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# Performance of Commercial Banks in Kenya: Does Market Entry Strategies Matter?

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**Abstract** The research sought to investigate the impacts of market entry approaches on the Kenya Banks' performance with Equity Bank being the used case study. In particular, the study sought to analyse the effect of licensing strategy and partnership strategy on Kenya Banks' performance. The preferred research design for the study was descriptive deign on a population of 394 management staff of Equity bank branches operating in Nairobi County. A sample of 119 respondents was picked via stratified sampling method. The study used a questionnaire to collect the required primary data while secondary data was collected from published financial statements using data collection sheet. Descriptive statistics including mean scores, standard deviations and frequencies were utilized in analyzing research data. Further, regression analysis helped establish the effect of market entry strategies on performance of commercial banks in Kenya. The results show that the effect of licensing and partnership on performance of commercial banks in Kenya was statistically significant. This study concludes that Kenya commercial banks that seek to enter new market in the region must adopt market entry strategies that have the highest effect on the performance. The study recommended that management of any organisation or firm that seeks to enter into new market must carefully analyse the strategies that will maximize output. The choice of market entry strategy depends on a number of factors that must be considered.

***Keywords:*** *market entry strategies, performance, commercial banks, Kenya*

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## 1. Introduction

The problem of entering new market arises due to the dominance of the market pioneers who have already gained stronger market positioning which help them gain competitive advantage over new entrants as a result of enhanced higher customer satisfaction [1]. In addition, due to the experience gained in the market the seasoned businesses tend set operational rules for the industry which are only favourable to them and in so doing creating barriers to entry. Further, [2] found that young business organisation may face challenges associated with limited resources. Besides the strategy being adopted the success of the strategy adopted id dependent on the available resources , the firm's competence, market competitiveness, size of host nation, the presence of possible partnering organizations with host nation and the state of organization development [3].

Different business organisations use different strategies to penetrate new markets. [4] evaluating the impact of market entry strategies on performance in the United States (US) concluded that most firms adopted direct exporting, subsidiaries and retail stores to penetrate new markets. However, it was noted that the entry strategy has no impact on firm performance. Moreover, [5] established that companies may use exporting, joint ventures, strategic alliances, acquisitions, licensing and direct investment in entering new markets. [6] pin pointed that a business may enter foreign markets using fully owned investment, joint venture or contractual agreements.

Literature shows that the type of entry strategy adopted is dependent on the economy in which the market exists. [7] opined that different strategies are applicable for entering markets in emerging and developed economies. It is thus paramount that the firm critically studies the market where the firm intends to penetrate. [8] stated that the choice of entry strategy often depends on the environment in which the entrepreneur intend to enter by assessing the mortality rate of the entrants and the level of information available about the new market. As the more and more information is availed, the level of ignorance reduces.

Businesses organisations seek to enter into new markets to market their products and in so doing increase their brand awareness, increased sales and business stability [9]. After a decision has been made to enter a certain market, the firm must decide on the strategy that would be adopted in the entry process to maximise the anticipated gain. A market entry strategy is a tool for clarifying what the aim to achieve and how they will achieve it when entering a new market. [10] viewed an entry strategy as a plan for distribution and delivery of goods and services to a new target market which mainly involves creation, establishment, and management of contracts in the new market.

There are a variety of market entry strategies that may be adopted by a company. There are no two markets that are similar and neither are there two industries that are a perfect replica of the other. Consequently, No single market entry strategy works for all conceivable markets. To decide on the strategy to adopt a firm will consider a number of factors such as tariff rates, the degree of adaptation of your product required, marketing and transportation costs [11]. In addition the firm must consider the cost involved, the level of risk exposure as well as the degree of control which can be exercised by the firm. In the opinion of [6], a prudent manager would always prefer a strategy where the firm exercises maximum control. Moreover, [12] alluded that vigilant analysis of potential competitors and possible customers must be conducted. Other factors that must be put in to consideration include trade barriers, localized knowledge, price localization and export subsidies

The commercial banks in Kenya have experience poor performance as evidenced by ever increasing non-performing loans [13]. However commercial banks performance can be measured on various scales just like other firms. These include profitability which includes return on assets, return on equity, and profit margins among others. O average the banking sector in Kenya has in the recent past performed dismally [14]. Three commercial banks in Kenya in between 2010 and 2019 were placed under receivership and the sector has also witnessed various merging and acquisition which points to the struggling especially for small players [13]. In this study both measures of performance will be used following the recommendations of [15]. Specifically, profitability, customer attraction, customer satisfaction, organizational efficiency as well and learning and growth will be adopted. Commercial banks in Kenya operate in a very competitive environment as noted by [14]. This type of competitive environment scares new entry hence making it difficult for firms to choose the right market entry strategies. The Kenya banking sector is highly established which implies that incumbent firms have segmented the market therefore making hard for new entrants.

