subsidiary in another country, the multinational company aims at diminishing the negative effects of economic swings in their own countries. A multinational also invests in subsidiaries to take advantage of a wider market for its goods or services. Following a competitor strategy, a multinational corporation aims to take away the business of its competitors by offering customers other choices (Rugman and Collinson, 2009).

Kenya is both a host and home of multinational corporations. Multinational corporations offer employment opportunities to local people and provide in the social development through their corporate social responsibility activities. There are 213 multinational corporations in Kenya according to the Kenya National Bureau of Statistics report of 2007 whereby 61% are foreign owned and 31% are locally owned. Most multinational corporations that are foreign owned are of European origin- 53% while those from Asia comprise of 22% (Muthiani, 2012). Globalization has played a large role in the development of multinational corporations. Bretton Woods's institutions such as World Bank and International Monetary Fund have facilitated the lowering of barriers to international trade through creation of international agreements. The international capital market has developed as a result of the multinational corporation. Multinational's need

capital to invest and this has led to international banks setting up their subsidiaries in Kenya. European, American and South African banks have set up subsidiaries in Kenya. Kenyan banks on the other hand such Kenya Commercial Bank and Equity Bank have set their subsidiaries in the East African region.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives information on how data was collected, analyzed, presented and the information used to draw conclusions.

3.2 Research design

A case study research design was adopted in this study. A case study is an empirical enquiry which investigates a contemporary phenomenon within a real life context (Yin, 1994). He argues that a case study allows an investigation to remain holistic and meaningful to real life events. In addition, Kothari (1990) describes a case study as a form of qualitative analysis that involves careful and complete observation of a social unit which may be a person, family or institution. A case study also allows the researcher to study in-depth the topic under investigation rather than breadth. Case studies enable a researcher collect data and explain the phenomenon much more deeply and exhaustively (Mugenda and Mugenda, 2003).

3.3 Data Collection

Data was collected from Equity Bank Limited headquarters. The targeted respondents were: Group Director of Operations, General Manager- Internal Audit and the Group's General Manager of Business Performance and Financial Reporting. The respondents gotten were two branch managers and a relationship officer. Open-ended questions and guided questions were used to gather data for. This enabled the researcher collect

qualitative and current data to get a better understanding and insightful interpretation of results gotten.

3.4 Data Analysis

Data analysis is a body of methods that help to describe facts, detect patterns, develop explanations and test hypotheses. Data was edited for consistency and completeness. It was then analyzed systematically and the data summarized according to the study theme which is “Control Measures Used by Equity Bank to Influence its Subsidiaries in East Africa”. Therefore, content analysis was used to analyse the data as it does not set barriers and the respondents can express themselves fully. Data collected has been presented in continuous prose with regard to the objective of the study.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents an analysis of the study findings and also interprets the findings of the study. The chapter addresses the objective of the study which is to determine control measures used by Equity Bank Limited headquarters in Nairobi to influence the operations of its subsidiaries in the East Africa region. The study sought to answer the following question, ‘What control measures are used by Equity Bank Limited to influence operations in its subsidiaries in East Africa?’ The researcher obtained information from two managers and one relationship officer who work for the bank. The researcher also found out that the bank uses three types of control namely: output control, behavior control and organizational control which are expounded in detail in this chapter.

4.2 Output Control

The top management at Equity Bank Limited has chosen goals that they want to achieve each year. These goals are then translated into output performance measures that can be measured in terms of efficiency, quality, response to customers and innovation. The bank uses three mechanisms of control to measure outputs of the subsidiaries. These mechanisms include financial measures of control, operating budgets and ensuring organizational goals are being met.

Various financial measures are used to measure performance of subsidiaries. The first that is used is return on investment which is a profit ratio and allows the headquarters to

compare performance of one branch and another and to also compare the performance of different subsidiaries. Return on investment is an organization's net profit before taxes divided by its assets and it allows an organization to know its competitive advantage. Another financial measure used is current ratio which is a liquidity ratio obtained by dividing current assets by current liabilities. It measures how well subsidiary managers have protected organizational resources to meet short-term obligations. The debt-to-assets ratio is a leverage ratio that shows to what extent managers used borrowed funds to finance operations.

