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Effect of Market Entry and Operation Strategies on Performance of Commercial Banks

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Abstract: Banks are engaged in intense competition to extend their services to the untapped market. They have adopted various strategies to enter and operate in new markets. One such bank is National Bank of Kenya that in the year 2011 expanded by seven new branches. However, performance in the same period was not commensurate dropping by 23%. The main purpose of the study was to determine the effect of market entry and operation strategies on performance of the bank. The specific objectives were to; identify the bank's market entry and operation strategies, establish its performance and determine the effect of the market entry and operation strategies on performance. The findings revealed that pricing strategies are the main market entry and operational strategies employed by National Bank of Kenya Ltd, with 68% of the respondents accepting that the bank uses these strategies to a great extent, with 85 out of the 125 responses falling in this category, Promotion strategies are employed to a moderate extent with 15 out of 125 responses falling in this category, Distribution followed with 5 out of 125 responses falling to this category and to a less extent product strategy with 3 out of 125 responses falling in this category. Based on the findings the researcher recommended that the bank should employ more distribution and product strategies in its operations. The bank should establish an optimal cost-efficiency ratio to enhance improved profitability. Finally, the bank should regularly review the impact of its market entry and operational strategies on its performance. These findings are expected to benefit the government, banking policy makers, practitioners within the banks and scholars in strategic and marketing management who may draw gaps from it and initiate further research.

Keywords: Market entry, Operation strategies, Performance, Promotion strategies, Commercial banks.

INTRODUCTION

Commercial banks in Kenya have over the years entered new markets, operated in them with mixed results. Whereas success has been witnessed in a number of cases, equally failure has been evident in scaling down of branches. There is need for banks to investigate the effect of market entry and operation strategies they adopt from time to time on their performance. These strategies may be classified into: product strategies, pricing strategies, promotion strategies, and distribution strategies [8]. Other scholars classify the strategies into: licensing, joint venture, branching, and direct investment.

However this sector has had and continues to experience challenges. Key among them is overall market performance as evidenced by the slow down of the stock market dropping 1228 points to stand at 3205 at the end of 2011. The money market has also witnessed erratic liquidity tightness [16]. There is intense competition by commercial banks in Kenya. The intensity of competition is evidenced by the fact that six banks making the top-tier financial institutions control 55% of the market share [12].

Given the intense competition in the Kenyan financial market, commercial banks have embarked on intensive expansion programs in an effort to reach new markets. It is reported that 90% of individuals bank at the branch nearest to their home and place of work [25]. This further compounds the need for banks to spread their reach.

The Kenyan financial sector is composed of CBK, as the regulatory authority and the regulated Commercial Banks, Non-Bank Financial Institutions and Forex Bureaus. The banking sector comprises 46 institutions, 44 of which are commercial banks and 2 mortgage finance companies. To be successful in new markets, these banks need to formulate appropriate market entry and operation strategy [4] and [20] point out that the first decision to make is the type and number of markets to expand into before determining a concrete entry strategy. Generally the entry and

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operation strategy will depend on two aspects: complexity of the market and the firm. The firm's complexity is represented by among other things, the breadth of product line.

National Bank of Kenya Limited (NBK) is one of the banks that entered into new markets to expand its market share and operations recently. The bank currently has 62 branches, and is placed in top 15 in terms of market share, with a market share of about 3.5% locally [31]. Despite the expansion programmes commensurate improvement in the bank's position has not been witnessed. Profits have declined by 23% on average [31]. Therefore, there is need to investigate the effect of market entry and operation strategies of this bank on its performance.

Commercial banks are important to Kenya's economy. They continue to finance the activities of various sectors of the economy. In 2011, they advanced a total of Ksh 1.2 trillion to various parts of the economy. Alongside this is the increased awareness on the importance of banking services. Previously unbanked population is aggressively seeking this service. This has heightened the need to enter new markets. The increase in the number of commercial banks in the Kenya has led to intense efforts by each of the banks to increase its market share. Further, it is reported that 90% of individuals bank at the branch nearest to their home and place of work. There is need for these banks to expand their reach to cover new markets. Different approaches have been used by management of different banks to advance this agenda. In response to the above and in line with its strategic plan ending 2015, National Bank launched an expansion program in line with its strategic plan In the year 2011 alone, for example, the bank opened 7 new branches. However, during the same period, the bank did not register any significant growth in its market share, with profits declining by 23% and market share stagnating at 3.5%. This study sought to determine the effect of market entry and operation strategies on the performance of National Bank of Kenya.

