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THE EFFECT OF MARKET PENETRATION ON THE FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

The purpose of the study is to establish the effect of market penetration on the financial performance of commercial banks in Kenya. Descriptive research design was used which aided in ascertaining the relationship that existed between diverse growth strategies and financial performance of commercial banks in Kenya. The target population was 195 departmental heads based in Head office of every bank; in marketing, finance, product development, research and development; and ICT departments, drawn from the 39 commercial banks in Kenya. The sample size was 195 respondents sampled through Census sampling technique. Quantitative data was collected using closed and open- ended questionnaires. The study conducted a pilot test in five commercial Banks branches in Meru County. Cronbach alpha was used to test reliability whereas face, content and construct methods were used to validate the questionnaires. SPSS version 21 was used to analyze various types of descriptive and inferential statistics. The results were presented using Tables and Figures. In analyzing descriptive statistics, frequencies, percentages, mean and standard deviation was derived. Open-ended questions were analyzed through thematic method to deduce meaning out of various themes developed from the respondents. It was found out that commercial banks *adopted market penetration strategies involving the development of certain products that were aimed at increasing the market shares and at assigning certain roles to employees so as to implement these strategies effectively. Nevertheless, despite the fact that strategic partnership with the other corporations was adopted by the commercial banks, respondents indicated that the adoption of the strategic partnership had not resulted in the desired outcome. The study concluded that even though there were market share strategies that were overseen by the staff, they were ineffective. The ineffectiveness may have originated from inadequate background research on the most compelling strategies that would support the commercial banks. The study recommends that the management should strengthen the market share strategies by benchmarking initiatives with other financial institutions.*

Keywords: Market Penetration, Financial Performance, Commercial Banks, Kenya

INTRODUCTION

Market penetration is the ability of a specific product or service to be sold to clients in a definite market (El Sayad & Diab, 2022). This is a growth strategy that has an objective of a bank's product and service to be accepted by target market hence improving its overall market share index. According to Ihejirika and Aderigha (2021), high sales of a product enhance the chance of a bank remaining in the market for a long-time due to improved financial performance. According to CBK (2023), financial performance is the ability of an institution to create income through having qualified and motivated staff. Further, Halake (2021) points out the element of maximum utilization of shareholders wealth in attempts to generate further income is the definition of financial performance. Therefore, financial performance in this study was taken to mean the ability of a commercial bank to generate substantive income through which it is able to pay its obligations and maximize shareholders' wealth. Financial performance was measured using metrics such as return on assets (CBK, 2023). Return on assets in its basic description indicated the ability of a bank to generate profits through the use of its assets. This performance measuring method was crucial in addressing how growth strategies implemented have not only been able to generate revenue but increased the asset base of the banks. It was the objective of every commercial bank to earn revenue consistently in a financial year.

Kolawole et al. (2024) explored how Nigeria's commercial banks performed due to financial digital services. The results of the study were that the introduction of banking services that were digital made more Nigerians get access to banking services, especially those who were in remote areas and had limited access to physical bank branches. This led to an increase in the number of customers in the banks and thus the profitability of these institutions. Moreover, the study found out that there was a reduction in the cost of providing banking services due to digital financial services. Further, this resulted in an increase in the financial performance of Nigeria's commercial banks since they were able to provide banking services to more customers at a lower cost. Furthermore, it was revealed that the Nigerian banking industry experienced significant growth in recent years due to the introduction of banking channels that were innovative, such as agency banking, ATMs, internet banking, and mobile banking. These channels helped commercial banks in Nigeria to increase their reach, reduce operational costs, and improve customer service.

Rajab (2023) explored how Tanzania's commercial banks performed financially as a result of technology in finances. The study determined that electronic banking had a positive effect on the bank's financial performance. Further, this electronic banking helped the bank to reduce costs, increase revenue, and improve the quality of assets. Moreover, the study found out that ATMs played a significant role in the banking service delivery in Tanzania since they were used by a large number of customers in the bank to do transactions, which included withdrawing cash, inquiring balances, and transferring money. These ATMs also helped the bank to reduce the costs of operations, and efficiency was improved. Furthermore, it was established that financial technology had the potential to increase financial access and usage by customers, and it depended on factors such as regulation, infrastructure, and customer demand.