Subsidiaries are also controlled on how they use their operating budgets. Operating budgets state how subsidiary managers intend to use given organizational resources to achieve set goals. Top management at Equity Bank Limited allocates subsidiaries a certain amount of money. The subsidiary managers then decide how to allocate the given money for different activities to achieve the overall organizational goals. The subsidiary manager is then evaluated on how well they stayed within the budget and how well they made use of organizational resources. Equity branches are treated as business units where they are supposed to generate profits and each branch's contribution to the overall organizational goals can be measured. The bank uses the Enterprise Resource Planning System which enables quicker and faster access to employees' directory allowing among other things tracking of leave management, procurement process, asset management and the financial records of each branch. Thus, the financial performance of each branch can be known at the click of a button.

Organizational goals are also used to control subsidiaries. Once organizational goals are set, they are communicated throughout the organization and subsidiaries are given targets

to meet. The goals set at subsidiary level are harmonized with the overall organizational goals and all employees work together in harmony to achieve these goals.

4.3 Behavioral Control

Behavior control aims at keeping employees on track and ensuring that organization structures work. The bank's organizational structure ensures that the subsidiary units are highly responsive to the headquarters and subsidiaries are run according to the central management decisions. Direct supervision of staff is done to ensure that they are on track on meeting organizational goals. The bank headquarters at Nairobi decides whom to send to the subsidiaries to run it. Junior staff is supervised and taught behavior that is appropriate and that which is not appropriate. The top management at Equity headquarters in Nairobi visits the subsidiaries annually where they see for themselves the challenges facing the subsidiaries. The bank directors meet with all branch managers on a quarterly basis and on a face- to- face method for a session of feedback and reporting. During these meetings, the branch managers give their reports and also report on customers' experiences and how new bank strategies are being adopted.

As a way of evaluating employees behavior and ensuring that organizational goals are being met evaluation of staff is done twice a year. Thus, the bank uses some form of management by objectives since set goals should be evaluated to find out if they are being met or not. All staff in the bank even at subsidiary branches is appraised every March and December. The evaluation is bases on key performance indicators based on the bank's core values of professionalism, integrity, creativity and innovation, teamwork, unity of purpose, respect and dignity for customers and effective corporate governance.

Staff reward is linked to meeting the Group's objectives at the end of the Group's financial year.

Bureaucratic control is also used to control behavior in some instances at the bank. This is done through establishing rules and standard operating procedures to be followed. These procedures specify what employees should do in certain circumstances or when they confront a problem and need guidance on how to solve it. The bank operations are constantly under review and enhancement by the risk management department comprised of compliance, enforcement and audit departments. The compliance department visits branches and head offices regularly to update staff on new processes and procedures and the enforcement department follows after them to ensure that the new processes are being followed to the letter. The audit department visits branches, subsidiaries and head offices to ensure that their IT applications meet the bank's security standards and that the financial performance is being met when compared to the set targets.

4.4 Organizational Culture and Clan Control

Organizational culture refers to the shared set of beliefs, norms and work routines that influence how employees in an organization relate to one another and how they work together to meet the organization's goals. Clan control refers to control exerted on individuals by groups in an organization through shared values, expectations and standards of behavior. It is not an externally imposed system of constraints and usually employees internalize organizational values and know what is expected of them. One way that helps in organizational culture at Equity Bank is that during training members of staff from all subsidiaries are trained together. Staffing is centralized and an employee

can be posted to work in any branch within the East African region. Also, the bank's tagline of 'Your Listening, Caring Partner' can be seen in the way the employees work as they aim to reach out to low- income population within the East African region. The creation of a Research and Development unit in the bank's human resource department also shows that it is customer oriented as it researches on customer experiences and views and also analyses the market with regard to product and processes. Apart from having a centralized way of hiring staff other bank resources are shared such as marketing.

To further encourage teamwork, all branches of the bank are required to have teambuilding activities where they build on teamwork. The researcher also found out that lateral and vertical socialization takes place through transfers within the bank's region subsidiaries. These transfers are either from one subsidiary to another or from a subsidiary to the bank headquarters. The bank also offers staff training that incorporates staff from all subsidiaries. Implicit clan control of staff was identified in the mode of dressing for staff and time- keeping.

