

**ENTRY STRATEGIES USED BY EQUITY BANK TO EXPAND
INTO EAST AFRICAN COMMON MARKET**

**BY
SUSAN NKIROTE GITONGA**

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

OCTOBER, 2013

DECLARATION

This research project is my original work that has not been submitted for examination to any other University.

Signed.....

Date.....

SUSAN NKIROTE GITONGA

D61/61543 /2011

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

Signed.....

Date:

DR. JOHN YABS

LECTURER

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENTS

I hereby express my sincere gratitude to the lecturers who have tirelessly trained, mentored and supported me through-out the study period.

My special regards go the strategic management lecturers and especially those in international business option. You have not only educated me but also open up my mind and eyes such that now I view the world from a different perspective. This knowledge I have acquired has opened and will continue to open up doors of growth in my career path.

In a very special manner I appreciate my supervisor Dr. John Yabs and modulator Mr. Mududa. Thank you for you dedicated guidance and support. May God bless you abundantly.

Lastly, I would like to acknowledge the support of my colleagues and classmates especially Josphat Orangi. The team work we played, encouragement during the hard times has clearly pushed us through the programme.

DEDICATION

I would like to dedicate this project to my beloved family. My dad Simon Gitonga, my mum Jacinta Nyoroka my sisters Lillian, Ketty, Sharon, Doreen and Rosemary and my auntie Pauline Kagendo and her family. Your support both financially and emotionally through-out the course and the life is highly appreciated.

Thank be to the Almighty God for allowing me get this far. May glory be to His Name always.

ABSTRACT

This study was aimed at finding out the entry strategies used by Equity Bank to enter into EAC market. This was a case study of Equity bank where qualitative data was collected from the Equity bank group i.e. the strategic managers heading the regional branches and the strategic managers at the head office in Nairobi. All the respondents were middle to high level managers. There was a response rate of 75% where by 9 out of 12 targeted respondents responded to the interview guide. For the respondents based in Nairobi, Face to face interviews were conducted while for those based in Rwanda, Uganda and South Sudan mailing of the interview guide was done. The study was hinged on two main theories the theory of competitive advantage and internationalization theory. The study found out that though the EAC market seems similar in terms of the conditions spelt out in the EAC protocol, the business environment are dynamic and different in each and every country. It was found out that Equity Bank has a large branch network of about 217 operational branches in the EAC market with the largest branch network being in Kenya followed by Uganda and the least network in Tanzania. Business environment in the EAC market is both volatile and dynamic. Though some of the characteristics are shared across the countries such as low percentage of the banked population, adverse effects on the political environment and high levels of corruption in the government institutions, most of the environmental factor are different. Some of business environment challenges include high inflation rates that increase the lending rates, incorporation challenges, preference of the national banks as opposed to the foreign banks, low levels of economic development hence low propensity to save and low disposable income and above all political interference that occurs all the time that there is change of government regime. However, these business environments have also set opportunity for Equity bank to explore therefore the registered success in the EAC market. These include the EAC protocol, Elimination of tariff among the EAC markets, political stability experience in the EAC market in the recent past and for the Equity bank internal environment competitive edge of the bank such as strong capital base. Equity bank group has carefully studies the challenges in the EAC market and opportunities offered by the environment and come up with strategies that have facilitated entry into this market. These strategies are as dynamic as the market and are only duplicated in the market that can work with them. These strategies inclusion of the unbanked population in the banking sector, adoption of cost effective and reliable technologies coupled with high degree of risk management that ensure safe and efficient operations, diversity of credit ranging from small amounts to very large amounts, reduction of the cost of the loans such as the processing fees and offering low interest rates to clients. Continuously opening branches and doing market research for each market needs and strategic alliances such as Joint ventures and Acquisitions. Most of these strategies have worked well for the bank. Equity bank has the highest number of branches I a foreign market that has almost similar economic status share boundary and almost similar cultural values.

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ABBREVIATIONS AND ACRONYMS

E.A.C	:	East African Common Market
FDI	:	Foreign Direct Investment
MNCs	:	Multinational Corporations
MNE	:	Multinational Enterprise
SWOT	:	Strengths Weaknesses, opportunities and Threats
TNC	:	Transnational Company
USD	:	United States Dollar
PESTEL	:	Political, Economic, Social, Technological, Environmental and Legal
BOU	:	Bank of Uganda
COMESA	:	Common Market for Eastern and South Africa
GOU	:	Government of Uganda

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Businesses choose to become multinational for various reasons such as learning in lead markets; In some circumstances, a company might undertake a foreign market entry not for solely financial reasons, but to learn, competitive attack or defence; In some situations, market entry is prompted not by some attractive characteristics of the country identified in a market assessment exercise, but as a reaction to a competitor's move.

The most common scenario is market entry as a follower move, when a company enters the market simply because a major competitor has done so. This is obviously driven by the belief that the competitor would gain a significant advantage if it were allowed to operate alone in that market, and so it is most common in concentrated or even duopolistic industries, scale economies or marketing leverage; a company seeks a larger market arena in which to exploit an advantage or a company may seek to exploit a distinctive and differentiating asset (often protected as intellectual property), such as a brand, service model, or patented product, increase sales and profits, enter rapidly growing markets, reduce costs; these include production, transportation and storage costs, gain a foothold in economic blocs; MNCs that acquire a company in a trade bloc or that enter into an alliance to do business in one of these economic strongholds can obtain a number of benefits including the right to protect domestic markets; Many MNC's are now entering an international market in order to attack potential competitors and thus prevent

them from expanding their operations overseas. Most multinationals reason that a competitor is less likely to enter a foreign market when it is busy defending its home market position, protect foreign markets and acquire technological and managerial know-how.

The market environment is a marketing term and refers to factors and forces that affect a firm's ability to build and maintain successful relationships with customers. Two levels of the environment are: Micro (internal) environment - small forces within the company that affect its ability to serve its customers. Macro (national) environment - larger societal forces that affect the microenvironment the micro environment refers to the forces that are close to the company and affect its ability to serve its customers. It includes the company itself, its suppliers, marketing intermediaries, customer markets and publics.