Osman and Muathe (2021) examined how market entrance strategies affected the performance of commercial financial institutions in Kenya. The study used a descriptive research approach and included three hundred and ninety-four management professionals from Equity Bank locations in Nairobi County. Notably, one hundred and nineteen participants were selected using the stratified selection procedure. The study acquired primary data using questionnaires, and secondary data from public accounting records using data gathering forms.

The study discovered that Kenyan commercial banks had successfully reformed the financial industry by implementing new market penetration tactics such as licensing and partnership. The equity and return on assets of commercial banks were significantly impacted by these market strategies. Therefore, financial institutions that employed these market entry strategies stood a better chance of accomplishing their marketing objectives.

Statement of the Problem

The Kenyan banking industry has been employing growth-oriented approaches as part of the strategy for staying competitive in an ever-changing environment (Jelagat, Misoi, & Boit, 2024). In addition to developing innovations and venturing into different markets, the commercial banks have been relying on acquisitions and mergers in order to improve their market position, increase customer base, and diversify product and services range. These include the merger of CBA and NIC Bank into NCBA Group, the acquisition of Transnational Bank by Access Bank Kenya, and the acquisition of National Bank of Kenya by Access Bank Plc (CBK, 2025a, 2024, 2023). Although such activities are likely to improve efficiency, market share, and profitability, there is no clear evidence about the role they play in improving financial performance of these organizations.

This is due to the fact that despite the mergers, there is still declined asset quality and increased expenses incurred in running the day-to-day operations, which is a major threat to performance in most commercial banks in Kenya. According to CBK (2025a), there was increased Non-Performing Loans from 15.6% in December 2023 to 17.1% in December 2024. Part of the expenditure could have resulted from costs related to staff salaries involved in selling products to penetrate the market; the cost of launching new products; research on new markets; and the expenses involved in incorporating innovation in the banks.

Further, the market share of commercial banks, particularly the medium sized, was noted to experience a deterioration from 16.3% to 15% in 2022 to 2023 respectively (CBK, 2023). This was a clear indication that the efforts made to sell various bank products on the market have become a great challenge. Any attempts by the management to restructure the efficiency of the growth strategies such as through diversification have been less impactful despite being in mergers (Njoki & Nyamute, 2023).

Purpose of the Study

To establish the effect of market penetration on the financial performance of commercial banks in Kenya.

Research Hypothesis

H_{o1}: Market penetration had no statistically significant effect on the financial performance of commercial banks in Kenya.

LITERATURE REVIEW

Theoretical Review

Dusenbery's Accelerator Theory of Investment (DATI) was developed by Dusenbery (1960). It connoted that growth of capital had the potential to have a higher value as compared to depreciation and when the revenue increased, it became higher than savings. This meant that if an individual or institution developed financial strategies that would ensure that capital investments at a business venture are expanded, the rate of growth would be higher than how much depreciation they would experience and more than their savings (Hasani & Beqaj, 2023). This theory underpinned the relevance of investments over savings and depreciation such that with an investment done, it had a capability of increasing revenue channels as compared to alternatives like savings (Ihejirika & Aderigha, 2021). The main concentrate was developing financial policies for ensuring that capital investments had a growth prospect. Dusenbery's accelerator theory explained further that banks expenditures mostly depended on the input and the output of the organizations. Investing in inputs as portrayed by different indicators like technology, skilled employees and financial capital affected the overall performance of the banks. That meant, if the organizations had a higher demand, it invested more compared to when there was a fall in demand levels (Rahman, 2021).

In explaining market penetration, DATI put into perspective the need for commercial banks to ensure that their products and services penetrate various markets for growth in market shares. This included providing services that ensure customer satisfaction such as developing reasonable pricing of accounts, interests in loans, attractive interest in fixed deposits and other charges through effective pricing strategies (Lambert & Deyganto, 2023). In the long run, the trajectory of sales revenue was used as a measuring yardstick to assess capital growth. This is because when a commercial bank was able to generate increased revenue, the capital expanded more than its savings and depreciation rate which was desirable. In addition, the theory guided that it was the prospect of a bank to monitor the rates at which they released new products in the market and the income generated from the release (El Sayad & Diab, 2022).