Commercial banks in Kenya continue to struggles in the very turbulent market environment in Kenya coupled with unfriendly regulations, high competition, increased non-performing loans and reduced profits [13,16]. Many commercial banks for instance were built on a model of mass market which included smallholder traders which are highly sensitive to changing economic times. This makes the banks revenue to remain highly volatile which hinders long terms planning. In order to achieve stability, there is a need to enter new markets that will guarantee stable revenues and long terms strategic thinking. Entering new markets has been a perennial challenge the management and practitioners in all industries. This limitation is more complex when entering international markets due to barriers associated with trade barriers, tariff rates, host country requirements, competition in the target market, marketing and transportation costs, resources available, level of development in the target market, pricing, export subsidies in the host country as well as company level of competence [10,17,18]. These challenges limit the ability of the company to take advantage of the available markets. In addition the study established that numerous strategies may be adopted in penetrating new markets. However, each of these strategies has their own pros and cons which may affect the performance of the firm. Among the strategies adopted include use of agents, countertrade, joint ventures, exporting, piggybacking, foreign production, licensing and foreign direct investments [19].

# 2. Literature Review

## 2.1. Theoretical Review

This study was based on agency model. The approach was developed by Stephen Ross and Barry Mitnick, in 1973 it is an economic theory and management that explains the different interactions and regions of self-interest in businesses. Agency Theory also explains the relationship between principals and agents in business and tries to resolve problems that are extant in agency relationships [20]. The agency theory chiefly addresses two major problems. These are the problems that arise when the needs or goals of the principal and agent are in conflict, and where the principal is not able to verify or validate what the agent is doing either because they have no direct access to the organization structure functions and operations or it may be expensive to investigate, and they may not have the necessary capability and skill to do so [21]. Secondly, the theory addresses the problems that come about when the principal and agent have different outlooks towards risk. Ross stipulated that in solving the agency problem of getting the agent to do what the principle wants or desires compensation is a good incentive [22].

Agency theory is a useful framework for organizational governance and controls, says KP Manage, adding that the theory helps management assess the strengths and weaknesses of the company and using case study evidence to show how the theory has been applied in different industries and contexts. The theory of the agency also explains why commercial banks formed agents as partners, a strategy for capitalizing on other assets and placing them within the sector. This study will utilize agency theory in supporting partnership strategy.

## 2.2. Empirical Literature Review

[23] conducted a study on the effect of international strategic alliance on firm performance. The study finding showed that licensing had positive effect on performance compared to other strategies such joint ventures and partnership. [24] conducted a study in America to investigate the current evidence base for the legitimacy of large-scale licensing reviews, including their effect. Results of the studies have shown that there is evidence reflecting that individuals doing well on prior exams succeed on home testing as well. There exists a connection between NLE outcomes and various patient results and rates of complaint but exists no indication of causation has been found.

[25] conducted a study in China to examine the moderating impact of particular licensed knowledge attributes on the innovation performance of licensee companies based on a distinctive dataset from the China State of Intellectual Property Office on technology licensing operations for 2000–2010. The study targeted 71 Chinese electronic-industry firms. The findings of the research verified the licensing notion of learning. The findings also show that both the complexity of technology and the generality of technology, which are characteristics of registered expertise, have beneficial moderating impacts on the connection between licensing technology and the subsequent performance of licensee companies in development.

A study conducted by [26] sought to analyse the relationship between strategic partnership and firm performance in Northern Ireland in United Kingdom. The study sampled 3913 high UK startups and based on international business theory. The study found that unlike larger corporations, startups operate in different way and form of equity. Therefore partnership market entry strategies have least effect on performance of startups compared to large corporations. [27] examined the impacts of partnerships andvarious innovation management on the performances of business of Business Units of multiply provider in Indonesia. The test results indicate that business partnership and innovation management effect on business performance. The innovation management has a greater impact than the business partnership in improving performance of Business Units of the multi play provider in Indonesia. [28] sought to establish the impact of strategic partnerships on the performance of commercial banks in Kenya. The study targeted a total of 42 commercial banks with Human Resource Managers being the target respondents. The study adopted the questionnaires survey approach to collect data and analysed using simple linear regression model. The results showed that strategic partnership provides a positive and meaningful impact on performance of commercial banks in Kenya.