The company aspect of microenvironment refers to the internal environment of the company. This includes all departments, such as management, finance, research and development, purchasing, operations and accounting. Each of these departments has an impact on marketing decisions. For example, research and development have input as to the features a product can perform and accounting approves the financial side of marketing plans and budgets.

The macro environment refers to all forces that are part of the larger society and affect the microenvironment. It includes concepts such as demography, economy, natural forces, technology, politics, and culture. Factors affecting organization in Macro

environment are known as PESTEL, that is: Political, Economical, Social, Technological, Environmental and Legal. (Kotler, et al (2006).Success of a multinational company highly depends with the strategies it will put into place to take advantage of the excising business environmental factors (PESTEL).

The EAC market has highly promoted the investment opportunities for the investors especially Kenyan firms. This has been highly facilitated by the EAC protocol which encourages business by promoting Non-discrimination on the basis of nationality, sharing of information across the nations and equal treatment of Nationals. The goal is that movement of factors of production, goods and services between member countries is as easy as within the countries themselves. This has guaranteed efficient resource use, which is a competitiveness factor that attracts investment and boost economic growth.

In the EAC, Kenya has a stronger financial sector than the other countries. The EAC common market will expose Rwanda, Burundi, Uganda, and Tanzania to competition from Kenya's more efficient financial sector. Every country in the EAC takes advantage in sectors in which they have comparative advantage. For Tanzania it is mining, for Uganda, it could be agriculture and for Rwanda services.

1.1.1 International Business

International business activities involve cross boarder transaction of goods and services, resources between two or more nations. It involves transaction of economic resources such as capital, skills and people for international production of physical goods and

services such as finance, banking, insurance and construction. (Joshi et al, 2009).International business comprises all commercial transactions such as private and governmental, sales, investments, logistics and transportation that take place between two or more regions, countries and nations beyond their political boundaries.

Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons.(Daniels et al., 2007) It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transactions of economic resources include capital, skills and people for international production of physical goods and services such as finance, banking, insurance and construction. (Joshi, Rakesh Mohan, 2009). What countries to enter and when mainly depends on the financial resources of a company, the product life-cycle and the product itself. (Lymbersky C, 2008).

1.1.2 The Concept of International Strategy

This is a strategy mostly applied by MNC while establishing subsidiaries outside its home market. It involves a wide variety of business strategies across countries and high level adoption to local business environment such as the economic, political and social environments. Since the international business environment is continually changing there is need for crafting appropriate strategies that would assist businesses penetrate the international businesses and excel in these environments. Just like the National strategy in MNCs when changing direction or reforming direction for any on-going company or

institution, the basic goals, characteristics and philosophies which will shape the firms strategic posture must be determined.(Pearce and Robinson,2007)

1.1.3 Entry Strategies

Due to the complexities of the foreign markets, once a firm decided to join the foreign market it must also carefully design the entry strategy. This is done after a careful evaluation of the firm and the foreign market it is going to venture in usually through a SWOT analysis.

There are seven distinct market entry strategies namely: exporting, licensing, franchising, joint ventures, partnerships, strategic alliances and foreign direct investment (FDI). The most appropriate one is determined by market potential, the degree of international expertise and experience and the resources that a firm can commit to entering the chosen international market. The strategy that a firm choose is also determined to a certain extent by the country the firm have chosen to enter.

1.1.4 Kenyan Banks in EAC

East Africa community Market was established by a protocol in the 1st of July 2010 following ratification by all Partner states of the block. The market seeks to integrate partner state markets into a single market in which there is free movement of capital, people, goods and services and establishment of residence.The implementation of EAC common market is guided by four fundamental principles, namely: non-discrimination of nationals of other partner states on grounds of Nationality, equal treatment of nationals of

other partner states, transparency in matters concerning the other partner states and sharing information for smooth running of the protocol.

The East African Community (EAC) is an intergovernmental organisation comprising five countries: Burundi, Kenya, Rwanda, Tanzania and Uganda. The geographical region encompassed by the EAC covers an area of 1.8 million square kilometres, with a combined population of about 132 million (E.A Trade review July, 2009). Kenyan banks are on course to dominate east African banking with returns from their branches starting to have an impact on the overall performance of the mother companies. A Standard Investment Bank analysis brief notes that just five years ago, regional banking was the preserve of not more than five of Kenya's 43 commercial banks. But at the end of 2011, ten banks were operating regional subsidiaries in Uganda, Tanzania, Rwanda and Burundi. They operated 179 branches, equivalent to 15.4 per cent of Kenya's total network, and contributed 2.6 per cent and 9.8 per cent of the local banking sector's profit before tax and total assets respectively.(Trade mark East Africa,2013) The banks that include Kenya Commercial Bank, Diamond Trust Bank Kenya, Commercial Bank of Africa, Bank of Africa, Fina Bank, Equity Bank, I & M Bank, Imperial Bank, African Banking Corporation subsidiaries have in excess of US\$1.9 billion.(E.A Trade review, August 24th 2013).

According to statistics released by the Central Bank of Kenya (CBK) subsidiaries operating in Tanzania accounted for 36.7 percent of the total assets. While those operating in South Sudan accounted for 26 percent of the total assets, although only two

banks had presence there. Subsidiaries operating in Uganda accounted for 26.7 percent of the total assets with gross loans totaling Ksh89.4 billion with subsidiaries operating in Tanzania accounting for 47.9 percent of the total loans. Subsidiaries operating in Uganda accounted for 33.7 percent of the total loans. In deposits, subsidiaries had gross deposits worth Ksh152.5 billion with those operating in Tanzania accounting for 38 percent of the total deposits and those in south Sudan accounting for 27.6 percent. (E.A. Trade review, August 24th 2013).