LITERATURE REVIEW

Market entry and operation strategy is the direct way an organization tries to reach its publics. According to [8] and [28] the strategies are product strategies, pricing strategies, promotion strategies, and distribution strategies.

Pricing strategy refers to the methods by which a business calculates how much it will charge for a product or service [9]. It is based not only on the cost of the product, but also on profit margin and a holistic view of the market and future viability. Effective pricing strategy is essential to profitable performance. But when firms face difficulty in managing pricing policy, the problem may not be the pricing strategy. Often the problem lies with providing the "implementation infrastructure" that enables the business to pursue the pricing strategy, on which this paper focuses [7].

Each manager, owner needs to decide on their own how to deal with the challenges of pricing in a difficult market and the revenue versus market share tradeoff, keeping in mind that firms may be at the mercy of their dumbest competitor if they follow a path of price discounting [27]. Further, given the transparency of pricing today, you gain no competitive advantage by lowering your prices because your competitors know almost immediately about your strategy and can instantly match it [26]. Academic researchers have frequently pursued methods to estimate price elasticity of market-level demand in various industries [6, 15, 38]. Unfortunately the estimates produced in many studies have wide confidence intervals due to an array of complex empirical problems, and as a result, these studies do little to clarify demand conditions for those practicing managers who require guidance in establishing a pricing strategy.

The changes companies make in promotion strategies are of great importance. It has been shown that those increasing or maintaining their level of advertising will increase sales, income and market share during and after a recession [21, 40]. [13] found that firms responding by reducing sales staff and cutting advertising expenditure fared worse, in terms of return on common equity, than those that had maintained or increased their promotional efforts. Since, consumers can be expected to shop more rationally when experiencing a decrease in their purchasing power, advertising campaigns should emphasise such rational motives as safety, reliability, and durability, rather than image and status [37]. Other positive initiatives might be to increase the usage of print media, and to profit from decreased sales time by delivering training programmes on changes in consumer shopping behaviour. Allocating some of the budget to sales promotion techniques, from which the consumer gains value immediately, can affect company performance more positively than, for instance, increasing the terms and levels of customer credit.

Distribution strategy is the method a firm uses to get its product or service through various distribution channels to the ultimate purchaser or end-user – in other words, how and where the consumer buys your product or service [23]. It is a vitally important activity that focuses on how to reach your target market and the: location of the firm, location of target market, how to reach target market, warehousing of stock and transportation of stock One of the most appropriate strategies is reallocation of resources to better performing channel members and elimination of unprofitable intermediaries. However, since decisions of this kind often demand long-term commitments, they should be taken carefully [23]. [2] suggest that the company should choose the best channel and direct their efforts to discount stores or wholesalers. The chosen alternative distribution channels, by lowering operating costs and improving cooperate within the channel, can clearly affect company performance positively.

Consumers place emphasis on the durability of products. Characteristics such as economy, durability, and functionality should be given high priority in the development of newlines [36]. It will further be advisable to allocate extra effort to research and development, in support of new products [42]. Companies that spend proportionately more on R&D perform significantly better than others [29]. However, this should again be seen as a long-term strategy. According to [13], an increase in product development capabilities, and careful control over the types of R&D expenditures, are positively correlated to the change in the return on common equity. If long-term sales growth is the goal of a company, managers must avoid the temptation to cut back R&D activities during search for new products.