Empirical Review

Huynh (2024) investigated how foreign banks penetrated the local banking sector in Vietnam. The bank accounting statistics were obtained from the available database from 2005 to 2020. The study discovered that the presence of foreign banks lead to higher competition in the domestic banking market due to differentiated pricing strategies. The findings further demonstrated that during the study period, domestic Vietnamese banks increased their risk appetite due to increased market penetration approaches such as market share and competition from foreign banks. Nevertheless, the study did not assess the customer satisfaction rate measured through their numbers.

Attama and Yuni (2021) examined the relationship between competitiveness and recapitalization in commercial banks using data from a few sub-Saharan African nations. Six countries; Kenya, Sierra Leon, Ghana, South Africa, Nigeria, and Uganda with recapitalized banks and at least three years before and after recapitalization were included in the study's panel data from 2000 to 2015. The study found that commercial banks' efficiency in market penetration through customer satisfaction was essential to the banking sector's continued existence, development, expansion and advancement of the national economy. The main goal of the finance department was to create and carry out financial policy changes and initiatives that enhanced banks' financial performance. Nevertheless, the study did not include primary data through questionnaires to ascertain the market penetration issues faced especially related to developing price and market share.

Rotich, Owino and Musembi (2024) examined Kenyan commercial banks' growth plans and financial results; the study used NCBA bank as an example. A descriptive research design was used during the data collection from two hundred and seven workers using questionnaires at the headquarters of NCBA Bank. Thirteen employees participated in a pre-test study but were left out of the final data gathering procedure. The study posits that improved market penetration strategies, such as digital financial services and agency banking, greatly increased financial performance.

Furthermore, most participants in this study concurred that successful market penetration initiatives are associated with increased market share for Kenyan commercial banks. However, the study was restricted to a quantitative online questionnaire survey and only looked at one bank. The current study will research all banks and use additional data collection tools to investigate how market penetration improves commercial banks' performance.

METHODOLOGY

Descriptive research design was used which aided in ascertaining the relationship that existed between diverse growth strategies and financial performance of commercial banks in Kenya. The target population was 390 departmental heads and their assistants in marketing, finance, product development, research and development; and ICT departments, drawn from the 39 commercial banks in Kenya. The sample size of 195 respondents comprising of head of marketing, head of finance, head of product development, head of research and development and head of ICT sampled through census sampling method. Quantitative data was collected using closed and open- ended questionnaires. The study conducted a pilot test in five commercial branches in Meru County. Cronbach alpha was used to test reliability whereas face, content and construct methods were used to validate the questionnaires. SPSS version 21 was used to analyze various types of descriptive and inferential statistics. In analyzing descriptive statistics, frequencies, percentages, mean and standard deviation was derived. Open-ended questions were analyzed through thematic method to deduce meaning out of various themes developed from the respondents.

RESULTS AND DISCUSSION

Response Rate

The study targeted 195 individuals drawn from five key departments across 39 commercial banks. These included heads of marketing, finance, product development, research and development, and information and communication technology (ICT). Data was collected using close-ended questionnaires. Table 1 provides the response rate.

Table 1: Response Rate

Respondents	Sampled	Response	Percentage
Heads of marketing	39	32	82.1
Heads of finance	39	28	71.8
Heads of product development	39	30	76.9
Heads of research and development	39	33	84.6
Heads of ICT	39	34	87.2
Total	**195**	**157**	**80.5%**

The findings in Table 1 shows that 32(82.1%) heads of marketing, 28(71.8%) heads of finance, 30(76.9%) heads of product development, 33(84.6%) heads of research and development and 34(87.2%) ICT heads responded to the study. The average response rate was 157(80.5%). Mugenda and Mugenda (2003) established that a response rate that was above 70% was considered excellent with respondents willing to participate in large numbers. In the current study, the high number of respondents was an indication that the senior management of most commercial banks in Kenya, were committed towards addressing declined asset quality and increased expenses incurred in running the day-to-day operations. Their commitment ranged from implementing various strategies that would improve financial performance and taking part in scientific studies that would provide a platform to share knowledge on various working strategies that have worked and those that have not from the management team members in the Kenyan banking industry. According to Taherdoost and Madanchian (2024), high response rate in a study is an indication that the respondents consider a study relevant towards addressing a notable problem in a specific sector of the economy.