“The growth prospects for the bank are very strong. There are still huge numbers of people in East Africa who don’t have bank accounts. Basically, only 20 per cent of East Africans have bank accounts, while 80 per cent don’t. That really becomes a huge opportunity for the bank. That informed the decision to move into those regions,” said Mr Mwangi. Kenya has a banked population of 28 per cent, Uganda 9 per cent, Rwanda 6 per cent, and Tanzania 12 per cent. Less than 1 per cent of South Sudanese operate accounts. (Daily Nation November, 12th 2012).

1.1.5 Equity Bank Group

This is a financial services organization in east Africa. The group's headquarters are located in Nairobi, Kenya, with subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. As of June 2012, equity bank group is a large financial services organization in East Africa, with an asset base valued at over USD2.66 billion (kes:220 billion), with a total customer base in excess of 7.8 million, in the region the group

serves. Shareholder's equity was valued at about USD421 million (KSH: 34.3 billion), in December 2011.

Equity began operations in Uganda after acquiring Uganda Micro Finance Limited (UML) at Sh1.7 billion and converting it into a commercial bank in December 2008. It went to South Sudan in 2009 and Rwanda last year. An analysis of its investment shows that the bank has injected Sh7.9 billion in its regional subsidiaries since 2008, with Uganda claiming the lion's share of Sh4.9 billion (62 per cent). (Daily Nation November 12, 2012).

The bank was named as the "best performing company in Africa" during the annual African investor index awards held 21 September 2009 in New York City. In June 2008, the bank was voted by Euro Money awards for excellence as the best bank in Kenya in June 2008. In Kenya, equity bank emerged the overall best bank in Kenya at the renaissance capital bank awards in August 2008 and was cited locally as the only stock that returned positive shareholder value during the year 2008 at the Nairobi stock exchange.

1.2 Research Problem

International business environment is characterised by many changes in business macro-operating environments such as political, economic, social, technological and environmental fronts. Strategic management is a management approach that enables organisational leaders to align the internal organisational environment with the changes

in the increasingly volatile business environment in which organisations operate (Lynch, 1997).

High experienced by the Kenyan banking industry has in the recent past pushed commercial banks to take advantage of regional integration and expand to countries within EAC where there are numerous opportunities offered by EAC market ranging from access to larger market (EAC population of about 132 Million people), access to cheaper labour compared to Kenyan labour, opportunities for Technology transfer especially in the less developed countries than Kenya, opportunities to markets and attacking the competitors. (Daily Nation, November 12th 2012).

However to successfully penetrate and succeed in this market there are a number of challenges such as difference in cultures, political systems, economic systems, and are at different levels of economic development, Interact with different governments. The strategies applied by different banks in these business environments highly determine the level of success and depth of penetration in the foreign markets. Equity bank has successfully established its roots the EAC market. However this has not come with a bunch of challenges that in some cases have led to losses and a long time for some branches to break even as observed in some newspapers. Over the past five years, Equity has consistently delivered above-sector returns. Key to this enviable track record has been the bank's strong rooting in banking the micro and low income segment while the low income segment has sustained build-up in liabilities, Equity is increasingly being forced to look at the corporate market to grow its assets," noted analysts at Standard

Investment. (Daily Nation, November 12th 2012). This therefore leads to the research question: What strategies has Equity bank applied in different business environments and which ones have succeeded?

1.3 Research Objectives

The main objective of this study is to determine the entry strategies applied by Equity bank to expand into the East African Common Market.

1.4 Value of the Study

Other banks: The results of this study will be of great importance to other banks especially those planning to venture their businesses into EAC. From the study they can easily gauge their capacities internally and determine which market conditions suits them best. They can also identify which strategies to apply in order to easily penetrate and excel in different markets.

EAC governments: Governments in EAC can identify from the studies what structures to put in place in order to facilitate foreign investments into their countries. These include establishing better legal framework, increasing government expenditure or reducing in certain sectors.

Researchers: The study will keenly analyse the success and failures of equity bank in various business environments hence point out areas of further studies.

Equity bank: From the findings in the study, Equity bank team can find out the areas the strategies applied have worked well for the company and areas whereby the strategies applied failed hence need for review.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The Main purpose of this Literature review is to situate the study of the entry strategies of Equity Bank in the EAC market, the justification of the applied strategies in the light of the applicable theories. Its main goals are to situate the current study within the body of literature and to provide context of this study.

2.2 The Internalization Theories

These theories try to explain the growth of transnational companies and their motivations for achieving international investment. There are many scholars who have done studies to find out terms and the reasons for exploring international markets and the factors that facilitate successful penetration and success of MNCs. This study is hinged on two main theories: the theory of comparative advantage and the theory of Foreign Direct Investment.

2.2.1 Theory of Foreign Direct Investment

This theory tries to explain the growth of transnational companies and their motivations for achieving foreign direct investment. Transnational companies are organizing their internal activities so as to develop specific advantages, which then to be exploited. (Buckley & Casson, 1976), there are two major determinants of FDI: One was the

removal of competition the other was the advantages which some firms possess in a particular activity (Hymer, 1976).

The eclectic theory is a mix of three different theories of direct foreign investments (O-L-I): Ownership advantages: This refers to intangible assets, which are, at least for a while exclusive possessions of the company and may be transferred within transnational companies at low costs, leading either to higher incomes or reduced costs. But TNCs operations performed in different countries face some additional costs. Thereby to successfully enter a foreign market, a company must have certain characteristics that would triumph over operating costs on a foreign market. These advantages are the property competences or the specific benefits of the company. The firm has a monopoly over its own specific advantages and using them abroad leads to higher marginal profitability or lower marginal cost than other competitors. (Dunning, 1988).

There are three types of specific advantages: Monopoly advantages in the form of privileged access to markets through ownership of natural limited resources, patents, trademarks, Technology, knowledge broadly defined so as to contain all forms of innovation activities and Economies of large size such as economies of learning, economies of scale and scope, greater access to financial capital; Location: When the first condition is fulfilled, it must be more advantageous for the company that owns them to use them itself rather than sell them or rent them to foreign firms. Location advantages of different countries are the key factors to determining who will become host countries for the activities of the transnational corporations.