Organization performance is its ability to prevail. Although the need for performance measurement has long been recognized, for a variety of reasons, many organizations fail to measure it adequately [5]. [14] reviewed the history of performance measurement in the literature through the 1980s and early 1990s and conclude that a general weakness of "traditional" measures is that they recognize and reward mainly short-term gains, rather than long-term ones. [24] argued that measuring long-term impact is notoriously difficult. For organizational Performance, the measures commonly used are, productivity, profitability, customer satisfaction, market share, physical growth and expansion and quality in output.

The value added by the process divided by the value of the labor and capital consumed. Productivity is an overall measure of the ability to produce a good or service. More specifically, productivity is the measure of how specified resources are managed to accomplish timely objectives as stated in terms of quantity and quality. Productivity may also be defined as an index that measures output (goods and services) relative to the input (labor, materials, energy, etc., used to produce the output).Hence, there are two major ways to increase productivity: increase the numerator (output) or decrease the denominator (input). Of course, a similar effect would be seen if both input and output increased, but output increased faster than input; or if input and output decreased, but input decreased faster than output [32].

Organizations have many options for use of this formula, labor productivity, machine productivity, capital productivity, energy productivity, and so on. A productivity ratio may be computed for a single operation, a department, a facility, an organization, or even an entire country. Productivity is an objective concept. As an objective concept it can be measured, ideally against a universal standard. As such, organizations can monitor productivity for strategic reasons such as corporate planning, organization improvement, or comparison to competitors. It can also be used for tactical reasons such as project control or controlling performance to budget. It is also a scientific concept, and hence can be logically defined and empirically observed. It can also be measured in quantitative terms, which qualifies it as a variable. Therefore, it can be defined and measured in absolute or relative terms. However, an absolute definition of productivity is not very useful; it is much more useful as a concept dealing with relative productivity or as a productivity factor [41]. Productivity is useful as a relative measure of actual output of production compared to the actual input of resources, measured across time or against common entities. As output increases for a level of input, or as the amount of input decreases for a constant level of output, an increase in productivity occurs. Therefore, a "productivity measure" describes how well the resources of an organization are being used to produce input. It is often confused with efficiency [39]. Efficiency is generally seen as the ratio of the time needed to perform a task to some predetermined standard time. However, doing unnecessary work efficiently is not exactly being productive. It would be more correct to interpret productivity as a measure of effectiveness (doing the right thing efficiently), which is outcome-oriented rather than output-oriented.

Growth is something for which most companies strive, regardless of their size. Small firms want to get big, big firms want to get bigger. Indeed, companies have to grow at least a bit every year in order to accommodate the increased expenses that develop over time. With the passage of time, salaries increase and the costs of employment benefits rise as well. Even if no other company expenses rise, these two cost areas almost always increase over time. It is not always possible to pass along these increased costs to customers and clients in the form of higher prices.

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Consequently, growth must occur if the business wishes to keep up.

Organizational growth, however, means different things to different organizations. There are many parameters a company may use to measure its growth [34]. Since the ultimate goal of most companies is profitability, most companies will measure their growth in terms of net profit, revenue, and other financial data. Other business owners may use one of the following criteria for assessing their growth: sales, number of employees, physical expansion, success of a product line, or increased market share [25]. Ultimately, success and growth will be gauged by how well a firm does relative to the goals it has set for itself.

Customer satisfaction derives from customer value which comprises cost efficiency in products, increased access and timeliness and quality in products [12]. Customer satisfaction is driven by 3 C's: customers, competition, and change. Customers have become much more sophisticated and demanding; they have a much greater range of alternatives, are much more knowledgeable about their own need and are exerting ever great pressure on their suppliers [19].Also, organizations that are not customer oriented in their operations are realizing they are the metaphorical ship sailing without direction and purpose. According to [19], work that does not add any value for customers should be removed. Instead, companies should reconsider their processes in order to maximize customer value, while minimizing the consumption of resources required for delivering their product or service.

Profitability is the rate at which a firm generating income above all costs and can expressed in the form of; Gross Profit = (Sales - Cost of Goods Sold) ÷ Annual Sales.. The higher the gross margin the better. Under most circumstances, salespeople would rather sell a product at a high margin because many salespeople are paid based on gross margin.

