Joint Venture Partnerships and Competitive Advantage of Tier III Commercial Banks in Nairobi County, Kenya

Chepng'eno Debora[1], Dorcas Kerre[2], Peter Kiboi[3]

[1]Correspondent author, Faculty of Business and Economics, Multimedia University of Kenya

[2]Faculty of Business and Economics, Multimedia University of Kenya

[3]Faculty of Business and Economics, Multimedia University of Kenya

DOI: https://doi.org/10.47772/IJRISS.2026.100700616

Received: 29 July 2026; Accepted: 03 August 2026; Published: 08 August 2026

ABSTRACT

The primary objective of this study was to examine the effect of joint venture partnerships on competitive advantage among Tier III commercial banks in Nairobi County, Kenya. Tier III commercial banks in Kenya continue to experience significant competitive challenges arising from limited capital, constrained technological infrastructure, narrow market reach, and intense competition from Tier I and Tier II banks as well as fintech firms. Despite the increasing adoption of joint ventures by smaller banks, many Tier III commercial banks continue to report challenges related to operational inefficiencies, weak market positioning, limited customer reach, and reduced innovation capacity. Competitive advantage remains a major concern in the Kenyan banking sector, particularly among smaller banks operating in highly competitive urban environments such as Nairobi County. Joint ventures partnerships have increasingly emerged as an important approach for enhancing operational efficiency, service delivery, innovation, and market expansion among financial institutions. However, limited empirical evidence exists on how Joint ventures partnerships influence the competitive advantage of Tier III commercial banks in Kenya. This study therefore examined the effect of joint venture partnerships on competitive advantage among Tier III commercial banks in Nairobi County, Kenya. The study was anchored on the Resource-Based View Theory. A descriptive research design was adopted, and the target population consisted of 240 branch managers drawn from 22 licensed Tier III commercial banks operating in Nairobi County. Since the target population was manageable, census sampling technique was used to include all the 240 branch managers in the study. A pilot study was conducted to test the validity and reliability of the research instrument. Diagnostic tests including normality, multicollinearity, and heteroscedasticity tests were conducted to ensure conformity to regression assumptions. Primary data was collected using structured questionnaires and analyzed using Statistical Package for Social Sciences (SPSS) version 26 to generate descriptive and inferential statistics. The data analyzed was presented using tables, percentages, frequencies, means, and narrations. Ethical considerations including informed consent, confidentiality, and research authorization from relevant authorities were observed during the study. The study found that joint venture partnerships ($\beta = 0.361$; $p = 0.000$), had a positive and statistically significant effect on competitive advantage among Tier III commercial banks in Nairobi County, Kenya. The study further established that joint ventures partnerships significantly influenced competitive advantage among Tier III commercial banks in Nairobi County, Kenya (Adjusted R Square = 85.3%; p-value = 0.000). The study concluded that joint venture partnerships significantly enhance competitive advantage among Tier III commercial banks through improved operational efficiency, service differentiation, customer satisfaction, and market positioning. The study recommends that management of Tier III commercial banks should strengthen joint venture corporations collaborations with technology providers, fintech firms, outsourcing partners, and agency networks in order to improve competitiveness, expand customer reach, enhance service delivery, and sustain long-term growth within the Kenyan banking sector.

INTRODUCTION

Competitive advantage refers to a bank's ability to achieve superior performance relative to competitors by delivering greater value to customers and utilizing its resources and capabilities more effectively (Patrisia et al, 2022). In the context of banking, competitive advantage is reflected in cost efficiency, service differentiation, and brand positioning. Cost efficiency relates to a bank's ability to minimize operational expenses while maintaining acceptable service quality. Service differentiation refers to the extent to which a bank offers unique, innovative, or superior services that enhance customer experience and customer loyalty. Brand positioning reflects how favorably a bank is perceived and recognized in comparison to competitors within the banking industry. By articulating the different forms of strategic partnerships and the dimensions of competitive advantage in this manner, the study establishes a clear foundation for examining how partnerships contribute to the competitiveness of Tier III commercial banks in Nairobi County.