The specific advantages of each country can be divided into three categories: The economic benefits consist of quantitative and qualitative factors of production, costs of transport, telecommunications and market size, Political advantages: common and specific government policies that affect FDI flows and Social advantages: includes distance between the home and home countries, cultural diversity and attitude towards strangers.

Finally from Internalization: Supposing the first two conditions are met, it must be profitable for the company the use of these advantages, in collaboration with at least some factors outside the country of origin (Dunning, 1973, 1980, 1988). This third characteristic of the eclectic paradigm OLI offers a framework for assessing different ways in which the company will exploit its powers from the sale of goods and services to various agreements that might be signed between the companies. As cross-border market Internalization benefits is higher the more the firm will want to engage in foreign production rather than offering this right under license, franchise. Eclectic paradigm OLI shows that OLI parameters are different from company to company and depend on context and reflect the economic, political, social characteristics of the host country. Therefore the objectives and strategies of the firms, the magnitude and pattern of production will depend on the challenges and opportunities offered by different types of countries.

FDI take place only if the benefits of exploiting firm-specific advantages outweigh the relative costs of the operations abroad (Hymer, 1976). MNE appears due to the market

imperfections that led to a divergence from perfect competition in the final product market. There is also a problem of information costs for foreign firms respected to local firms, different treatment of governments, currency risk (Eden and Miller, 2004). Transnational companies face some adjustment costs when the investments are made abroad. Hence FDI is a firm-level strategy decision rather than a capital-market financial decision.

2.2. 2 Theory of Competitive Advantage

Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high grade ores or inexpensive power, or access to highly trained and skilled personnel human resources. Competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Christensen & Fahey 1984).

A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player (Barney 1991 et al, 2003). Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Passemaid & Calantone, 2000). To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage (Reed et

al,2003,). Superior performance outcomes and superiority in production resources reflects competitive advantage (Day & Wesley 2002).

2.3 Benefits of International Business

Efforts made by various countries in attracting foreign direct investments are due to the potential positive effects that this would have on economy. International business would increase productivity, technology transfer, managerial skills, knowhow, international production networks, reducing unemployment, and access to external markets. (Caves, 1996).

FDI promote the competitiveness of local firms such as that between Mexico and Indonesia. (Blomstrom, 1994), while local suppliers benefit from spill over from supplying foreign customers. (Smarzynska, 2002), international business in form of FDI also leads to a spillover of advanced technologies to local firms (Findlay, 1978).

2.4 Reasons for Entering Foreign Markets

Competitive strategy specifies the distinctive approach which the firm intends to use in order to succeed in each of the strategic business areas. Competitive strategy gives a company an advantage over its rivals in attracting customers and defending against competitive forces.

Firms pursue competitive strategies when they seek to improve or maintain their performance through independent actions in a specific market or industry .There are two major types of competitive business strategies: cost leadership and product differentiation (Porter,1980).Firms pursuing cost leadership strategies attempt to gain advantages by lowering their costs below those of competing firms. Firms pursuing product differentiation strategies attempt to gain advantages by increasing the perceived value of the products or services they provide to customers. Competitive business strategies are important strategic alternatives for many firms, but they are not the only business strategic alternatives (Barnet, 1997). Competitive strategy needs to focus on unique activities (Porter, 1996).

The major determinants of international business flows using the gravity equation, controlling for the importance of both the traditional gravity variables (size, level of development, distance, common language) and other institutional variables such as shareholder protection (Pagano & Volpin, 2004),(La Porta et al.,1998).

International Business has got different benefits such as enhances the domestic competitiveness, takes advantage of international trade technology, increase sales and profits, extend sales potential of the existing products, maintain cost competitiveness in your domestic market, enhance potential for expansion of your business, gains a global market share, reduce dependence on existing markets and stabilize seasonal market fluctuations. (Jozef Konings, 2001).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology. The methodology led to valuable information for the relevant stakeholders after planned and systemic collection and analysis of data , research methodology is presented in details in the following order: research design, sampling procedure, data collection methods, instruments of data collection and the data analysis as explained below.

3.2 Research Design

A case study of Equity bank EAC market entry strategies was carefully analysed and conclusion about the successful strategies in different business environments was made. A Case study has been a common research strategy in business (Ghauri & Gronhaug, 2002) and community planning. The distinct need for case studies arises out of the desire of the researcher to understand the complex social phenomena. Case study method allowed the researcher to retain the holistic and meaningful characteristics of the real life events such as individual life cycles, organizational and managerial processes (Robert, 2002).The study mainly took a descriptive survey model seeking to analyse the level of success in various forces or factors a business is likely to encounter in a foreign market and their contribution to the level of penetration and success of business in the international business. The research was qualitative. At least two respondents in each of the foreign branches and the head office in Nairobi were interviewed.

3.3 Data Collection

Primary data was collected. The researcher used discussion guide as primary data collection instrument. The discussion guide was deemed appropriate to administer and to collect data to enable the achievement of the objective of the study. The secondary data that was collected helped gauge performance of the company in different markets and their level as success while the primary data will emphasis on the same. The interview guide contained

open ended questions (see Appendix 1).The interview guide targeted middle to top level managers in Equity bank. Many approaches were administered in collecting this data such as “drop-and-pick latter” for the office in Kenya and mailing for the offices in other countries. To ensure the appropriateness on the data collected a test run of the questionnaire was carried out.

3.4 Data Analysis

Content analysis was used to analyse the data. Content analysis as any technique used to make inferences through systematic and objective identification of specified characteristics of messages. (Nachmias & Nachmias,1996). After collecting data from primary sources, it was systematically organized to facilitate analysis then it was scrutinized to acquire information and make inferences.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This study was aimed at finding out different strategies adopted by equity bank in different business environment in the EAC market. Qualitative data was collected from the middle to high level manager in equity bank responsible either directly or in directly in strategic management of Equity group. The study was targeting 12 respondents from the branches in the EAC market and Kenyan head office. The response rate was 75% with nine out of twelve respondents responding on time. The rest three managers has not responded by the time the report was compiled mainly because they had many commitments and did not get time to respond.