A number of studies have been conducted to investigate the effect of market entry and operational strategies on performance of organizations.

[36] in a survey found that, during a period of stagflation in the former Yugoslavia, companies had widened the responsibilities of their sales personnel to emphasize listening to customer needs and responding to them. The conclusion is that more proactive personal selling can build a better customer relationship in times of crisis. Whereas this study was a survey outside Kenya focused on a promotional strategy and its effect on customer satisfaction among Yugoslavian firms, the current study will be a case study focused on all the market entry and operation strategies and their joint effect on performance in a bank in Kenya.

[3] in a survey of 184 stores in France on long term effect of marketing strategies on performance found that discounts are deleterious for brands while product innovation is beneficial. The results also showed that most variations in brand's margin premiums can be apportioned to distribution and product. This study was a survey among stores in France focusing or pricing and product strategies and their effect on performance with results pointing to negative causal effect of pricing strategy (premium pricing) on brands and positive causal effect of product strategy (product innovation) on brands. The current study will be a case study focused on all the market entry and operation strategies and their joint effect on performance in a bank in Kenya.

In a survey of 1100 Motor vehicle dealerships in California, [22] revealed that new product introductions have a positive short term and long term impact on firm's top line, bottom line and stock market performance. This study focused on motor vehicle dealers. The survey revealed a positive short term and long term effect of product introduction on profitability and wealth maximization. The study was a Californian Survey. The current study is a case study on a Kenyan commercial bank, a service firm.

[43] studied Innovation, imitation, and new product performance in China. A cross-industry survey show that, compared with an imitation strategy, an innovation strategy leads to better new product performance. Furthermore, the benefits of an innovation strategy over an imitation strategy become stronger as market demand is increasingly uncertain, technology changes rapidly, and competition intensifies. This study was a survey, across Chinese industries and revealed positive effect of product innovation on performance. The current study is a case study on Kenyan banks assessing the effect of market entry and operation strategies on performance.

RESEARCH METHODOLOGY

The study was a case study within which relationships of market entry and operation strategies and performance of NBK was explored. Case studies are beneficial where complex relationships or problems need to be explored through in depth interrogation of the subject [30]

Prior to data analysis, data synthesis was done. This involved sorting, and cleaning of data. Descriptive statistics involving measures of central tendency and dispersion was used. Regression analysis was used to determine the influence of selected variables on other variables. The regression model was specified according to [17].

$Y_i = a + b_i X_i + u$ ……………………(1)

Where:

Y_i= is a continuous dependent variable, pre-tax profit measured in Ksh, 000.

a= is the intercept.

X_i =is the operating expense measured in Ksh, 000.

b_i = the parameter to be estimated.

u = is the autonomous error term ($\varepsilon \sim N(0,\sigma^2)$)

Findings were presented in tables and graphs.

DISCUSSION

Market Entry and Operation Strategies used by NBK.

According to the results of the study, NBK mainly employs pricing strategies, with 68% of the respondents accepting that the bank uses this strategy to a great extent. This finding agrees with the bank's 2010-2015 strategic plan. The plan focuses on low cost pricing as a means of achieving competitive advantage in the highly competitive Kenyan banking market. The bank's base lending rate is currently at 17%. This is relatively lower than the average market rate of 18%. This finding is further supported by the health survey index conducted by the bank in October, 2012. The results of the survey showed that 72% of the staff at NBK felt that the bank's greatest strength lies in its pricing strategies. However, a study by [26] on the effect of discounting rates on hotel and motel management established that given the transparency of pricing today, you gain no competitive advantage by lowering your prices because your competitors know almost immediately about your strategy and can instantly match it. Although this finding may hold in the hotel industry where it is possible for competitors to vary prices with ease, the banking sector is characterized by rigidity of prices since in most cases lending rates are pegged on the CBK rate which is relatively stable. Additionally, the high cost of accessing bank services in Kenya makes cost an important determinant of purchase decisions.