4.5 Discussion of Results

From the above findings, is evident that Equity bank uses different methods of controlling its subsidiaries in the East Africa region. The use financial measures of performance such as return on investment, current ratio and debt- to- assets ratio is an objective method as it comes from a subsidiary own performance and considering that the bank uses the Enterprise Resource Planning System each branch can, at a click of a button, view its performance online and compare its performance with other branches or subsidiaries. Such financial controls can tell top management when intervention is

necessary if a subsidiary is not performing as expected. Corrective measures can then be taken such as changing management, having more training for staff or evaluating the market they are operating in to find out if they can approach it in a different manner. Another course of action that may be taken is that of reducing costs which means cutting back on some activities.

The second output control method used by the bank is that of operating budgets. Subsidiary managers are allocated resources to help them run their units. These resources are to be used to generate income for the bank and at the end of the evaluation period a subsidiary manager will be appraised on whether they kept within the budget or not. They will also be evaluated on how they made best use of organizational resources to generate more business for the Group.

When it comes to organizational goals, each employee has a part to play towards the overall Group's objectives. At the beginning of the appraisal period, the bank's goals for the financial year are communicated. Each subsidiary gets the specific goals it should achieve and the managers have to develop the strategies they will use to achieve those goals. The managers will then set individual goals with the employees.

Behavior control is an external imposed system of constraints imposed on individual employees of an organization. It can be in the form of direct and indirect control. In direct control at Equity Bank Limited there is direct supervision of employees where managers monitor and supervise their subordinates. This way, corrective measures can be taken when an employee deviates from the norm. Direct control can also be seen in the quarterly meetings held between the bank's directors and the all the branch managers of

the bank. These meetings are interactive and provide sessions of feedback and reporting. Since factual figures are used in the meetings, the directors can get to know why a particular subsidiary is not meeting its goals and corrective action can be recommended. Top management from the bank headquarters also visits the subsidiaries once a year. These visits can be an eye opener to the top management on the challenges facing the subsidiaries. The visits also keep subsidiary employees on their toes as they would not like to be caught doing anything wrong.

Another type of behavioral control used by the bank is that staff evaluation. From the results gotten, Equity Bank Limited staff is evaluated twice a year in March and December. Staff is evaluated on several key performance indicators that are drawn from the bank's core values of professionalism, integrity, creativity and innovation, teamwork, unity of purpose, respect and dignity for customer and effective corporate governance. Some of the targets set include the number and value of accounts opened in a certain duration and the number of loans or mortgages processed within a given duration vis- a-vis the set targets.

The last behavioral control that is used by the bank is that of bureaucratic control which involves regulating employee behavior through set rules and standard operating procedures. To ensure that employees follow these rules, the bank's risk management department regularly reviews and enhances different procedures and processes. The bank's compliance and enforcement department visit all branches, subsidiary and head offices regularly to update enforce new rules and procedures while the audit department is tasked with ensuring that IT applications meet the bank's security standards and that financial goals are being met.

By using behavioral control, the bank headquarters ensures that there is some form of standardization in the Group's banking system. This made easier since the IT system used is the same throughout the region and the products offered are also the same. Thus, when it comes to measurement of how one individual is doing it will be easier to compare as there are no differences in the bank products. Behavior control also makes people to be more predictive as they will do something more automatically. Unfortunately, this can have a negative effect when there is need to introduce a new procedure. The bank's risk department can be commended for ensuring that there is compliance of procedures within the Group's banking sector. Through centralization of some processes such as marketing and hiring, headquarters ensures that subsidiaries only have some latitude in some decisions. This reduced flexibility for the subsidiary shows that they are being controlled from headquarters.

Organizational culture and clan control in Equity bank can be said to be tied to its tagline which is 'Your Listening, Caring Partner'. Equity bank staff treats customers very well irrespective if their financial background. Thus, it seems this is something that is an organizational culture and each employee internalizes this. Training incorporates staff from all subsidiaries thus this is a form of socialization. Transfers also happen across the subsidiaries (lateral socialization) and transfers also happen from subsidiaries to headquarters (vertical socialization). Team building activities help staff in bonding and working as a team to achieve organizational goals. Other implicit clan control activities include mode of dressing, time- keeping in way that when one is employed they tend to follow what the other staff is doing.

From the discussions above one can conclude that the bank headquarters controls the subsidiaries both strategically and structurally. Strategic control comes from the manner in which subsidiaries are under obligation to meet the overall bank's goals through setting of targets for the subsidiaries. The meeting of these targets is then evaluated to ensure that they are on course to being met. As an organization is made of different cadres of staff, each cadre has its own set of key indicators and measurements that will be used in evaluating them at the end of the appraisal period. In strategic control, managers decide which goals to measure and in the case of Equity Bank these goals are financial based such as profit generated over a certain period. Other goals measured are tied to productivity such as the number of customers served, value of accounts opened and number of loans processed.