4.2 Equity Bank in EAC Market Background

Equity Bank commenced business in Kenya on registration in 1984. It has evolved from a small Building Society, a Microfinance Institution; to currently the all-inclusive financial services provider, which is listed on the Nairobi Securities Exchange and Uganda Securities Exchange.

Equity Bank Group is one of the region's leading banks whose purpose is to transform the lives and livelihoods of the people of Africa socially and economically by availing them modern, inclusive financial services that maximize their opportunities. While the Equity

brand is associated with empowerment of un-banked & the poorly banked segment of population, the Bank has evolved to become an all-inclusive bank for all.

With nearly 8 million accounts, Equity Bank is the largest bank in the region in terms of customer base. The Bank has operations in Kenya, Uganda, South Sudan, Rwanda, and Tanzania. The vision of Equity Bank Ltd is to champion the social economic prosperity by availing those modern, inclusive financial services that maximise their opportunities.

The purpose of the bank is to transform the lives and livelihoods of their people socially and economically by availing them modern, inclusive financial services that maximize their opportunities. The vision is to be the champion of the socio-economic prosperity of the people of Africa while the mission is to offer inclusive, customer focused financial services that socially and economically empower clients and other stakeholders. The positioning is Equity provides Inclusive Financial Services that transform livelihoods, give dignity and expand opportunities while the tagline is your Listening Caring Partner and the Motto is Growing Together in Trust. The core values are professionalism, Integrity, Creativity & Innovation, Teamwork, Unity of Purpose, Respect & Dignity for Customers and Effective Corporate Governance

4.3 Branch Network in EAC Market

Equity bank has a large network of 160 offices in Kenya, 32 offices in Uganda, 6 offices in Tanzania, 9 offices in Rwanda and 10 offices in South Sudan. This wide branch network ensures that the around 8 million equity bank clientele get quality personalised service throughout EAC. The group has a vision of growing further into the EAC market

by establishing more branches to the Nations in the EAC market as follows: In Uganda the group has an intention of increasing the number of offices to 50 from the current 32 branches while in Tanzania 20 from the current 9, Rwanda 20 branches from the current 10 and South Sudan to 30 from the current 10 offices.

4.4 Business Environment in EAC Market

Equity bank is exposed to different business environments in EAC market. Being developing countries they share most of the characteristics in common such as the Low income per capita and high potential market since most of the East Africans is unbanked.

4.4.1 South Sudan

South Sudan economy was negatively affected during the years of civil war. This happened along with the banking sector. Before the signing of CPA, only a few banks from the Northern Sudan were operating in the South in major towns such as Juba, Wau and Marakal. However after the signing of Comprehensive peace Agreement (CPA) there was a turning point in the banking sector especially the south Sudan.

In south Sudan there is dual banking system (Islamic and conventional banking system since the signing of Wealth Sharing Agreement at Naivasha in the year 2004. This is clearly demonstrated in the Central Bank of Sudan. Conventional banking system is carried out at the South Sudan where Equity bank is established. The availability of

conventional banking system in South Sudan has further accelerated the speed with which equity bank was able to penetrate the South Sudan market.

4.4.2 Uganda

Uganda is open to foreign investment and provides attractive incentives for medium and long-term foreign investors. In addition to rigorous of the road network telecom sector is booming after the GOU lifted a moratorium on new mobile telephone operator licenses. This has generated new competition, lower prices, expanded coverage, and greater telephone penetration among the population and throughout the country. Further, Uganda has invested \$117 million on a national fiber-optic network to take advantage of the arrival of undersea fiber-optic cables in East Africa. This highly facilitates major developments in the banking industry as the telephony is another platform where branchless banking can be done.

The tax regime of Uganda is a bit high whereby business entities are taxed at 30%, though mining companies are taxed at rates between 25% and 45%. To facilitate free trade in the region and globally, Uganda has signed many multilateral and bilateral trade agreements such as Trade Investment Framework Agreement (TIFA), Common Market for Eastern and Southern Africa (COMESA), and EAC. However, numerous exceptions, unchanged regulations, and bureaucratic inefficiencies still hamper the free movement of goods, capital, and people. Uganda has also negotiated bilateral tax treaties with several nations, including China and South Africa. Capital markets are open to foreign investors. Foreign-owned companies are allowed to trade on the stock exchange subject to some

share issuance requirements, and the Kampala exchange contains cross listings of five Kenyan companies: Kenya Airways, East African Breweries, Jubilee Holdings Ltd., Kenyan Commercial Bank, and National Media Group and Equity Bank.

However, this does not come with a number of bottlenecks such as those posed by political unrest experienced in the country such as the Menace of Lords Resistance Army and the terrorist attack such as those experienced in the year 2008. The terrorist attacks have highly discouraged investor especially those of American origin with main travel restrictions in the country.

On dispute resolution the judiciary is highly invaded with corruption such that the exclusion of justice is hardly achieved especially for foreigners. In some cases culprits have been observed walk away and ignore the judgment of the courts. This puts foreign investors at a point of high possible loss in case of a dispute which further discourages foreign direct investment.

On the infrastructure just like any other EAC country Uganda is highly underdeveloped. Uganda's potential for larger amounts of Foreign Direct Investment (FDI), is tempered by weak infrastructure, insufficient electricity and high energy costs, the lack of a skilled workforce, political interference, and high levels of corruption. The dilapidated road infrastructure increases transportation costs and leaves the country vulnerable to bottlenecks and disruptions. This highly affects the banking sector in terms of operation

costs as there should be alternative sources of energy such as back-up generators to ensure there are uninterrupted operations in the bank.

On the lending front Uganda has experienced high interest rates ranging from 17-22% with most of the banks mainly lending to the commercial entities. This is because most of the citizens have experience problems attaining collateral as customary land is not considered as collateral by banks and the process of privatization of land is long and full of bureaucracy and corruption.

On the investment conditions, the most basic licensing condition is that investors creating 100% foreign-owned enterprises should commit in their proposals to invest a minimum of \$100,000 to their projects over a course of three years. This amount can include pre-investment activities and the cost of land, equipment, buildings, machinery, and construction. Foreign-owned banks and insurance companies are also subject to higher paid-up capital requirements than are domestic firms.

