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EFFECT OF MARKET ENTRY STRATEGIES ON THE PERFORMANCE OF FOREIGN OWNED COMMERCIAL BANKS IN RWANDA.

SILAS KERAGIA MAOSA
Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

Dr. JAYA SHUKLA (PhD)
Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

Dr. KULE WARREN JULIUS (PhD)
Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

Ms. JACKLINNE KIBACHIA
Jomo Kenyatta University of Agriculture and Technology,
Kigali, Rwanda.

ABSTRACT

Studies have shown that entry strategy is a key determinant on the performance of foreign entrants in new markets. It may mean the success or failure of a foreign entrant. The Banking sector in Rwanda has attracted several new entrants from the region and beyond in the past few years who used different entry strategies. Several studies have been undertaken on choice of entry strategies by multinational corporations especially in developed economies. Few studies have been conducted on the effect of entry strategies by foreign banks in Rwanda hence the motivation for this research. The main objective of this research was to determine the effect of entry strategies on the performance of foreign owned commercial banks in Rwanda. The specific objectives of the study were to determine the effect of Greenfield, Acquisitions and Merger entry strategies on the performance of commercial banks in Rwanda. The study adopted a descriptive research design with the target population of the study comprising seven foreign banks that had entered and operated in Rwanda by the time of this study. A multi case survey was employed where 6 senior managers from each bank were issued with questionnaires to fill supplying the primary data. Secondary data was obtained through the use of published reports, review of newspaper articles and review of bank annual reports. The data collected was analyzed through SPSS version 21 and multiple regression analysis was done to show the relationship between the variables. The study found out that entry strategy has an effect on the performance of commercial banks in Rwanda. From the findings, it was also revealed that holding Green field operations, Acquisition and mergers to a constant zero, financial performance would be at 0.455. A unit increase on Green field operations would lead to increase in financial performance by a factor of 0.016, a unit increase in Acquisition would lead to increase in financial performance by a factor of 0.182 and a unit increase in mergers would lead to increase in financial performance by a factor of 0.153. The study recommends that new banks and foreign investors to Rwanda carefully evaluate their choice of entry strategy as it is a key determinant of bank success performance.

Key words: Green field operations, Acquisition, mergers bank and success performance

1.1 Background

Globalization of market economies has forced corporations in all sectors to concentrate on maintaining a sustainable competitive edge which is directly related to the growth of their businesses both in terms of efficiency as well productivity. This is only possible if an organization engages in operations or produces products that are able to effectively compete in the market (Kumar *et al.* 2014). The nature of the current market is characterized by ever stiffening competition and ever-changing customer expectations and demand, an organization must come up with unique competitive strategies and produce goods and services that continuously meet and exceed these demand and expectations (Salaheldin, 2009).

Today firms operate in an increasingly dynamic and turbulent environment characterized by intense competition, uncertain market conditions, faster technological changes and shorter product life cycles, (Pinto *et., al* 2008). The intense competition has forced firms to expand to foreign markets in search of growth, acquisition of cheaper raw materials and economies of scale in all areas of production and distribution. Under these circumstances an effective launch strategy increases the chances of firm's survival and improves a foreign entrant success, (Teo 2002). Companies expand to regional and foreign markets motivated in part by the desire to gain global recognition, assurance of long term growth, increase in profitability, diversification of risk and to reap from of scale among other reasons.

Those companies which tend to expand to international markets must decide about the type of entry strategy and its effect on the foreign operation of the company (Caterora & Graham, 2002). In international competition, a proper and effective entry strategy guarantees a long-term presence in the market and leads to the success of the company in the international markets, (Jamshid *et al*, 2011). He adds that the choice of a right foreign market entry mode will determine the success of foreign direct entrant. Rasheed, (2005) posits that the choice of foreign market entry is a key determinant of the success of the foreign entity. This is supported by Jamshid, (2005) who argues that that selection of an appropriate entry strategy is a critical and indispensable component of the strategic decision a company has to make when investing overseas. Entry modes are difficult to change without considerable loss of time and money, making entry mode decision a major strategic decision for many companies seeking international expansion.

Banks from the rest of East Africa and West Africa have set up operations in Rwanda through different modes. The banks have been motivated by the desire to follow their customers, an enabling environment due to conducive business reforms and the formation of regional trading blocks the EAC and COMESA together with some national bilateral trade agreements signed between other countries and Rwanda. The choice of entry strategies is a key strategic decision for any bank entering a foreign market. This paper seeks to explore this phenomenon and establish if the choice of entry has an effect on the performance of foreign owned commercial banks in Rwanda.