# 3. Research Methodology

The preferred research design for the study was descriptive deign on a population of 394 management staff of Equity bank branches operating in Nairobi County. A sample of 119 respondents was picked via stratified sampling method. The study used a questionnaire to collect the required primary data while secondary data was collected from published financial statements using data collection sheet. Descriptive statistics including mean scores, standard deviations and frequencies were utilized in analyzing research data. Further, regression analysis helped establish the effect of market entry strategies on performance of commercial banks in Kenya.

The empirical model adopted was of the form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where: $Y$ =Performance of commercial banks in Kenya
$\beta_0$ = Constant Term;
$\beta_1$, $\beta_{2,}$ = Coefficients of the study variables;
$X_1$= Licensing Strategy
$X_2$= Partnership Strategy
$\varepsilon$ = Error term

($R^2$) coefficient would be utilized in testing the model's significance. On the other hand, F- statistic would as well be computed at 95% t confidence level in testing if there exist a connection between licensing strategy and partnership strategy approach and Kenya banks' performance.

# 4. Analysis, Findings and Discussions

The study targeted 119 respondents from commercial banks in Kenya including top management, middle level management and lower level management. Therefore, the total number of the questionnaires that were administered were 119, the study recorded response of 82% (98).

## 4.1. Descriptive Statistics Analysis

### 4.1.1. Licensing Strategy

The objective of the study was to determine the effect of licensing strategy on performance of commercial banks in Kenya. This section presents the descriptive results on licensing strategy in commercial banks in Kenya. The respondents were asked to indicate the extent to which the aspects of Licensing in affected performance of Equity Bank. The results presented in Table 1 indicated that majority of the respondents indicated that number of agents licensed, number of services licensed, licensed trademark and licensed patents and copyrights affected performance to large extent as shown by the overall mean of 4.16. The finding confirmed that majority of the respondents agreed that licensing strategy had large influence on performance of commercial bank. However, a small percentage of the respondent indicated no and little extent. The finding of this study supported those of [29] who showed that there is a positive relationship between business licensing strategy and organization performance. However, the finding failed to agree with [11] who showed that market entry strategies have no significant effect on firm performance. Similalry, the study finding failed to agree with those of [5] who studied the impact of strategies adopted by multinational firms in entering Kenyan markets found that found that market entry strategy adopted do not influence performance.

**Table 1. Descriptive Analysis for Licensing Strategy**

| | No Extent | Little Extent | Moderate Extent | Large Extent | Very large extent | Mean | Std Dev |
|---|---|---|---|---|---|---|---|
| Number of agents licensed | 4.1% | 6.1% | 7.1% | 37.8% | 44.9% | 4.13 | 1.06 |
| Number of services licensed | 6.1% | 2.0% | 5.1% | 44.9% | 41.8% | 4.14 | 1.05 |
| Licensed Trademark | 3.1% | 1.0% | 13.3% | 38.8% | 43.9% | 4.19 | 0.93 |
| Licensed Patents and copyrights | 4.1% | 5.1% | 5.1% | 39.8% | 45.9% | 4.18 | 1.03 |
| **Overall average** | | | | | | **4.16** | |

Source: Survey Data (2021).

**Table 2 Descriptive Analysis for Partnership Strategy**

| | No Extent | Little Extent | Moderate Extent | Large Extent | Very large extent | Mean | Std Dev |
|---|---|---|---|---|---|---|---|
| Intermediary banking | 4.10% | 1.00% | 5.10% | 53.10% | 36.70% | 4.17 | 0.90 |
| Global payment services | 7.10% | 4.10% | 7.10% | 44.90% | 36.70% | 4.00 | 1.12 |
| Shared technology | 1.00% | 7.10% | 7.10% | 38.80% | 45.90% | 4.21 | 0.93 |
| CSR partnerships(wings to fly) | 3.10% | 2.00% | 8.20% | 35.70% | 51.00% | 4.30 | 0.93 |
| Overall Average | | | | | | 4.17 | |

Source: Survey Data (2021).

### 4.1.2. Partnership Strategy

The study further sought to analyse the effect of partnership strategy on performance of commercial banks in Kenya. The study asked the respondents to indicate the extent to which various aspects of partnership strategy such as intermediary banking, global payment services, shared technology and CSR partnerships (wings to fly) affected performance of the bank. Based on the results in Table 2, majority of the respondents indicated that intermediary banking, global payment services, shared technology and CSR partnerships (wings to fly) to large extent affected the performance of the bank as indicated by mean of above 4 for all the indicators. Similarly, the average mean score of 4.17 confirmed that respondents agreed that partnership strategy affected performance to a large extent. The study findings corroborate with those of [30] that suggested that both strategic and operational variables are viewed as key factors influencing the partnership between buyer and supplier; therefore, this partnership relationship has an effect on the efficiency. Similary, [31] found substantial indirect positive effect on the supply performance of a company through partnership leadership.