4.4.3 Rwanda

Rwanda market has in the recent past been rated as one on the easiest market for foreign market to set up and run the companies. As a bid to recover from the destruction experienced during the genocide Rwanda has set up a conducive environment for the investors to take advantage. This includes tax exception, Quick registration of the business (within 6 days one can register a company). Companies can even be registered online. Rwanda infrastructure is neither still underdeveloped with some areas nor well

connected to the power grid or proper road network. Being a land locked country, Rwanda imports most of the staff through other EAC countries connected to the port. This inflates the cost of products making Rwanda an expensive country to operate in.

Compared to other EAC customers Rwandese bankers do not have a skewed preference for their National banks. They are open to embrace all the banks that are at their disposal for as long as they get quality services. This has been demonstrated by the speed at which Equity bank was able to penetrate the market. Equity bank which first started its operations in Rwanda in the recent past and has so far attract more than Rwf 5.2billion in customer deposits with more Rwf 1billion already advanced out as loans and advances and banking over 30,000 customers.

Rwandese are also quick to embrace technology therefore the ease of Equity bank application of some of the technologies pilot tested in Kenya at a quick rate. However to maintain quality in services rendered to the people in Rwanda, there is need for highly trained staff. This is not readily available in Rwanda therefore need to incur cost of training and developing staff and in some cases hiring expertise which is expensive for Equity bank.

4.4.4 Tanzania

The Tanzanian economy depends heavily on agriculture, which accounts for more than 25% of GDP, provides 85% of exports, and employs 80% of the work force. However, most of the farmers remain poor since large amounts of produce never reach the market.

Poor pricing and unreliable cash flow to farmers continue to frustrate the agricultural sector.

As a country Tanzania suffers Foreign exchange shortages, bureaucracy and corruption continue to deprive banking sector the opportunity to grow and employ more people and increase the per capita income. Tanzania's history of political stability has encouraged Foreign Direct Investment. Government has committed itself to improve the investment climate including redrawing tax codes, floating the exchange rate, licensing foreign banks, and creating an investment promotion centre to cut red tape.

Tanzanian people prefer building their own as opposed to building an external investor. This has highly slowed down the rate of penetration of equity bank into the country as opposed to other EAC countries. Equity Bank Limited - Tanzania opened its doors for the first time on 9th February 2012 with two branches; Quality Centre Dar es Salaam and Arusha. The Bank now has a total of four branches having opened Golden Jubilee and Kariakoo branches in April and May 2012 respectively. As at end June 2012, the bank had mobilized over 13,500 customer accounts.

Generally, Equity Bank South Sudan registered remarkable performance despite the challenging operating environment; Equity Bank Uganda is consolidating its path to growth and improving profitability, while the two new subsidiaries (Rwanda and Tanzania) have recorded significant growth in their short period of operations.

4.5 Business Environment Challenges in EAC Market

The EAC market conditions are highly dependent on each other. The relationship is either of the market for each other or one as the linkage to the overseas countries. Land locked countries such as Uganda and Rwanda highly depend on the countries with the sea port such as Kenya and Tanzania for the import of their goods therefore a change in the economic nation affect the rest of the countries. This was demonstrated by the high inflation environment like the one experienced in year 2011 which resulted in high interest rates and slower private sector credit growth.

There are incorporation challenges experienced by countries throughout east Africa. There are different rules in different countries such the ownership of the companies. For example in Uganda it will take about 25 days and 18 different offices to register a company while in Rwanda a company can be registered in less than 10 days. In Tanzania there is too much bureaucracy with sceptical treatments leading to so much scrutiny of the foreign companies before they are incorporated. This too much bureaucracy increases the time for corporation and hinder the present opportunity. In the EAC market government have signed protocol of the trading blocks and the free trade areas. However this has not been bought in by the nationals hence there is an inherent problem of trying to convince the foreign consumers to consider a foreign bank as opposed to a home bank.

Low economic developments registered in some of the EAC countries such as South Sudan adversely affect the performance of subsidiary branches established in these nations. In a country like south Sudan whose economy in still low it takes a lot of time

before the economy breaks even and hence has to be supported by the already established branches in Kenya.

Further to this, political interference in different regions affects the foreign branches. In south Sudan, Suspended oil trade highly affected the performance of equity bank in the country. As the bank established branches in the region it was targeting income from exploration of the oil resources, this would have speeded up the break-even of the banking the South Sudan which has not been achieved therefore need for continuous support by the mother branches in Kenya. In Uganda and Rwanda there are budgetary support issues whereby most of the budget is supported from donors hence difficult to penetrate the banking sector as the governments bank with the banks with their country origin or a few native banks.

In the regional market Equity has experienced high operational cost such as that of the labor cost and other expenses. In Rwanda the bank's losses grew to Rwf806.2m from Rwf798.2m, representing a one per cent year-on-year increase in the year 2013. The total expenses have been increasing year by year. This is mainly because the education level in Rwanda is low therefore the educated labor force is expensive to hire and exporting expertise is also very expensive.

4.6 Business Environment Factors that have Facilitated Successful Penetration of Equity Bank to EAC Market

The creation of the East Africa common market protocol has highly facilitated the penetration of Equity bank in the EAC market. The protocol guidelines have facilitated sharing of information among the Nations reduced the discrimination between the foreign countries and the nationals and enabled free movement of labor and resources between the nations. This has enabled equity bank transfer technical expertise between the nations without much stress and also the foreign nation governments share relevant investment information which guides the bank in making investment decision.

The signing of the common external tariffs and elimination of tariffs among the EAC market has been taken advantage of by Equity bank. This has not only reduced the cost of doing business across the borders but also the time that would have been wasted following bureaucratic procedures before payments and approvals are made and also the Corruption charges cost to facilitate faster processing of the documents.

In the recent past most of the EAC countries have experienced political stability with some of them recovering from past politically unstable conditions such as the South Sudan and Rwanda. This enjoyed political stability enables Equity bank easily predict the banking environment performance hence faster penetration.