According to Chishamba (2024), competitive advantage refers to a firm's ability to achieve superior performance relative to competitors by delivering greater value to customers and utilizing its resources and capabilities more effectively. In the banking sector, competitive advantage is reflected in a bank's ability to operate efficiently, offer differentiated services, attract and retain customers, and sustain profitability in a highly competitive and regulated environment.

Competitive advantage has become increasingly critical in the banking industry as financial institutions respond to intensified competition, rapid technological advancement, and evolving customer expectations (Pavlov, 2025). As traditional banking products become more standardized, banks are compelled to seek alternative ways of distinguishing themselves through service quality, operational efficiency, and strong market positioning. Tier III commercial banks in Kenya operate in an environment characterized by strong dominance of large banks, increased fintech competition, and high customer demand for convenient and reliable banking services, particularly in urban markets such as Nairobi County.

Competitive advantage in this study will be measured using four dimensions: cost efficiency, service differentiation, customer satisfaction and brand positioning. Cost efficiency will be measured by assessing the extent to which Tier III commercial banks are able to minimize operational costs while maintaining acceptable service quality, as reflected through indicators such as reduction in operating expenses, improved cost-to-income ratios, and efficient utilization of resources (Antunes et al., 2022). Service differentiation will be measured by examining the extent to which banks offer unique, innovative, and reliable banking services that enhance customer experience, including variety of products, reliability of digital platforms, speed of service delivery, and quality of customer service (Bresciani & Del Giudice, 2021). Brand positioning will be measured by assessing how favorably Tier III commercial banks are perceived in the market relative to competitors, using indicators such as brand visibility, customer trust, reputation, and perceived market presence (Al Daabseh et al, 2024)). These measures provide a comprehensive assessment of competitive advantage among Tier III commercial banks in Nairobi County.

Joint venture partnerships involve collaborative arrangements where banks and partner organizations jointly invest resources to pursue market expansion, facilitate managerial and technical knowledge transfer, and share risks associated with new products or markets. Through such partnerships, Tier III commercial banks are able to strengthen their capital base, access specialized expertise, and improve operational capabilities, which support improved efficiency, service quality, and market presence.

Statement of the Problem

The Kenyan banking sector is highly concentrated and structurally skewed in favor of large institutions, creating significant competitive challenges for Tier III commercial banks. According to the Central Bank of Kenya (CBK), as at December 2024, the banking sector's total net assets stood at approximately KSh 7.5 trillion, with Tier I banks controlling more than 70% of industry assets, deposits, and loan portfolios, while Tier III banks collectively accounted for less than 10% of these indicators (CBK, 2024). This unequal distribution of market share reflects a persistent competitive disadvantage for Tier III banks, which is further evidenced by their relatively lower profitability, higher cost-to-income ratios, and weaker returns on assets compared to Tier I and Tier II banks (CBK, 2024).

In Nairobi County, which is Kenya's main financial hub and the most competitive banking market, Tier III commercial banks operate under intense pressure from dominant large banks and rapidly growing fintech firms. Customers increasingly demand fast, reliable, and convenient digital banking services, yet many Tier III banks face constrained capital, limited technological infrastructure, and narrow branch networks, which restrict their ability to invest in advanced digital platforms and expand service delivery channels (Micheni et al, 2024). As a result, Tier III banks continue to experience limited market visibility, reduced customer reach, and slower innovation compared to their larger counterparts.

Tier III commercial banks also face an innovation and technology gap. Large Kenyan banks have made substantial investments in automation, digital platforms, and fintech-driven solutions, while most Tier III banks lag behind due to the high cost of technological upgrades and limited internal capabilities (Arner, et al., 2022). This gap has weakened their ability to introduce new products, enhance customer experience, and compete effectively in Nairobi County where adoption of mobile and internet banking is very high.

In response to these challenges, Tier III commercial banks have increasingly adopted strategic partnerships such as joint venture partnerships, technology-sharing partnerships, agency banking partnerships, and outsourcing partnerships. These partnerships are intended to enhance market reach, improve digital capabilities, reduce operational costs, and strengthen service delivery (Mwangi & Wanyoike, 2020). Despite the growing adoption of these partnerships, the competitive position of Tier III banks remains weak, as reflected by their continued low market share, limited innovation capacity, and lower profitability relative to larger banks (CBK, 2024).