Structural control is the manner in which the organization is controlled through the organizational structure. An organizational structure gives the way in which reporting is done and the way in which information is transmitted in an organization. Equity Bank Limited has an organization structure that makes the subsidiaries highly responsive to the bank's headquarters and the bank's headquarters ensure that subsidiaries run according to its decisions. Thus decision making at Equity Bank Limited can be said to be centralized as goals are set for subsidiaries at the bank's headquarters.

As this study's theoretical foundation is based on the agency theory and corporate governance the findings gotten by the researcher support the theory that agents must be controlled and guided so that their interests are aligned with those of the parent company or headquarter. In this case, the subsidiary is the agent who is working on behalf of the parent in the East African region. Left on their own, the subsidiaries are self-

interested, risk-averse and want to use less effort. This is why the headquarter sets targets that are to be met by agent. The headquarters on their part supports the subsidiaries by offering the needed resources and training.

Corporate governance is concerned with the system in which organizations are controlled and directed. In corporate governance, there is specific distribution of rights and responsibilities among the different stakeholders. Rules and procedures are specified and then a mechanism for monitoring their compliance is provided. The stakeholders of a company are: shareholders, managers, employees, customers, suppliers and distributors and the community at large. Shareholders are the owners of a company as they have bought its shares. However, since there are many managers hired to run the company on their behalf. It is the managers who bear the responsibility of making tough decisions such as the goals that the company should follow. At Equity Bank Limited, the board of directors has a say in where they want the bank to be and in consultation with corporate bank managers they draw the goals of the bank and how they will be achieved. As stakeholders, employees form the bulk of the bank's workers who work in various departments and positions to meet the goals set by top management. They are regularly monitored and evaluated to see if they are on track and corrective measures taken if they are not. It is mostly because of them that rules and procedures are made so that the organization meets its set targets. They are offered training, their performance evaluated and rewarded for meeting set goals.

The community is a stakeholder since the bank is located somewhere such as in a town or a particular neighbourhood. One way that Equity Bank Limited contributes to the economic development of the location it operates in is through its Community Social

Responsibility activities. The bank's headquarters give guidelines on how to identify who will benefit from the bank as the needs of a particular community are many compared to a bank's limited resources. Customers served by the bank are stakeholders who are important since they are the ones who ensure the subsidiaries survival. Thus, there is need to increase efficiency and effectiveness in the bank procedures in order to attract and retain customers. There is also need to create products that are of value to the customers. The government is another important stakeholder since the bank is registered with it. The government also sets up the regulations that are to be followed by companies. This is important as customers' rights need to be protected. Taxes also have to be paid and the government needs several financial statements to verify information given by a company. Thus, compliance from subsidiaries is important as their statements are consolidated with those of headquarters and prepared to meet the national accounting standards as prescribed by the government.

In conclusion, to perform better than competitors bank controls subsidiary operations strategically and structurally. Strategic decisions are made by top level management in consultation with the board of directors and the bank's directors. These decisions are translated into goals that can be measured and communicated throughout the bank. Bank headquarters also manages the function of recruitment, training and marketing from a centralized place thus limiting these functions for the subsidiaries. Lateral and vertical transfers also ensure that there is socialization of staff. Meetings are held every quarter between all managers and the bank's directors. Structural control is done through the organization structure where everyone knows where to report to. Roles and responsibilities are assigned for each member of staff and everyone is inducted to what is

expected of them. Monitoring and evaluation of staff is done to ensure that subsidiaries are focused on the bank's overall goals. If there are any deviations, then corrective measures are taken. Organizational culture also forms an implicit form of control since new staff will behave the way they find the older staff behaving.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of key findings, conclusions drawn from the key findings and recommendations made there-to. The conclusions drawn here are based on the general objective of the study which was to determine the control measures used by Equity Bank Headquarters in Nairobi to influence the operations of its subsidiaries in the East African region. The study also sought to answer the question, ‘What Control Measures are Used by Equity Bank Limited to Influence Operations in its Subsidiaries in East Africa?’