Internally equity bank enjoys competitive advantage brought about by level of technology. In the recent past the bank introduced Equity Bank's PayPal Withdraw

Service to withdraw available funds from the PayPal account to the Equity bank account; the recent inclusion of Visa Personal Payments: innovative, fast and affordable money transfer service in Africa since most of the bankers own Visa, this has made withdrawal from Equity bank ATM accessible to any account holder who have the Visa card, this development has earned the bank a lot of money in terms of the transaction fees throughout the EAC market. This has further made the bank enjoy economies of scale hence able to penetrate and conquer even the where international and local banks are already established. Agency banking pioneered in Kenya by Equity Bank has proved very successful. It has been approved by regulators in both Rwanda and Tanzania with Rwanda having 300 active agents while the process of rolling out agents in Tanzania is in progress.

4.7 Strategies that Equity Bank used to Penetrate to each of the Markets

The past five years have seen rapid growth in the operations of banks in Kenya especially in the move to establish units in the East African region. This was in spite of the much proclaimed economic crunch that hit most western banking and other financial institutions. The period has seen banks such as Equity Bank and Kenya Commercial Bank move to Tanzania, Uganda, Southern Sudan and Rwanda.

The inclusion of low income earners in the banks has been seen as the main stimulant to the rapid expansion of banks in Kenya and East Africa like Equity Bank Ltd. The bank has also focused on getting the basics of banking business right i.e. strict operational

performance measurements, robust risk management and high degree of automation. This has enabled Equity bank access a very large number of accounts therefore leveraging on large numbers for a source of income hence more income giving the ability to spread into other markets. This has been coupled with proper internal training to the staff to ensure that the operational policies have properly adhered to hence reduce the chances of bad loans and Maximizing on the savings from a large clientele base.

Equity bank has become a one stop shop in the EAC market whereby all sorts of customers are accommodated and their need sorted out. This has been brought about by the diversity of credit ranging from small businesses, jua-kali sector, low-income groups, down to financing of farmers was a new move in as far as banking was concerned. Conventional banking system was mainly targeting little commercial business while Equity bank has gone down to all tiers of business including the very small business which has brought about a large traffic of bankers even the traditionally unbanked.

Equity bank over the years has expanded its horizons by bringing the banking system down from the major towns into slums and the traditionally rural areas. The process of banking for the unbanked in Africa had seen millions of people previously considered being un-credit worth operate accounts with banks and not micro finance institutions. This new market was what had brought the move to new territories by banks in the region. The massive reduction in interest rates hence attracting huge numbers of customers Opening of Branches continuously across the region in a bid to tap resources

and avail facilities to people who could not be reached. Market research and innovation with the objective of moving financial access further down the income pyramid

Joint Venture strategy has been carefully considered by the Equity bank as one of the methods of penetrating some of the markets that otherwise would not be easily penetrated in the EAC market. A good Example is the Joint venture of Equity bank in Uganda and Rwanda.

Equity bank has not left out acquisition as one of the strategies of penetrating the EAC market. Equity bank was the first Kenyan bank to acquire Microfinance in Uganda in 2008. Equity Bank started regional expansion by taking 100% shareholding in Uganda Microfinance Limited (UML). This was a profitable microfinance institution with twenty-eight full-service branches and fourteen agency branches, for a share-acquisition deal valued at approximately US\$25.3 million. UML was renamed Equity Bank (Uganda) and started operating under the new name in April 2009. This strategy enabled equity bank enlarge the market share through a large branch network. It also enabled quick penetration into the market since Uganda Microfinance clients were acquired together with the Microfinance. Due to expanded market base Equity Bank was also able to enjoy economies of scale in terms of Information technology where by one main server would serve about forty two branches and agencies at the same time.

4.8 Strategies that have Succeeded

Equity bank has overtime rigorously continued to develop a competitive advantage over the competitors in the EAC market by trying and testing new technologies and innovations by having a robust research and product development department. The finds from the research has enabled the bank always review the products to suit different consumers and always monitor them in case of poor performance observed. Market research and innovation with the objective of moving financial access further down the income pyramid.

In the telephony sector equity bank seized the opportunity presented by the mobile series providers of large clientele base and exploited it. With all these the move to embrace technology had also been put to play with the onset of mobile banking and partnering with mobile service providers to use mobile shops as banking centres. Agency banking model that had just been embraced had further expanded the distribution of banking services leading to the establishment of village banks.

Conventional financial sectors bank on transactional and other fees to acquire income but Equity bank has not leveraged in this, they have instead used technology and innovation by offering affordable products and focusing on innovation hence making it different from other banks. As all the respondents emphasis customer service is the key differentiator. The invention of the POS machine used in agency banking and mobile banking platform, has highly reduced the operation cost and the labor costs of the bank since they do not have to employ any permanent employees to do the training the agency

operators only need basic training and their payment is only done based on the transactions done therefore payments is on commissions. The mobile banking platform is the most cost effective platform so far since the bank does not need to invest in any extra machinery only a few customer care officers who attend to the client hiccups in case of any. Any customer who uses a phone can use mobile banking platform.

Branches opened continuously across the region in a bid to tap resources and avail facilities to people who could not be reached. In so doing, there was emergence of new joint venture, partnerships, mergers, acquisitions and other market entry strategies being put into play by banks as the scramble for customers continued. Besides, there were urgent bids for the creation of customer specific products depending on the peoples' economic activities e.g. for fishermen, Tourists, florists, cash crop growers and so many other informal sector players. Merry-go-round and table banking groups had quickly been transformed by banks to groups financing creating a wider reach. The bank has also focused on getting the basics of banking business right i.e. strict operational performance measurements, robust risk management and high degree of automation. This has been demonstrated by robust staff management programmes is this is one of the key input that Equity bank has invested into the Business. To have the business running the group has employed over 5000 motivated staff. This team has been well managed with proper and robust Human Resource department that satisfies the internal customer.