Moreover, most previous studies in Kenya have focused on strategic partnerships and competitiveness among Tier I and Tier II commercial banks or have examined general strategic management practices without isolating the unique context of Tier III banks (King'oku, A. N., & Muathe, 2024). Consequently, there is limited empirical evidence on whether strategic partnerships actually enhance the competitive advantage of Tier III commercial banks, particularly in highly competitive urban markets such as Nairobi County.

This continued dominance of large banks, the persistent weak market position of Tier III banks, and the limited empirical evidence on the effectiveness of strategic partnerships in improving their competitiveness constitute the core problem addressed by this study. It therefore remains unclear whether and to what extent strategic partnerships contribute to cost efficiency, service differentiation, and improved brand positioning among Tier III commercial banks in Nairobi County. This study seeks to address this gap by empirically examining the effect of strategic partnerships on the competitive advantage of Tier III commercial banks in Nairobi County, Kenya.

Research Hypothesis

$H0_1$: Joint ventures have no significant effect on the competitive advantage of Tier III commercial banks in Nairobi County, Kenya.

LITERATURE REVIEW

Theoretical Foundation

Resource-Based View (RBV)

The Resource-Based View (RBV) was originally advanced by Penrose (1959) and later developed by Wernerfelt (1984) and Barney (1991). The theory states that firms achieve sustainable competitive advantage by possessing and effectively deploying internal resources that are valuable, rare, inimitable, and non-substitutable (VRIN). According to Barney (1991), such resources enable organizations to implement strategies that competitors cannot easily imitate, thereby resulting in superior performance.

In this study, RBV is specifically related to joint ventures. Joint ventures allow Tier III commercial banks to access strategic resources that they lack internally, such as capital, managerial expertise, technological know-how, and market knowledge. Through joint ventures, partner firms combine complementary resources, enabling smaller banks to strengthen their internal resource base and enhance their ability to compete with larger banks.

The theory is highly relevant to this study because Tier III commercial banks in Nairobi County are characterized by limited financial, technological, and managerial resources. RBV explains why these banks engage in joint ventures as a strategic mechanism for resource acquisition and capability enhancement. By pooling resources with strategic partners, Tier III banks are able to improve cost efficiency, service quality, and market positioning, which are critical components of competitive advantage examined in this study. The Resource-Based View therefore directly informs the joint venture partnerships variable in this study by explaining how Tier III commercial banks acquire critical resources such as capital, expertise, and technology through collaboration. The theory contributes to the study by demonstrating that joint ventures enhance competitive advantage through resource acquisition, improved capabilities, and strengthened market positioning.

Despite its usefulness, RBV has several limitations. The theory has been criticized for its static orientation, as it does not adequately explain how firms renew or reconfigure their resources in response to dynamic environmental changes (Wachira & Anyieni, 2021). Additionally, RBV largely ignores external factors such as regulatory pressures, technological disruption, and competitive intensity, which significantly influence performance in the banking sector (Priem, Butler, & Li, 2022). Consequently, while RBV provides a strong theoretical foundation for explaining joint ventures in Tier III banks, it requires support from complementary theories to fully capture the dynamic nature of strategic partnerships.

EMPIRICAL REVIEW

Ghosh and Dutta (2020) conducted a descriptive study on commercial banks in India with the aim of understanding the role of joint ventures in strengthening banks' strategic outcomes. Specifically, the objective of the study was to examine the effect of joint ventures on innovation and competitive positioning among mid-sized commercial banks. Using a sample of 20 banks, the findings revealed that joint ventures enabled banks to access new technologies and engage in cross-border partnerships, thereby enhancing innovation and competitiveness. However, the study was grounded in the Indian banking context and may not be directly applicable to Tier III commercial banks in sub-Saharan Africa, which operate under different regulatory, economic, and resource conditions. The present study builds on this aim by examining how joint ventures contribute to the survival of Tier III commercial banks in Nairobi County within a highly competitive environment.