5.2 Summary of Findings

In answering the research question put forth at the beginning of the study, the researcher found out that the bank uses three types of control methods as summarized below.

5.2.1 Output Control Mechanisms

The first mechanism of output control is the use of financial performance such as return on investment, current ratios and debt- to- assets ratio are used. These ratios enable the bank’s headquarters to evaluate how well subsidiary managers are utilizing the organization’s resources to generate profit. The ratios also help managers know if they have enough resources to pay off claims of short- term creditors. The debt- to- assets ratio helps management know the level at which subsidiaries are using borrowed funds to finance several investments. The results of such financial ratios help management know

the results of decisions already made. As such, they only serve to know whether decision that was made was beneficial or not.

The second output control mechanism used by Equity Bank Limited is the use of operational budgets. Operational budgets are blue-prints used by managers and show how managers intend to use the organizational resources at their disposal to achieve set targets. Once subsidiary managers are given the necessary resources by headquarters, they then decide how to allocate the resources in the different branches they have so as to get most value from those resources. The subsidiary managers will then be evaluated on how well they stayed within the budget.

Following organizational goals is the third output control mechanism used by the bank. Here, the goals of subsidiaries are harmonized with those of the whole organization. Organizational goals are set by the top management of the bank. These goals are communicated throughout the organization and each person has their own goals to achieve. Evaluation of staff is done to ensure that they within the set parameters of achieving these goals and if there are any deviations then corrective measures are taken.

5.2.2 Behavioral Control Mechanisms

These mechanisms tend to be explicit and tend to rely on the organizational structure. The first of these mechanisms is direct supervision where junior staff is supervised by a manager, branch managers report to the various directors of the bank and the directors to board of directors. In this mechanism, managers actively monitor the activities of those under them and teach them what is acceptable and what is not acceptable behavior. The top management of the bank visit the subsidiary annually to assess their challenges and

strengths. Every quarter, the bank directors meet with all branch managers for a session of feedback and reporting on customer experience and how strategies are being adopted within the bank's structure.

Secondly, the bank management uses several objectives and targets to evaluate staff. All bank staff is evaluated twice a year in March and December. Key performance indicators on where staff will be appraised are drawn from the bank's core values. Staff reward is linked to the overall Group's performance.

The last mechanism under behavioral control is that of bureaucratic control where rules and standard operating procedures are enforced throughout the bank branches, subsidiaries and the bank's head offices. The bank's risk department has the following units: compliance, enforcement and audit. The compliance and enforcement units visit all branches and head offices to introduce new procedures/ processes and ensure that they are followed. The audit unit visits all branches in the region and head offices to ensure IT applications meet the bank's security standards and to also ensure that financial performance is being met when compared to the set targets.

5.2.3 Organizational Culture and Clan Control Mechanism

This is a more implicit form of control that is exercised by people who share a set of beliefs, expectations, values, work routines or norms. Clan control is exerted by on an individual by other individuals that they work with or that they share a common belief system. Organizational culture relies on employees internalizing an organization's values and then letting those values guide one's character and decisions. At Equity Bank Limited, these values can be seen in the staff across the region treat their customers and

also in their work ethic. Conforming to manner of dressing and time- keeping are other implicit control mechanism observed.

Organizational culture can be inculcated through socialization. At Equity Bank Limited, there is lateral and vertical socialization. Lateral socialization occurs when one is transferred from one subsidiary to another. Vertical socialization occurs when one is transferred from a subsidiary to the head office. Socialization also occurs during training since staff from different subsidiaries are combined together during training sessions. Teambuilding exercises are also used by branches to develop teamwork.

Other control measures exerted on subsidiaries are hiring, training and sending staff from home office to the subsidiary branches. Hiring is centralized at Equity Bank Limited and applications are received from across the regions it operates. Once one is inducted they can be sent to work in any branch especially for management positions. Training is done in Nairobi and most of the top management in subsidiaries is from the home country. Marketing is also controlled by headquarters thus making subsidiaries less flexible in incurring marketing costs.

5.3 Conclusions drawn from the study

From the findings gotten, a conclusion can be drawn that Equity Bank Limited headquarters control its subsidiaries using a variety of methods based on their strategies and organizational structure. The organization structure provides a reporting system for all staff members from the top management right down to most junior staff. The organizational structure also provides the chain of command which is necessary especially when cascading information up or down the chain. The structure also allows

one to know who is evaluated by whom. Organizational structure also allows one who supervises them. This supervision allows managers to monitor their juniors and to teach appropriate behavior. Supervision can be used to motivate employees through promoting behavior that contributes towards the bank's efficiencies and effectiveness.