4.9 The Level of Success in each of the Countries

Equity bank has over the years successfully penetrated the EAC market. The level of success in penetration is however different comparing the four countries that equity bank has footprints in Kenya which is the headquarters of the group has the highest level of penetration and the testing ground for almost all the technology and innovation. In Kenya there are over 200 branches and almost 10,000 registered equity agents in Kenya. These innovations have made equity bank the leading bank in clientele in Kenya where there are over 42 banking institutions and about 80% of the population banked when M-pesa is considered as a bank.

Uganda market is the second best in penetration mainly because of the favourable policy and business environmental conditions. The proximity to Kenya is also a Key factor in terms of sharing almost similar social cultural behaviours and common language and ease of movement of labour. Rwanda is the third penetrated country mainly because of the ease in business registration and the acceptance of regional investors in the country followed by South Sudan and lastly Tanzania.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of findings of the study carried out in the group to find out what strategies equity bank applied to penetrate the EAC market and which ones succeeded. It further states the conclusion from the findings the recommendations and suggestions for further studies.

5.2 Summary of Findings

The study found out that Equity Bank has a large branch network of about 217 operational branches in the EAC market with the largest branch network being in Kenya Followed by Uganda and the least network in Tanzania. Business environment in the EAC market is both volatile and dynamic. Though some of the characteristics are shared across the countries such as low percentage of the banked population, adverse effects on the political environment and high levels of corruption in the government institutions, most of the environmental factor are different. These different business environmental conditions dictate the possible level of success in entering a regional market of the possibility of failure.

Some of business environment challenges include high inflation rates that increase the lending rates, incorporation challenges, preference of the national banks as opposed to the foreign banks, low levels of economic development hence low propensity to save and low

disposable income and above all political interference that occurs all the time that there is change of government regime.

However, these business environments have also set opportunity for Equity bank to explore therefore the registered success in the EAC market. These include the EAC protocol, Elimination of tariff among the EAC markets, political stability experience in the EAC market in the recent past and for the Equity bank internal environment competitive edge of the bank such as strong capital base(human and Technical).

The study confirms the theory of foreign direct investment i.e Internalization theory is the eclectic theory of Ownership, Location and Internationalization.(Dunning, 1988).Equity bank group has carefully studies the challenges in the EAC market and opportunities offered by the environment and come up with strategies that have facilitated entry into this market. These strategies are as dynamic as the market and are only duplicated in the market that can work with them. These strategies inclusion of the unbanked population in the banking sector, adoption of cost effective and reliable technologies coupled with high degree of risk management that ensure safe and efficient operations, diversity of credit ranging from small amounts to very large amounts, reduction of the cost of the loans such as the processing fees and offering low interest rates to clients. Continuously opening branches and doing market research for each market needs and strategic alliances such as Joint ventures and Acquisitions.

Most of these strategies have worked well for the bank with the highest level of penetration in the foreign market observed in Uganda, followed by Rwanda, then South Sudan and finally Tanzania. This has further confirmed gravity equation, that states that major determinants of international business flows using the gravity equation, controlling for the importance of both the traditional gravity variables (size, level of development, distance, common language) and other institutional variables such as shareholder protection (Pagano & Volpin, 2004). Equity bank has the highest number of branches in a foreign market that has almost similar economic status share boundary and almost similar cultural values.

5.3 Conclusions

Equity group has experienced a number of challenges while trying to enter the EAC market. These include different political regimes, different government systems, different levels of development in terms of infrastructure and different cultures. This has however not deterred the determination of the group to penetrate the EAC market. To do this different strategies have been put in place to conquer the dynamic market which are all hinged around a robust research departments that ensures that the right technology and innovation is put in place for all markets at all times.

5.4 Recommendations

Most of the challenges experienced by Equity bank in penetration in the EAC market would not be experienced if the EAC protocol was exercised on the ground as it is written of the paper. It is therefore necessary that proper training on the protocol is done in all the

countries in the EAC market to all people in the EAC market. When this is done every player in the market will understand what is rightfully theirs and when this is done, transparency will ensue hence ease of doing Business. To the less developed countries such as South Sudan where the main reason for low penetration is poverty levels, Equity bank can increase the level of Corporate Social Responsibility by establishing schools and sponsoring bright needy students so as to participate in the development of the country as well as a marketing strategy to the natives.

5.5 Suggestions for Further Research

A study can be carried out through-out EAC to find the reasons as to why the EAC protocol is not well implemented even after so many conferences have been carried out to preach the implementation.

For the strategies that have not succeeded a study can be carried out to find out why and what other Kenyan banks that have successfully entered the market have applied and cross compare for learning purposes.

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APPENDICES

Appendix I: Introduction Letter



UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE...10/09/2013

TO WHOM IT MAY CONCERN

The bearer of this letter ...SUSAN NKIROTE GITANJA.....

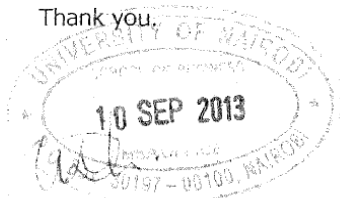
Registration No...B61/61543/2011.....

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix II: Interview Guide

Instructions

This is designed to collect data that will facilitate the study of the strategies applied by equity bank in different business environments in EAC market. The data collected will be treated with strict confidentiality.

1. Briefly describe Equity bank in EAC market context.
2. How many branches do you have in each of the EAC countries? (Uganda, Tanzania ,South Sudan ,Burundi and Rwanda).
3. How would you describe the Business Environment in each of this countries. (Political factors, Economic Factors, Social Factors, Technical Factors)
4. In relation to the factors mentioned above, what challenges have you faced in each of the countries in the EAC market?
5. What factors have facilitated successful penetration and success of the bank in the East African common market? Political factors, Economic Factors, Social Factors, Technical Factors)
6. Which strategies did Equity bank use in each market? (South Sudan, Tanzania, Rwanda, Uganda and ,Burundi)
7. What strategies have succeeded? (Explain in each business context).
8. How many branches do you intend to have in each of the international countries?
9. How would you rate the level of success in each of the EAC countries?

THANK YOU