The results of the study revealed that promotion strategies are employed to a moderate extent, with 93 out of the 125 responses falling in this category. These results are supported by the bank's marketing plan for the year 2013. In the plan, the bank intends to increase its marketing promotion expenditure from KES 150 million to KES 250 million. The bank also intends to increase its MPI from 312.0 to 415.1. This finding conforms to other previous studies. According to [35], promotion is used by organizations to communicate with customers regarding their product offerings, and also to ensure that customers are aware of the available products. The role of promotion has been redefined by [11] into managing long term relationship with carefully selected customers, including construction of a learning relationship where the marketer maintains a dialogue with an individual customer.

Majority of the respondents felt that the bank has not been actively using product and distribution strategies, with 85.6% and 72.0% of the respondents acknowledging that the bank uses the two strategies to a less extent. The respondents cited product strategies as the third most used strategies by NBK. This can be attributed to two reasons. First, the intangible nature of services provided by commercial banks makes it difficult to use the type of product/service as a factor for achieving competitive advantage. Secondly, the similarity of services offered by commercial banks significantly reduces the importance of the type of product/service as a market entry and operation strategy. Distribution channels available to banks include branches and internet banking. NBK has the least number of branches at abut 60 branches compared to the leading commercial banks in Kenya who have over 100 branches. Although a study [28] revealed that about 90% of the respondents banked at the branch nearest to their home place and place of work, decisions on distribution channels often demand long-term commitments, they should be taken carefully [23].

Performance of NBK

In the year, 2012 alone, the bank experienced 2% decline in its pre-tax profit. This depicts a poor performance since the average profitability in the banking sector increased by 20%. The decline in the bank's profitability can be attributed to the high cost-efficiency ratio of NBK. In the year 2012, the bank was ranked 26th out of 44 commercial banks in Kenya, with a high cost-efficiency ratio of about 72%. A comparison of NBK's operating expense with its pre-tax profit shows that the operating expense has been increasing since the year 2007.

Regression analysis was then conducted to establish the relationship between operating expense and pre-tax profit at NBK. The results of the analysis are summarized as follows:

Table -1: Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Operating expense(Kshs,000)(a)		Enter

a. All requested variables entered.
b. Dependent Variable: Pre-tax profit(Kshs,000)
Source: Field data, 2013

Table-2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.254(a)	.064	-.170	616767.064	.064	.275	1	4	.628

Predictors: (Constant), Operating expense(Kshs,000)
Source: Field data, 2013

Table -3: ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	104568868232.816	1	104568868232.816	.275	.628(a)
	Residual	1521606446649.184	4	380401611662.296		
	Total	1626175314882.000	5			

a. Predictors: (Constant), Operating expense(Kshs,000)
b. Dependent Variable: Pre-tax profit(Kshs,000)
Source: Field data, 2013

Table -4: Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2549728.958	1123090.427		2.270	.086
	Operating expense(Kshs,000)	.142	.271	.254	.524	.628

Dependent Variable: Pre-tax profit (Kshs,000)
Source: Field data, 2013

Based on the results of the regression analysis, the estimated model for the relationship between operating expense and pre-tax profit at NBK is numerically expressed as follows:

Y= 2, 549,728.9 + 0.254X…………………(2)

The model for estimating the relationship between the bank's operating expense and its pre-tax profit was computed as:

Y= 2,549,728.9 + 0.254X

The model shows a positive relationship between the bank's operating expense and its pre-tax profit. If the banks operating expense is increased by 1 unit, the pretax profit is expected to 'decrease' 0.254 times. Barring the law of diminishing return, the drop in NBK's profit can therefore be attributed to increase in the bank's interest expense. The coefficient of determination shows that about 6.4% of the variation in NBK pre-tax profit is attributed to the variation in the bank's pre-tax profit, with the remaining variation attributed to the other factors outside the model. A greater proportion of the variation in the bank's pre-tax profit is not attributed to the operating expense. This is because the pre-tax profit of a commercial bank is predominantly determined by the amount of interest income. Interest income is further determined by the amount of NPLs. However, NPLs do not constitute a commercial bank's operating expense unless they are included in the provision for bad debts.