Strategic control methods such as the use goal setting, employee evaluation ensure that the bank keeps on track towards meeting overall organizational goals. Goal setting is done by top management in consultation with the board of directors. Once the goals are set, performance standards expected are developed and each employee is evaluated according to their position in the organization. The bank's evaluation is based on key performance indicators which are drawn from the bank's core values of professionalism, integrity, creativity and innovation, teamwork, unity of purpose, respect and dignity for customers and effective corporate governance. Appraisal is done twice a year in March and December and staff reward is linked to the Group's overall performance.

Another conclusion that can be made is that organizational culture also controls employees as some values are inculcated in them while clan control can be said to be in force as employees try to act the same. Socialization of employees during training periods plays a role in inculcating beliefs, values and norms that are shared within the organization. Lateral and vertical job transfers within the organization also play a role in socialization. Teambuilding activities enhance teamwork that is aimed in achieving organizational goals. Sharing of resources such as marketing also makes subsidiaries less flexible.

Control of subsidiaries is an important factor since it acts as an agent of the home company. As an agent of the parent company, subsidiaries are risk-averse that is why targets to achieve are set by bank's headquarters. They also receive support in terms of being allocated organizational resources to help in running operations that will contribute profits for the main organization. More profits can then lead to more earnings per share for the shareholder who is the owner of the company.

5.4 Recommendations

From the study done is evident that Equity Bank Limited tightly controls the East African region. While this is commendable since this a service industry, two recommendations can be made. First, there is need to have some rules be less constraining and have management listen to employees views on some rules. This will encourage the employees to be more motivated and will meet most of the set targets.

Secondly, there is need to have output standards that are achievable for the managers. Goals that can be met are motivating while those that seem high can cause managers to act in inappropriate ways as they try to meet set targets. For instance, in trying to meet set targets a manager may ignore some procedures of knowing their customers well (KYC- Know Your Customer). These may lead to a manager losing out if the customer does not fulfill their obligation if they had taken a loan and are unable to pay.

From the study and related conclusions, the researcher suggest further researcher in how control leads to better performance and growth in the financial sector. Further research can also be done on comparing how different banks use different control methods to achieve their objectives.

5.5 Limitations of the Study

There were limitations that were encountered in carrying out the study. As a part-time student who works 70 kilometers away from Nairobi it was hard balancing the rigours of a full-time job and part-time studies. As a self-sponsored student, there was also a limitation on the financial resources as the researcher had to rely on personal savings for the study.

Another challenge was encountered in the data collection stage. The researcher could not get the targeted respondents for information as they were very busy. However, the researcher got two branch managers and a relationship officer who provided pertinent information needed for the study.

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APPENDIX II

INTERVIEW GUIDE

1. Please state your name.
2. What is your position in the bank?
3. How long have you worked for the bank?
4. How many branches do you have outside Kenya?
5. Are the bank products the same throughout the region?
6. Are there any operation functions that are shared amongst the subsidiaries and headquarters? If yes, what are these functions and what is the criterion for sharing them?
7. Does the training offered to employees integrate all staff from all subsidiaries or does each subsidiary trained on its own?
8. How often do you require reports from your subsidiaries?
9. How often does the top management visit subsidiaries?
10. Is hiring of staff centralized or decentralized?
11. Is reward for staff linked to meeting the Group's objectives or just the subsidiary's objectives?
12. How often is staff appraised in the subsidiaries?
13. What are the main points that you assess staff in?

APPENDIX III

LIST OF FOREIGN BANKS IN KENYA

a) Foreign owned Banks in Kenya

- 1) Bank of Africa
- 2) Bank of India
- 3) Citibank N.A. Kenya
- 4) Habib Bank

b) Foreign owned banks but locally incorporated and partially owned by locals

- 5) Bank of Baroda (K)
- 6) Barclays Bank of Kenya
- 7) Diamond Trust Bank, Kenya
- 8) K- Rep Bank
- 9) Standard Chartered Bank (K)
- 10) Ecobank Limited
- 11) Gulf African Bank (K)
- 12) First Community Bank

c) Foreign owned but locally incorporated

- 13) UBA Kenya Bank Limited