As at the end of December 2015 the banking industry composed of ten commercial banks, four microfinance banks, one development bank and once cooperative bank. Out of the ten commercial banks eight banks are foreign owned. The banking sector industry balance sheet assets as at the end of December 2014 amounted to RWF 1.8 Trillion (USD 2.9B).

1.2 Statement of the Problem

In the recent past the Rwandan economy has attracted many foreign direct investors into different sectors. The banking industry is one those sectors that seen many entrants from the region and internationally. Out of the ten commercial banks operating as at 31 December 2015, eight are foreign owned. Banks entering foreign markets have to perform a critical analysis on target country factors and choose an entry strategy that will meet management objective of optimizing performance and sustaining long term stability for the foreign entity in addition to meeting management risk mitigation targets.

Those companies, which tend to enter international markets, must decide about the type of entry strategy and its effect on foreign operation of the company (Catelora & Graham, 2002). Effective new market development and commercialization is a very challenging task, and several studies have verified that the entry or launch strategy is a key determinant of the success or failure of product innovations or new entrants (Pinto *et al* ,2007). Researchers have conducted studies on foreign market entry strategies and the findings indicate that the type of entry mode depends on the nature of business, its products and goals, (Cavusgil *et al.*, 2008).

While much research has been done on market entry strategies employed by commercial banks on expansion and internationalization on developed and emerging economies like the United States of America (USA), Europe, China and Latin America (Jianqing, 2012; ADB Institute, 2012; among others, few studies have been conducted for developing and less developed markets of Africa, and Rwanda to be specific.

Some of the studies that have centered on foreign entry include For instance, Tan (2009) who examined foreign market entry strategies and post-entry growth. The study focused on acquisitions and Greenfield investments. Other recent studies majored on the reasons for internationalization, factors affecting choice of entry strategy and surveys of mergers and acquisitions in the Kenyan market. No research on the effect of entry strategy on performance of commercial banks has been undertaken in Rwanda

Recent researches in the area of entry strategy including Kagabo (2012) and Asira (2013) took a narrow scope concentrating on the factors that influence foreign expansion of banks in East Africa. This research will fill the gap existing on the effect of entry strategy on bank performance from a Rwandan perspective focussing on the 8 foreign banks in Rwanda.

1.3 Objectives

1.3.1 General Objective

The general objective of this study was to determine the effect of entry strategies adopted by foreign owned commercial Banks in Rwanda on their performance.

1.3.2 Specific Objectives

The specific objectives of the study were:

1. To determine the effect of Green field operations entry strategy on the performance of foreign owned banks in Rwanda.
2. To evaluate the effect of acquisition entry strategy on the performance of foreign owned banks in Rwanda
3. To establish the effect of merger entry strategy on the performance of foreign owned banks in Rwanda.

1.4 Research Questions

The following research questions guided this study:

1. How does Green field operations entry strategy affect the performances of foreign owned banks in Rwanda?
2. What is the effect of acquisition entry strategy on the performance of foreign owned banks in Rwanda?
3. What is the effect of Mergers entry strategy on the performance of foreign owned banks in Rwanda?

2.0 Conceptual Framework

In this study, the dependent variable is bank performances while the independent variables are market entry strategies and includes: Green field operations, Acquisition and mergers. The variables and their relationship are shown in the figure 1 below:

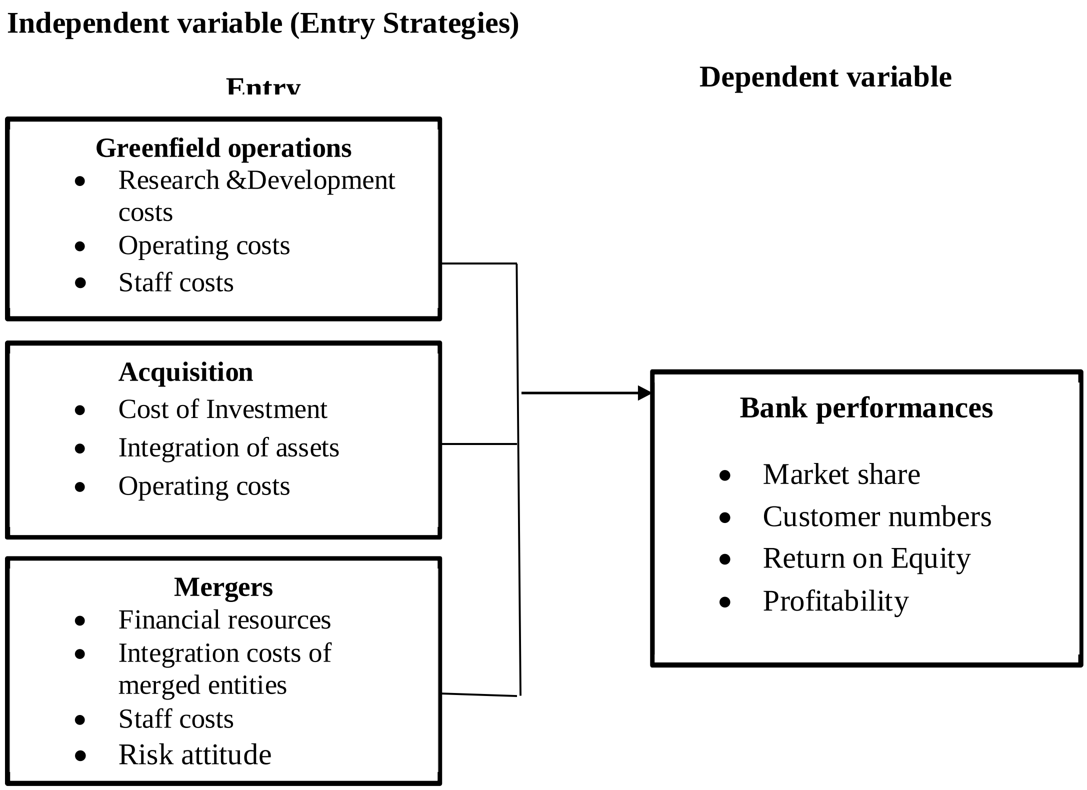

Figure 4: Conceptual framework

2.1 Critique of the existing literature

From the above literature, a critical evaluation of these theories reveals the following; Most of the entry mode theories explain entry mode choices in a statistical way meaning that the respective authors only explain how to enter the market, but are not focusing on the dynamic process after the pre- entry strategy. It is necessary for a theory that will examine the relationship between entry strategy and performance of the foreign market entrants.

Compared with developed markets emerging markets and least developed countries differ in the external environment as well as in firm characteristics; therefore, an understanding of entry mode choices for the least developed markets and specifically Africa is of concern and models developed by scholars in other markets may not work in these nascent markets needs to be clarified. Cavusgil *et al*, (2002) explains the importance of external environment analysis when entering emerging markets but unfortunately fails to link the characteristics of emerging markets to the choice of entry modes.

Studies conducted in the US and EU show that market characteristics and conditions affect the entry mode. More research is recommended for developing and least developed countries so as to show the effect on entry strategies of foreign investors from a least developed country perspective. The major criticism for most of these theories is their lack of market flexibility and their inapplicability to all markets in Africa hence the need of a theory that has an African perspective.

3.0 Research design

This study adopted descriptive research design. A descriptive study is a study concerned with describing the characteristics of a particular individual or of a group (Kothari, 2004). The study aimed to determine the effect of entry strategies adopted by foreign owned commercial Banks in Rwanda on their performance. The researcher adopted a survey design. A survey research involves collecting data from a particular sample or a given population, through personal or impersonal means, (Kothari, 2004). A survey design is associated with a guided and quick collection, analysis and interpretation of observation (Mugenda & Mugenda, 2009).

3.1 Target population

The target population of this study was the Seven (7) foreign owned commercial banks that entered Rwanda and have been operating in Rwanda from the date of this study. These banks are; Access Bank Rwanda Ltd, Ecobank Rwanda Ltd, Equity Bank Rwanda Ltd, KCB Rwanda, Guaranty Trust Bank (GT), BPR and I & M. Bank Rwanda Ltd. From each bank the managing director, Finance Mangers, operations managers, marketing managers, risk managers, and investor relations managers were targeted. Hence the target population for the study was 42 managers.

3.2 Sample size and sampling procedure

Sampling frame is a list of all the population subjects that the researcher targeted during the study. Given the relatively small size of the study population, a census was conducted, and this means data was collected from every possible case or group member. A census does eliminate sampling errors thereby enhancing the level of precision of the study (Gebauer et al., 2008).