Nguyen and Simkin (2021) conducted a study on cooperative banks in Europe with the aim of exploring how international joint ventures contribute to organizational resilience in the banking sector. Specifically, the objective of the study was to examine the effect of international joint ventures on knowledge transfer and financial resilience among cooperative banks. Using a mixed-methods design involving surveys and interviews with 120 bank managers, the study established that international joint ventures promoted knowledge transfer and improved financial resilience, enabling banks to withstand market fluctuations. However, the study focused on cooperative banks in developed economies and did not address emerging markets where resource constraints are more severe. The present study extends this inquiry by focusing on resource-limited Tier III commercial banks in Nairobi County.

Osei and Boateng (2020) carried out a study on Ghanaian banks with the aim of understanding the strategic benefits of joint ventures within developing-country banking systems. The specific objective was to assess how joint ventures with foreign banks influence access to foreign exchange and technical expertise among domestic banks. Employing a multiple-case study design across 15 domestic and foreign-owned banks, the findings showed that joint ventures enhanced access to foreign exchange and technical expertise, thereby improving customer trust and competitiveness. Nonetheless, the study did not analyze customer-focused outcomes such as service quality or customer loyalty, which are critical in explaining competitive advantage in retail banking. This study addresses this gap by linking joint ventures to broader customer satisfaction metrics among Tier III commercial banks.

Mugisha and Tumusiime (2021) conducted a study on Ugandan commercial banks with the aim of examining the role of strategic partnerships in enhancing bank competitiveness. The objective of the study was to determine how joint ventures influence risk reduction and product diversification among commercial banks. Using a cross-sectional design involving 150 respondents drawn from 10 commercial banks, the study found that joint ventures reduced market entry risks and supported product diversification, enabling smaller banks to compete with Tier I institutions. However, the study did not explicitly examine Tier III banks, which face distinct resource limitations and market share challenges. The current study narrows its focus to Tier III commercial banks in Nairobi County to address this oversight.

Mutua and Gathaiya (2020) undertook a study on Kenyan commercial banks with the aim of evaluating the contribution of joint ventures to operational and competitive outcomes in the banking sector. Specifically, the objective was to examine the effect of joint ventures on service quality, customer acquisition, and operational efficiency. Using a descriptive survey design involving 25 commercial banks, mainly Tier I and Tier II institutions, the findings indicated that joint ventures enhanced service quality, customer acquisition, and operational efficiency. However, the study largely overlooked Tier III banks, which differ structurally from larger banks in terms of capital base and customer reach. This study bridges the gap by concentrating on how joint ventures influence the competitive advantage of Tier III commercial banks.

METHODOLOGY

A research design is a plan that specifies the approach and procedures for conducting a study, specifying the methods and procedures for collecting, analyzing, and interpreting data (Kipyegon, Ikamari & Makau, 2025).

In this study, the target population consisted of Tier III commercial banks licensed by the Central Bank of Kenya (CBK) and operating within Nairobi County. According to CBK records as of February 2026, there are 22 licensed Tier III commercial banks in Kenya which have actually taken up these strategic partnerships. These institutions collectively operate 240 branches within Nairobi County. Since the study seeks to examine the effect of strategic partnerships on competitive advantage among Tier III commercial banks, all branches operating within Nairobi County were considered.

The study used the following regression Model

$$Y = \beta 0 + B1X1 + +\varepsilon$$

Where Y is the Competitive Advantage;

β_0 = constant (coefficient of intercept)

X_1= Joint venture Practices

ε =Error term;

B_1, = regression coefficient of joint venture practices.

RESEARCH RESULTS

Descriptive Statistics

To achieve this objective, the respondents were asked to state their level of agreement with each objective with various statements on a five-point Likert scale (where: 5-very great extent, 4-great extent, 3-moderate extent, 2-little extent, 1-no extent). Standard deviations and the means were applied in presenting descriptive statistics of the study. A lower mean indicates stronger agreement among responses, whereas a higher standard deviation suggests greater variability in the answers.

