

EFFECTS OF MARKET EXPANSION STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS IN MOMBASA COUNTY

D. Tangus¹, N. Omar²

1 (Mba Student; Jomo Kenyatta University Of Agriculture And Technology Department Of Commerce And Economics In The Collage Of Human Resource And Development, Kenya, Mombasa Campus)

2 (Lecturer, Department Of Commerce And Economics In The Collage Of Human Resource And Development At Jomo Kenyatta University Of Agriculture And Technology)

ABSTRACT

The study sought to establish the effects of market expansion strategies on performance in Kenyan commercial banks, the study on these strategies was conducted. Objectively the study sought to establish the influence of market expansion strategies on performance of commercial banks considering three major strategies; Market challenger, market leader and market niche strategies. Market Expansion as a strategic growth option is particularly relevant in developing countries like Kenya because of very low product penetration and consumption levels. Respondents of the study were 3 senior managers in each commercial bank selected randomly. Descriptive research design was used and proportionate simple random sampling method was employed.

Overall finding of the study revealed strong correlation coefficient between firm performance and the three market expansion strategies all with a significance of above 95%. Furthermore, the findings of this study substantiate the call for banking institutions to use market expansion strategies to enhance their performance. These strategies by commercial banks require firms to put necessary policies in place for the strategies to succeed. This will help in the formulation and implementation of such strategies. Staff and management commitment should be achieved so that full support of the strategy can lead to its success.

Keywords: market, expansion, challenger, leader, niche, strategies, Mombasa

1. INTRODUCTION

Market expansion Strategies are the strategies aimed at winning larger market share, even at the expense of short term earnings. Three broad growth strategies are Market leader strategy, Market challenger strategy and Market niche strategy Boone, (2008). The large number and wide variety of market expansion strategy decisions required to strategize and deliver a service are made at

several levels in the organization, from the strategic level to the operational and service encounter levels. The most widely pursued corporate market expansion strategies are those designed to achieve growth in sales, assets and profits. Companies that do business in expanding industries must grow to survive. Continuing growth means increasing sales and a chance to take advantage of the experience curve to reduce the cost of product sold (Storbacka, 2008).

The motives behind the rapid growth of bank financial services are the stakeholders involved expect to increase their wealth (value per share of stock), and management expects to gain higher salaries and employee benefits (Mols, N. 2008).

There are fifty three (53) banks and non-bank financial institutions, fifteen micro finance institutions and forty-eight foreign exchange bureaus in Kenya. Thirty-five (35) of the banks, most of which are small to medium sized, are locally owned KBA, (2014). The banking industry in Kenya is dominated by a few large banks most of which are foreign-owned, though some are partially locally owned. The banks have come together under the Kenya Bankers Association (KBA) which serves as a lobby for the banks' interests and addresses issues affecting member institutions. The commercial banks and non-banking financial institutions offer corporate and retail banking services but a small number, mainly comprising the larger banks, offer other services including investment banking (CBK, 2013).

In the recent years banks have diversified their market expansion strategies as a result of increased competition by other financial institutions and non financial institutions i.e telecommunication firms services like mpesa. The modern banks' portfolio has therefore changed its composition. An analysis of the current Kenyan banking industry reveals that there are several economic challenges affecting the banking industry. According to Karambu, K.(2009)these challenges include the continued political bickering, weather conditions, high cost of food and fuel prices, high crude prices, and the increased competition from the non-financial institutions i.e. telecommunication companies. The banking industry has responded to the changing business environment with several strategies aimed at maintaining and consequently growing its portfolio. These include increased lending to supplement lost revenues, heavily investing in government securities and adopting an expansion and market penetration strategies. Banks like Cooperative Bank, Family Bank, Equity Bank have broadened their product offering with an aim of transforming themselves to financial supermarkets which has increased the range of products available for their customers (Angulu, 2010).