**Table 3. Descriptive Statistics for Performance of Commercial Banks**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| ROA | 98 | 1 | 15 | 8.34 | 4.191 |
| ROE | 98 | 10 | 35 | 22.48 | 7.575 |
| Valid N (listwise) | 98 | | | | |

Source: Survey Data (2021).

### 4.1.3. Performance of Commercial Banks in Kenya

The results in Table 3 show the descriptive statistics of ROE and ROA of commercial bank for period of between 2009 and 2016. The results show that average ROA was 8.34% while ROE was 22.48%. The study results further show that during the study period the minimum ROA was 1% while the maximum ROA was 15%. The minimum ROE during the study period was 10% while the maximum ROE during the study period was 35%. These findings confirmed that the bank reported mixed performance during the study period.

## 4.2. Correlation Analysis

The study used bivariate correlation analysis to test the association between independent variables and dependent variable. The Pearson correlation value reaches between -1 to 0 to +1 where -1 denotes perfect negative correlation, 0 denotes no correlation while +1 denotes perfect positive correlation. The results of correlation analysis show the Pearson correlation value between licensing and ROA was r=0.446 while that between licensing and ROE was r=0.429. These findings indicated that licensing had a moderately strong, positive and significant association with performance of commercial of banks. The findings implied that increase in licensing strategy would results to increase in both ROA and ROE of commercial banks in Kenya. The finding of this study supported those of [29] who showed that there is a positive relationship between business licensing strategy and organization performance.

The results show that partnership had a correlation r=0.508 with ROA and r= 0.498 with ROE. The findings further confirmed that partnership had moderately strong positive and significant association with performance of the bank. The findings implied that increase in partnership strategy would results to increase in both ROA and ROE of commercial banks in Kenya. The study findings corroborate with those of [30] that suggested that both strategic and operational variables are viewed as key factors influencing the partnership between buyer and supplier; therefore, this partnership relationship has an effect on the efficiency. Similarly, [31] found substantial indirect positive effect on the supply performance of a company through partnership leadership.

**Table 4 Correlation Matrix**

| | | Licensing | Partnership | ROA | ROE |
|---|---|---|---|---|---|
| Licensing | Pearson Correlation | 1 | | | |
| Partnership | Pearson Correlation | .411** | 1 | | |
| ROA | Pearson Correlation | .446** | .508** | 1 | |
| | Sig. (2-tailed) | 0.00 | 0.00 | | |
| ROE | Pearson Correlation | .429** | .498** | .990** | 1 |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | |
| | N | 98 | 98 | 98 | 98 |
| ** Correlation is significant at the 0.01 level (2-tailed). | | | | | |
| * Correlation is significant at the 0.05 level (2-tailed). | | | | | |

Source: Survey Data (2021).

**Table 5. Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| **ROA** | .620a | 0.384 | 0.358 | 3.359 |
| **ROE** | .595a | 0.355 | 0.327 | 6.216 |

a Predictors: (Constant), Licensing, Partnership
Source: Survey Data (2021).

### 4.2.1. Regression Analysis

The study used regression analysis to test the effect of market entry strategies which include licensing strategy and partnership strategy on performance of commercial banks in Kenya. This section presents the results of two models one first was conducted with ROA as the dependent variables while second model was conducted with ROE as the dependent variable.

The results of model summary presented in Table 5 shows R-square for model 1 was 0.344 while adjusted R-square was 0.358 while model 2 produced r-squared =0.355 and adjusted R-square =0.327. These findings show that licensing strategy and partnership strategy, accounted for 35.8% of ROA and 32.7% of ROE of the commercial bank. The results further implied that market entry strategies were good predictor variables of performance of commercial banks in Kenya.

Table 6 show that f-statistics for first model was f-statistics =14.509 (p=0.000) while second model had f-statistics =12.769 (p=0.000). These findings confirmed that both models used to test the relationship between market entry strategies and performance of commercial banks in Kenya was statistically significant. The two models had a good fitness hence could be used to predict the effect of market entre strategies on performance of commercial banks in Kenya.