From Table 4.1, most respondents largely agreed that joint ventures support market expansion (Mean = 4.05; Std. Dev = 0.874), indicating that strategic collaborations enable Tier III banks to access new markets and customer segments. Similarly, respondents agreed that joint ventures enhance knowledge transfer (Mean = 3.88; Std. Dev = 0.912) and enable risk sharing (Mean = 3.91; Std. Dev = 0.901), suggesting that partnerships allow banks to leverage external expertise while minimizing operational risks.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VII July 2026

Further, respondents to a moderate extent agreed that joint ventures facilitate new product development (Mean = 3.76; Std. Dev = 0.963) and improve operational efficiency (Mean = 3.69; Std. Dev = 1.024). This implies that although joint ventures contribute to innovation and efficiency, their impact may vary depending on the nature and effectiveness of the partnership.

Additionally, respondents moderately agreed that joint ventures strengthen competitive positioning (Mean = 3.83; Std. Dev = 0.947), indicating that partnerships play a role in enhancing the bank's ability to compete within the industry.

On aggregate, respondents largely agreed that joint venture partnerships influence competitive advantage (Mean = 3.85; Std. Dev = 0.937). This suggests that joint ventures are a significant strategic tool for improving competitiveness among Tier III commercial banks.

These findings are consistent with those of Ghosh and Dutta (2020), who found that joint ventures enhance innovation and competitive positioning among commercial banks. Similarly, the results support findings by Mugisha and Tumusiime (2021), which revealed that joint ventures contribute to risk reduction and product diversification, thereby improving competitiveness. Furthermore, Mutua and Gathaiya (2020) established that joint ventures enhance service quality and operational efficiency, reinforcing their role in achieving competitive advantage.

Table 4.1: Descriptive Statistics for Joint Venture Partnerships

Statement on Joint Venture Partnerships	**Mean**	**Std. Deviation**
Joint ventures enhance knowledge transfer within the bank	3.88	0.912
Joint ventures support market expansion of the bank	4.05	0.874
Joint ventures facilitate development of new banking products	3.76	0.963
Joint ventures enable risk sharing among partner institutions	3.91	0.901
Joint ventures improve operational efficiency of the bank	3.69	1.024
Joint ventures strengthen the bank's competitive positioning	3.83	0.947
Aggregate Score	**3.85**	**0.937**

Source: research data (2026)

Inferential Statistics

The study used a univariate regression analysis guided by the following null hypothesis;

$H_0$1: Joint ventures have no significant effect on the competitive advantage of Tier III commercial banks in Nairobi County, Kenya.

Table 4.2: Regression Model

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
	B	Std. Error	Beta		
(Constant)	.270	.128		2.103	.001
Joint Venture Partnerships	.356	.029	.361	12.209	.000

A unit increase in joint venture partnerships would lead to a 0.361 increase in the competitive advantage of Tier III commercial banks in Nairobi County, Kenya. The relationship was statistically significant at a p-value of $0.000<0.05$. In addition, the calculated t-value of 12.209 was greater than the critical t-value of 2.132. Therefore, the study rejected the first null hypothesis (H01) and concluded that a significant relationship exists between joint venture partnerships and competitive advantage among Tier III commercial banks in Nairobi County, Kenya.

The findings are consistent with those of Ghosh and Dutta (2020), who established that joint ventures enhance innovation and competitive positioning among commercial banks. Similarly, Mutua and Gathaiya (2020) found that joint ventures improve operational efficiency, customer acquisition, and service quality in commercial banks.

The findings underscore the importance of collaborative investment and resource-sharing arrangements in strengthening the competitiveness of Tier III commercial banks. Through joint ventures, banks are able to access new markets, acquire technical expertise, share risks, and develop innovative products, thereby improving their market positioning and long-term sustainability.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study sought to examine the effect of joint ventures on competitive advantage among Tier III commercial banks in Nairobi County, Kenya. The study tested the first hypothesis ($H0_1$), which stated that joint ventures have no significant effect on the competitive advantage of Tier III commercial banks in Nairobi County, Kenya. The findings revealed that joint ventures had a significant positive effect on competitive advantage, leading to the rejection of the null hypothesis. The study established that joint venture partnerships enhanced knowledge transfer, promoted market expansion, supported new product development, and improved risk-sharing among Tier III commercial banks. Further, the findings showed that joint ventures enabled banks to access strategic resources, capital, managerial expertise, and market knowledge, which improved operational efficiency and strengthened their market positioning.