Reliability Results

In this study, reliability analysis was conducted to determine the stability and internal consistency of the questionnaires administered to the selected respondents. Internal consistency was assessed using Cronbach's Alpha coefficient. According to Nunnally and

Bernstein (1994), a Cronbach's Alpha value of 0.7 and above is considered acceptable, indicating that the instrument yields dependable results. The computed reliability coefficients for the study variables are presented in Table 2.

Table 2: Summary of Cronbach Alpha Reliability Coefficient

Variables	Number of items	Cronbach Alpha	Remarks
Market Penetration	5	0.737	Accepted
Financial Performance	4	0.745	Accepted
No of items/estimated composite reliability	**9**	**0.741**	Accepted

Table 2 presents the Cronbach's Alpha coefficients for the study variables. All variables recorded alpha values above the recommended minimum threshold of 0.7, indicating strong internal consistency and reliability of the research instrument. Financial Performance (α=0.745), Market Penetration (α=0.737). The composite reliability for all 9 items was α=0.741, confirming that the questionnaire was a dependable tool for data collection in this study.

Descriptive Statistics of Market Penetration

The study aimed to establish the effect of market penetration on the financial performance of commercial banks in Kenya as the first objective. Measured indicators included; market share, number of strategic partnership and positioning strategies. An ordinal Likert scale was used in the tables, with 1 representing strongly disagree, 2 disagree, 3 neutral, 4 agree, and 5 strongly agree. The results are provided in Table 3.

Table 3: Descriptive Statistics of Market Penetration

Statements N=157	1	2	3	4	5	Mean	Std. Dev.
Market-share strategies improved bank performance.	4 (2.5%)	6 (3.8%)	16 (10.2%)	52 (33.2%)	79 (50.3%)	4.25	0.965
Staff training and development enhancing market share	9 (5.7%)	17 (10.8%)	19 (12.1%)	37 (23.6%)	75 (47.8%)	3.97	1.248
Strategic partnerships with corporates have increased	72 (45.9%)	39 (24.8%)	8 (5.1%)	18 (11.5%)	20 (12.7%)	2.20	1.444

Table 3…

There are staff responsible to develop strategic partnerships	6 (3.8%)	9 (5.7%)	17 (10.9%)	51 (32.5%)	74 (47.1%)	4.13	1.069
Clear strategies enabled penetration of new markets.	6 (3.8%)	20 (12.7%)	69 (43.9%)	34 (21.8%)	28 (17.8%)	3.37	1.040
Average Summary						3.58	1.15

Table 3 shows that 79(50.3%) of the respondents strongly agreed and 52(33.2%) agreed on a mean of 4.25 and SD of 0.965 that market share strategies implemented through specific products had improved the performance of the bank. Additionally, with a mean of 4.13 and SD of 1.069, 74(47.1%) of the respondents strongly agreed and 51(32.5%) agreed that there were staff responsible to develop strategic partnerships. Nevertheless, 72(45.9%) strongly disagreed and 39(24.8%) disagreed on a mean of 2.20 and SD of 1.444 that there had been an increased number of strategic partnerships between the bank and other corporates.

The results mean that through consistent development and improvement of banking products as supported by market share strategies, financial performance improved. Agreeing with the results, Hassan (2025) revealed that increased market share across commercial banks was attributed to development of financial strategies to support marketing various banking products. The products portrayed the ability of the management to relate financial policies with customer demands in the targeted market. According to Rotich, Owino, and Musembi (2024), market share strategic initiatives had a positive influence on the financial performance of the commercial banks.