The results show regression coefficients obtained from the regression models conducted. In the first model, licensing had a coefficient of β=1.177 (p=0.012) while in the second model it had a coefficient of β=2.031 (p=0.018). The results show that the coefficients of licensing were statistically significant in both models. The finding implied that the effect of licensing on both ROA and ROE was statistically significant. The results show that a unit increase in licensing would results positive increase of 1.177 units in ROA and 2.031 units in ROE. The finding of this study supported those of [29] who showed that there is a positive relationship between business licensing strategy and organization performance. However, the finding failed to agree with [11] who showed that market entry strategies have no significant effect on firm performance. Similalry, the study finding failed to agree with those of [5] who studied the impact of strategies adopted by multinational firms in entering Kenyan markets found that found that market entry strategy adopted do not influence performance. The study findings further supported those by [23] who showed that licensing had positive effect on performance compared to other strategies such joint ventures and partnership.

Partnership had a coefficient of β=1.788 (p=0.001) in the first model, while in the second model it had a coefficient of β=3.282 (p=0.001). These results show that the coefficients of partnership were statistically significant in both models. The findings implied that the effect of partnership on both ROA and ROE was positive and significant. A unit increase in partnership strategy would lead to increase of 1.788 units in ROA and 3.282 in ROE of commercial banks in Kenya. The study findings corroborate with those of [30] that suggested that both strategic and operational variables are viewed as key factors influencing the partnership between buyer and supplier; therefore, this partnership relationship has an effect on the efficiency. Similalry, [31] found substantial indirect positive effect on the supply performance of a company through partnership leadership.

**Table 6. Analysis of Variance (ANOVA)**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **ROA** | Regression | 654.726 | 4 | 163.682 | 14.509 | .000b |
| | Residual | 1049.162 | 93 | 11.281 | | |
| | Total | 1703.888 | 97 | | | |
| **ROE** | Regression | 1973.385 | 4 | 493.346 | 12.769 | .000b |
| | Residual | 3593.075 | 93 | 38.635 | | |
| | Total | 5566.459 | 97 | | | |

b Predictors: (Constant), Licensing, Partnership
Source: Survey Data (2021)

**Table 7. Regression Coefficients**

| Model | Variables | B | Std. Error | Beta | t | Sig. |
|---|---|---|---|---|---|---|
| **ROA** | (Constant) | 10.795 | 2.577 | | 4.189 | 0.000 |
| | Licensing | 1.177 | 0.457 | 0.234 | 2.576 | 0.012 |
| | Partnership | 1.788 | 0.538 | 0.315 | 3.324 | 0.001 |
| **ROE** | (Constant) | 10.533 | 4.768 | | 2.209 | 0.030 |
| | Licensing | 2.031 | 0.846 | 0.224 | 2.402 | 0.018 |
| | Partnership | 3.282 | 0.996 | 0.32 | 3.296 | 0.001 |

Source: Survey Data (2021).

# 5. Conclusion and Policy Recommendation

## 5.1. Conclusion

The operating environment in the Kenya banking industry continues to be unpredictable leading to three major banks in the recent past being paced under receivership. This implies that commercial banks are now looking for ways to diversify which include entry into new market in the region. This study concludes that Kenya commercial banks that seek to enter new market in the region must adopt market entry strategies that have the highest effect on the performance these include licensing, and building partnership. These market entry strategies have significant effect on both return on assets and equity of commercial banks. Therefore, commercial banks that adopt these market entry strategies stand a good chance of succeeding in their diversification strategies and reduce the risk of facing stiff competition in the Kenya market which negatively affects performance.

## 5.2. Recommendations

Based on the study findings, the study made the following recommendations; first the study recommended that management of any organisation or firm that seeks to enter into new market must carefully analyse the strategies that will maximize output. The choice of market entry strategy depends on a number of factors that must be considered. Depending on the size of the market, some market entry strategies may work while other may fail to work hence care must be taken. The study also recommends that firms that facing competition should explore new market regionally and internationally and use the right market entry strategy in order to increase their performance. In policy making, the study recommended that industry regulators should formulate polices that will enable local companies to adopt business internationalization as one of the approach to diversify their income streams.

## 5.3. Limitations and Future Research

The research anticipated multiple of challenges. First, the research aimed at investigating the impacts of market entry strategies on performance of Kenyan banks. The results shown in this study therefore held true for commercial banks in Kenya that operated between 2009 and 2018. Similarly, the results may face generalization challenges to firms in other sectors of the economy such as agricultural based companies, transport, tourism, marine and those in the manufacturing sector since they have significantly different operating environment.

This study only focuses on few indicators of market entry strategies therefore further studies should expound on the scope of the market entry strategies to give more comprehensive conclusions.

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