Conclusions of the Study

The study concludes that joint venture partnerships significantly contribute to competitive advantage among Tier III commercial banks. Through joint ventures, banks gain access to strategic resources, managerial expertise, knowledge transfer, and market opportunities. These partnerships enhance market expansion, support new product development, promote risk-sharing, and improve operational efficiency, thereby strengthening the ability of Tier III banks to compete effectively.

Recommendations

To the management of Tier III commercial banks, employees, and regulatory authorities particularly the Central Bank of Kenya, various recommendations are put forward. The following recommendations are made to advance theory and practice on the effect of strategic partnerships on competitive advantage among Tier III commercial banks in Nairobi County, Kenya.

The management of Tier III commercial banks should strengthen joint venture partnerships through long-term collaborations that support knowledge transfer, market expansion, product development, and risk sharing. Banks should establish formal partnership frameworks and regularly evaluate the effectiveness of such partnerships in enhancing operational efficiency and competitive positioning

REFERENCES

1. Al Daabseh, T., Aljawarneh, N., & Shwiyat, Z. (2024). Brand positioning and competitive performance in service organizations. International Journal of Business Excellence, 32(1), 45–63. https://doi.org/10.1504/IJBEX.2024.137821

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VII July 2026

2. Antunes, J., Hadi-Vencheh, A., Jamshidi, A., Tan, Y., & Wanke, P. (2022). Bank efficiency estimation in China: DEA-RENNA approach. Annals of Operations Research, 315(2), 1373–1398.
3. Arner, D. W., Ahmed, S. M., & Gazi, S. (2022). Building regulatory and supervisory technology ecosystems: For Asia's financial stability and sustainable development. University of Hong Kong Faculty of Law Research Paper, (2022/51).
4. Bresciani, S., & Del Giudice, M. (2021). Digital innovation and competitive advantage in banking. Management Decision, 59(4), 981–999. https://doi.org/10.1108/MD-09-2019-1300
5. Central Bank of Kenya. (2024). Bank supervision annual report. CBK.
6. Chishamba, J. (2024). Conceptualizing sustainable competitive advantage: Theories, themes, and varying perspectives. Acta Universitatis Danubius. Œconomica, 20(6), 191–215.
7. Ghosh, S., & Dutta, S. (2020). Joint ventures and competitive positioning in Indian banks. Global Business Review, 21(6), 1552–1568. https://doi.org/10.1177/0972150919881104
8. King'oku, A. N., & Muathe, S. M. A. (2024). Strategic alliances and competitive advantage of commercial banks in Kenya. International Journal of Research in Business and Social Science, 13(5). https://doi.org/10.20525/ijrbs.v13i5.3587
9. Kipyegon, V., Ikamari, C., & Makau, M. (2025). Budgetary controls and financial performance of county governments in Kenya: A case of Kericho County. The International Journal of Business & Management, 13(7). https://doi.org/10.24940/theijbm/2025/v13/i7/BM2507-012
10. Micheni, N. M., Kerre, D., & Makau, M. (2024). Influence of product innovation practices on financial performance of Tier III commercial banks in Kenya. The International Journal of Business & Management, 12(9). https://doi.org/10.24940/theijbm/2024/v12/i9/BM2409-016
11. Patrisia, D., Linda, M. R., & Abror, A. (2022). Creation of competitive advantage in improving the business performance of banking companies. Jurnal Siasat Bisnis, 26(2), 121–137. https://doi.org/10.20885/jsb.vol26.iss2.art1
12. Pavlov, K. (2025). Economic advantages of strategic development of a banking institution in conditions of competition. Economic Journal of Lesya Ukrainka Volyn National University, (41), 88–97.