The results provided in Table 3 also found that the commercial banks had adequate staff to promote strategic partnership across the banking industry. However, despite having these structures in place, strategic partnership was not effective as noted by low number of strategic partnerships that had high outcomes. This implies that despite laying down structures to support strategic partnership, it did not automatically translate to improved financial performance. Past study by Jepkosgei and Otieno (2024) disagreed with the current study's by finding out that strategic partnership had a positive influence on financial performance of commercial banks. The difference is that the current study was dealing with departmental heads while Jepkosgei and Otieno (2024) did not specify the managers involved. It could therefore signify that strategic partnership had short-term benefits as compared to the overall long-term and sustainable strategic benefits. This was also agreed by Samo, Wanyonyi, and Okonda (2025) who revealed that strategic partnerships are established to attain short-term objectives restricted under specific timeline.

There were two open-ended questions that were asked on market penetration strategies. The first question inquired on strategies that the banks had employed to guarantee success and profitability. The participants stated that the market penetration strategies of commercial banks included market share growth due to an increase in the number of customers through competitive pricing of the financial products, marketing campaigns, customer relationship management, digital banking services, agency banking and mobile banking services. Moreover, they pointed out that improving the service quality and offering personalized banking solutions to retain customers have enabled transaction and revenue generation. These results corroborate with Ekankumo and Thankgod (2024); Mutua and Kori (2022) where it was found that market penetration strategies, including customer acquisition and service delivery improvements and digital banking services, have greatly improved the performance of commercial banks.

Descriptive Statistics of Financial Performance

Financial performance was the dependent variable of the study and was measured through Return on Asset. Table 4 shows the results.

Table 4: Descriptive Statistics of Financial Performance

Statements N=157	1	2	3	4	5	Mean	Std. Dev.
Staff are trained to understand how their roles enhance the bank's financial performance	8 (5.1%)	10 (6.4%)	4 (2.5%)	45 (28.7%)	90 (57.3%)	4.27	1.117
Specific departments monitor the bank's performance	4 (2.6%)	6 (3.8%)	23 (14.7%)	55 (35.0%)	69 (43.9%)	4.14	0.977
Strategic managers have adequate experience of monitoring the utilization of assets to improve ROA	4 (2.5%)	12 (7.6%)	75 (47.8%)	43 (27.5%)	23 (14.6%)	3.44	0.922

Management strategies have contributed to high ROA levels	15 (9.6%)	13 (8.3%)	41 (26.1%)	50 (31.8%)	38 (24.2%)	3.68	1.360
Average Summary						3.88	1.09

Table 4...

Table 4 shows that 90(57.3%) strongly agreed and 45(28.7%) agreed on a mean of 4.27 and SD of 1.117 that the staff were adequately trained on how their roles improved the financial performance of the bank. Additionally, 69(43.9%) strongly agreed and 55(35%) agreed on a mean of 4.14 and SD of 0.977 that there were specific departments in place to monitor the performance of the bank. There were also 50(31.8%) respondents who agreed and 38(24.2%) who disagreed on a mean of 3.68 and SD of 1.360 that the management strategies in place had contributed to high percentages of ROA.

The results underscore the relevance of staff training and consistent monitoring and management of strategies, in improving financial performance. The three approaches were discovered to enhance financial performance with staff training on their roles taking precedence. Furthermore, the findings imply that while a majority of respondents acknowledged the positive contribution of management strategies toward achieving higher ROA, the relatively moderate mean score and higher standard deviation indicate some level of inconsistency in perception compared to staff training and departmental monitoring. This variation suggests that although strategic management practices are in place, their impact may not be uniformly experienced across the commercial banks. Past authors such as Ege and Topaloğlu (2020) and Kela-kahingo (2025) found out that strengthening the alignment between management strategies and operational execution, alongside continuous staff capacity building and performance oversight, could further enhance the bank's overall financial performance and ensure more consistent improvements in key financial indicators.

There was one open-ended question that was asked on the challenges facing financial performance in banks. Results of thematic analysis of the survey responses led to identification of three main themes concerning the difficulties influencing the financial performance of the bank. First, market competition was high, since the respondents identified that competition with other commercial banks, financial services firms, and FinTechs had resulted in loss of market share and influenced the prices and profitability. Second, credit and operational risks were high, as the respondents identified that high non-performing loans, loan defaults, and high operational costs influenced the revenue generation and financial performance of the bank. This finding is similar to Njoki and Nyamute (2023), who established that the key limitations of financial performance of the commercial banks include competition, credit risks, operational risks, and regulation requirements.