From the inclusive criteria 8 foreign owned commercial banks that were operating in Rwanda as at the time of this study. I &M Bank, Ecobank Rwanda Ltd, KCB Rwanda Ltd, Equity Bank Rwanda Ltd, Access Bank Rwanda Ltd, BPR and GT Bank Ltd have been chosen for the survey. Crane Bank was excluded from this study as it less than one year in operation even though it met the criteria of foreign ownership. The target respondents were purposefully selected to participate in this study. The research adopted a survey of 7 banks and issued questionnaires to 7 senior managers for each bank. The managers targeted for selection came from Executive/ MD office, Finance, Operations, Marketing, Corporate Affairs and Investor Relations. The rationale for selection these respondents is based on the expectation that they hold key strategic and operational information for the said banks. The Sampling frame for the target respondents are as below.

Table 3: Sampling Frame

Area of Operation	Population
Managing directors (CEO’s)	7
Finance managers	7
Operations managers	7
Marketing managers	7
Corporate managers	7
Investor relations manager	7
Total	**42**

4.1 Regression Analysis

Regression analysis was done to determine the relationship between determine the effect of entry strategies adopted by foreign owned commercial Banks in Rwanda on their performance.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.542[a]	.294	.268	.130

a. Predictors: (Constant), Green field operations, Acquisition and mergers

Table 2 shows that the coefficient of determination R square is 0.294 and R is 0.542 at 0.05 significant level. The coefficient of determination indicates that 29.4% of the variation in the dependent variable Banks performance is explained by the independent variables (Green field operations, Acquisition and mergers).

Table 5 ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.575[a]	3	.192	11.388	.000[b]
	Residual	1.379	82	.017		
	Total	1.953	85			

a. Dependent Variable: Performance of Organization

b. Predictors: (Constant), Green field operations, Acquisition and mergers

Table 3 presents the results of Analysis of Variance (ANOVA) on entry strategy versus organization performance. The ANOVA results for regression coefficient indicate that the significance of the F is 0.00 which is less than 0.05. This implies that there is a positive significant relationship between entry strategy and performance and that the model is a good fit for the data.

Table 6: Coefficient results showing the relationship between the combined entry strategies and performance

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	.455	.231		1.973	.106
	Green field operations	.016	.009	.444	1.815	.009
	Acquisition	.182	.050	1.231	3.616	.036
	Mergers	.153	.017	1.075	3.159	.025

From the data in the above table the established regression equation was

$Y = 0.455 + 0.016X_1 + 0.182\ X_2 + 0.153\ X_3$

From the above regression equation, it was revealed that holding Green field operations, Acquisition and mergers to a constant zero, financial performance would be at 0.455. A unit increase on Green field operations would lead to increase in financial performance by a factor of 0.016, a unit increase in Acquisition would lead to increase in financial performance by a factor of 0.182 and a unit increase in mergers would lead to increase in financial performance by a factor of 0.153.

5.0. Conclusions

From the findings of the study, it is concluded that green field strategies have a high influence on performance of financial institutions in Rwanda. Green field operations were adopted by foreign indigenous banks from Kenya while all the western Africa banks went for acquisition.

From this study, it is concluded that acquisition entry strategies affect the performance of commercial banks in Rwanda. The findings of this study are in support of Qureshi et al (2010) study in acquisition strategies as having a positive effect on organizational performance of Pakistani bankers. The results of the research also mirror that of Njoroge, (2007), **"a survey of mergers and acquisitions in Kenya:"**, where it was found out that mergers had a positive effect on the performance of merged banks.

5.1. Recommendations

The study established that all the entry strategies under research have a significant effect on the performance of foreign owned banks in Rwanda. The researcher therefore recommends that owners and managers of foreign banks correctly analyze and consider the entry strategy as they make FDI investment decisions in target countries. The study makes relevant findings that need a practical application in the evaluation of entry strategy.

5.2. Suggested Areas for Further Research

There is need to conduct a study to establish the reasons why acquisition entry strategy is the most commonly employed mode of bank entry strategy by the foreign owned Commercial Banks. Another area of study is why the other entry strategies available including joint ventures, correspondent banks among others have not been employed in Rwanda. The research noted that of the study banks 3 West African banks used the acquisition entry strategy whereas 2 Kenyan banks used Greenfield operations and one International Bank used Merger Entry strategy. It is recommended for further study to determine if home countries characteristics also influences the entry strategy. Finally, the researcher recommends for a wider scope study that will cover all sectors of the economy in Rwanda to see if the results will parallel these findings from the banking sector

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