The analysis of the bank's revenue shows that the revenue has been increasing on average since the year 2007. This is attributed to increased lending by the

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bank. In the year 2012 alone, the bank advanced about Kshs.50 billion in loans. This represented about 68% of the total deposits with the bank. Since the CBK has put a ceiling of 80% of total advances against total deposits for commercial banks, NBK has potential for increasing its pre-tax profit in terms of revenue from interest income.

Effect of Market Entry and Operational Strategies on Performance of NBK

The study findings revealed that pricing strategies have the greatest effect on the performance of NBK. This can be attributed to the direct effect prices have on revenue. Pricing strategy refers to the methods by which a business calculates how much it will charge for a product or service [9]. It is based not only on the cost of the product, but also on profit margin and a holistic view of the market and future viability. Effective pricing strategy is therefore essential for profitable performance.

The Friedman test ranked promotion as the second market entry and operation strategy affecting performance of NBK. Effective promotion of financial services is crucial since services are intangible products, and it is hard to stand out, considering the fact that all banks offer similar products [28]. Additionally, many people cannot make a distinction between different banks' services, and they are often not aware of the wide range of different financial services available [28]. The findings of the study support the results of a study by [1]. He conducted a study on the influence of promotional strategies on performance of the National Bank of Kenya Limited and established that promotion had positive relationship with NBK performance at 5% level of significance.

The study findings established that distribution strategies are ranked third in terms of the extent to which it affects performance at NBK. Whereas most of the respondents agreed that wider branch network may result into increased revenue, there are high costs associated with opening new branches. Additionally, it takes approximately 3 years for a newly opened branch to break even. This finding can also be attributed to the feeling of most respondents that no adequate feasibility studies have been conducted before opening some of the branches leading to unprofitable operations of the branches. Nevertheless, the bank has appreciated the significant role played by distribution on its performance. In the marketing plan for the year 2013, the bank intends to add 8 more branches to its branch network. The bank also plans to increase the number of customers who use mobile phone banking services from 150,000 to 300,000.

According to the results of the study, product strategies have the least impact on the bank's performance with a mean of 3.36. This finding is supported by the results of the health survey index conducted by the bank in October, 2012. The results of the survey showed that 85% of the staff at NBK felt that the bank's narrow product range has adversely affected its product range. To widen its product range, NBK ventured into Islamic banking in April, 2013

CONCLUSION

The study revealed that NBK mainly employs pricing strategies, with 68% of the respondents accepting that the bank uses this strategy to a great extent. Promotion strategies are employed to a moderate extent, with 93 out of the 125 responses falling in this category. Majority of the respondents felt that the bank has not been actively using distribution and product strategies, with 72% and 85.6% of the respondents acknowledging that the bank uses the two strategies to a less extent. According to the results of the study 20% of the respondents felt that NBK reviews its market entry and operation strategies semi annually. On the other hand most of the respondents; 60% felt that the bank reviews its market entry and operation strategies yearly.

In the year, 2012 alone, the bank experienced 2% decline in its pre-tax profit. According to figure 4.3 there has been a consistent increase in the bank's operating expense since 2007. During the year 2008 the bank's operating expense increased by 6% from KES 3.0 billion to KES 3.2, while the pre-tax profit remained relatively unchanged at about KES 1.7 billion. Figure 4.4 shows that the bank's has had high cost efficiency ratio since the year 2007. In the year 2012, the bank had a high cost efficiency of about 72% leading to a decline of 2% in the bank's annual pre-tax profit.

The Friedman test revealed that pricing strategies have the greatest effect on the performance of NBK, with a mean of 1.21. This is followed by promotion strategies with a mean of 2.26. Product strategies have the least impact on the bank's performance with a mean of 3.36.

Based on the findings of the study, the researchers conclude that the market entry operations strategies employed by NBK include: pricing strategies, distribution strategies, product strategies and distribution strategies. Additionally, the bank has experienced a decline in profitability due to a high cost efficiency ratio of about 72%. Finally, the market entry and operation strategies affect the performance of NBK in varying degrees with pricing strategies having the greatest effect on the performance of the bank, with a mean of 1.21.

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