Regression Analysis of Market Penetration

The study determined the extent to which market penetration affected financial performance through the model summary provided in Table 5.

Table 5: Model Summaries of Market Penetration

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Market Penetration	0.454	0.206	0.201	2.329

a. Predictors: (Constant), Market Penetration

b. Dependent Variable: Financial Performance

From the findings, market penetration was found to have a moderate positive relationship with the financial performance of the organization (R = 0.454). The R Square value of 0.206 means that market penetration accounted for 20.6% of the variance in financial performance, while the remaining 79.4% was accounted for by other factors outside the study.

Additionally, the study had a null hypothesis that stated market penetration had no statistically significant effect on the financial performance of commercial banks in Kenya. Analysis of Variance (ANOVA) was conducted to test the hypothesis as shown in Table 7.

Table 6: ANOVA of Market Penetration

Model		Sum of Squares	Df	Mean Square	F	Sig.
Market Penetration	Regression	217.93	1	217.93	40.24	0.000[b]
	Residual	839.98	155	5.419		
	Total	1057.91	156			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Market Penetration

Table 6 indicates that the significance level of market penetration was 0.000, which was less than 0.05, the study rejected the null hypothesis. This implies that market penetration had a statistically significant effect on financial performance of commercial banks in Kenya. Market penetration enhances financial performance through positioning of strategies in a manner that the client demands are addressed on time. This is through effective strategic management policies that guide on resource allocation and partnership that can enhance improved financial performance. According to Ekankum and Thankgod (2024), an identified market enables a commercial bank to improve its market share on a specific economy. Therefore, established positive correlation is an indication that the implementation of market penetration strategy is beneficial to improving financial performance.

The study conducted a regression coefficient of market penetration as provided in the Table 7.

Table 7: Regression Coefficient of Market Penetration

Model	Unstandardized B	Std. Error	Standardized Beta (β)	t	Sig.
(Constant)	11.284	1.017	-	11.094	0.000
Market Penetration	0.454	0.072	0.454	6.344	0.000

The findings reveal that financial performance of commercial banks in Kenya would be at a constant factor of 11.284 if the effect of market penetration strategy would be zero. Increasing the market penetration strategy by one unit would increase the financial performance by 0.454. This shows that market penetration had a moderate statistically significant effect on financial performance. The results suggest that improvements in market penetration, for example, in the form of greater customer coverage and expansion of market share, are correlated with better financial performance by commercial banks in Kenya. The study regression model after the analysis of the variable was as below;

$Y = 11.284 + 0.454X1$

Summary

The commercial banks adopted market penetration strategies involving the development of certain products that were aimed at increasing the market shares and at assigning certain roles to employees so as to implement these strategies effectively. Nevertheless, despite the fact that strategic partnership with the other corporations was adopted by the commercial banks, 70.5% of respondents indicated that the adoption of the strategic partnership had not resulted in the desired outcome.

CONCLUSION

The study concluded that even though there were market share strategies that were overseen by the staff, they were ineffective. The ineffectiveness may have originated from inadequate background research on the most compelling strategies that would support the commercial banks in their market penetration. Further, lack of benchmarking initiatives with developed financial institutions, could have contributed to this issue. As noted through the findings, ineffectiveness was paramount through the outcome achievement of strategic partnerships established.

The newly proposed banking fees regulations, 2025 sought to increase the licensing fees for the commercial banks based on the number of branches. This caused various growth strategies that were previously in place, to scale down as the management of the commercial banks had to re-strategize and assess the risk factor effect to its markets, products, diversification and innovation. Therefore, the study found numerous policy changes at the time of data collection to reflect the new regulations from the CBK. To ensure that this limitation did not weaken the study, the established policies in place were considered as the current operational policies, even if they had just been implemented.

RECOMMENDATIONS

The study recommends that the management should strengthen the market share strategies by benchmarking initiatives with other financial institutions. The benchmarking could be done through partnering with regional commercial banks to assess the effectiveness of each strategy vis-à-vis the target market. The management is also recommended to provide updated technological infrastructure and updated databases that will provide current information to the staff on the markets. This will improve strategic implementation and decision-making and strategic implementation skills.

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