2.0 LITERATURE REVIEW

2.1 Theoretical Review

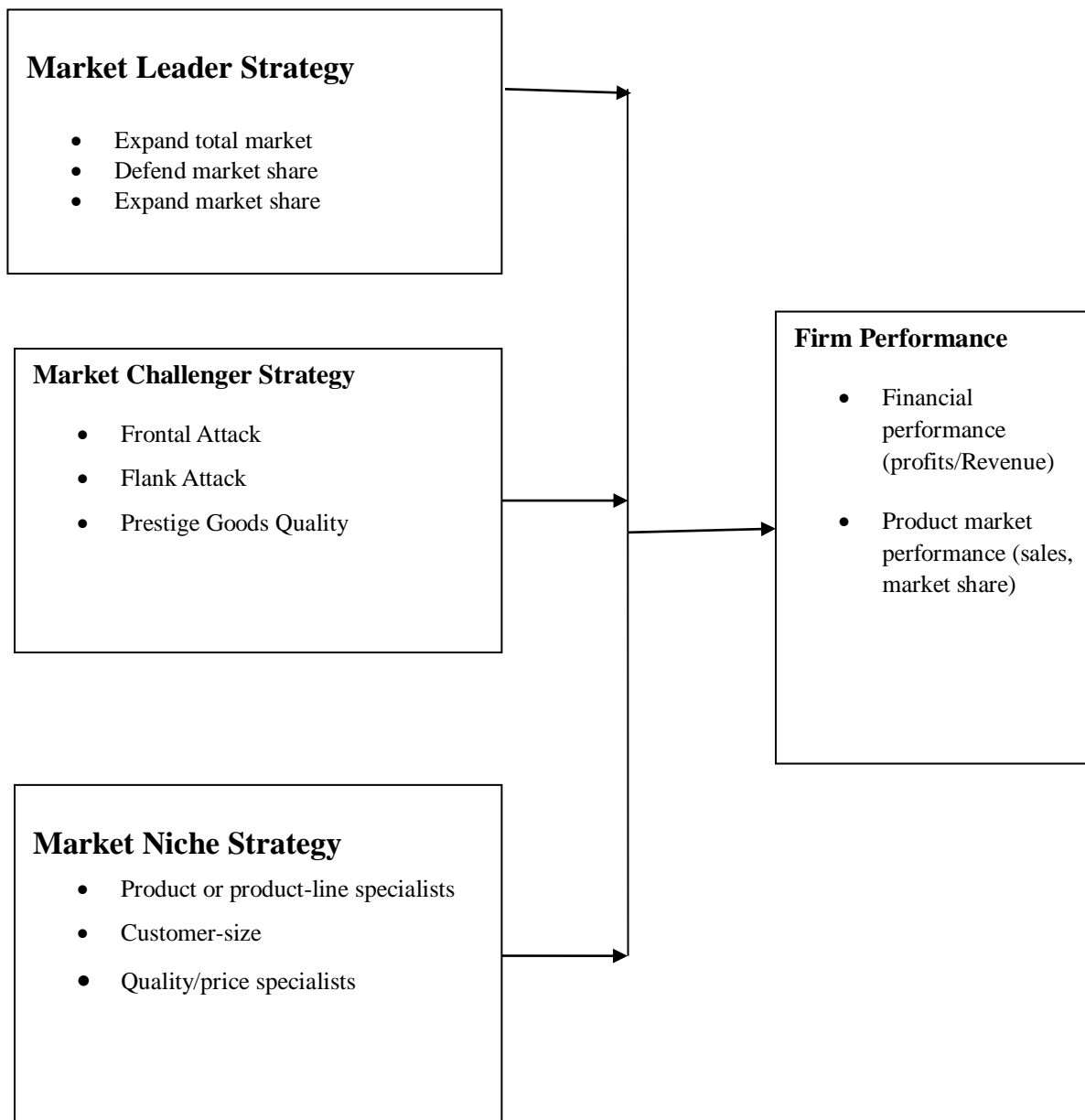
Resource Based View Theory -by Penrose (1959) addresses the assessment of firm resources, their accumulation and how to focus these in such a way so as to convert distinctive competence into competitive advantages that match market opportunities.

Dynamic Capabilities Theory- According to Zahra and Nielsen (2012), one of the dangers of relying heavily on the resource-based perspective is the potential to ignore the external environment that will 'select out' some firms hence the need to effectively co-ordinate and redeploy internal and external competences (Teece& Pisano, 2009).

Ansoff's matrix model-This model advises firms on the kinds of strategies they have to adopt when seeking to grow their market share and product lines. The four strategies are market penetration, product development, Market development and diversification.

2.2 Conceptual Framework

The below diagram shows that the dependent variable is the firms performance while the market leader, market challenger and market niche strategies are independent variables. Firm performance is determined by the various strategies implemented by a firm.



**Independent
Variables**

Dependent Variable

2.3 Empirical Review

2.3.1 Market Leader Strategy

Under this strategy the dominant firms in the industry tend to use economies of scale to intimidate small firms and expand. There are three ways in which a firm could use it to establish itself as a market leader. The first way is to expand its total market. Develop by applying strategies that will increase the numbers of consumers using your product or services, Homburg & Harley, (2009). To lead, a firm must find new uses for existing products or targeting a new market. In identifying new markets, it might have to source consumers in locations where its product is new. Market leader firms can normally gain the maximum when the total market expands. The focus of expanding the total market depends on where the product is in its life cycle. This strategy can be used when a product is in the maturity stage. For example, the Japanese increased their car production to enter new countries.

2.3.2 Market Challenger Strategy

The market challenger strategy is mainly used by firms with 2nd or 3rd market share who try to take on the dominant firms through aggressive means. This can be done through Frontal Attack, Flank Attack, Prestige goods Quality means that you research and identify minor unmet needs that you believe your company can cater for competitively. For the online community, you can evaluate what prominent bloggers are ignoring and dedicate your time to explore it and maximize the results.

3.0 RESEARCH DESIGN

This study adopted a descriptive research design. According to Schneider and Bowen (2009) descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. This study population comprised of all branch managers, relationship managers and sales managers from the 43 commercial banks providing financial services in Mombasa County, Kenya. This was used as a sampling frame from which a representative sample was selected and used for the study.

The unit of sampling for this study is the bank. A representative sample of (14) Commercial banks was purposefully selected for study. Therefore, the study utilized a sample size of 42 employees drawn from the 14 commercial banks. The rationale for a sample size 42 respondents is to ensure that possible non-response is catered for to maintain the sample size as originally designed as recommended by Kathuri & Pals, (2007). A research questionnaire was designed to elicit responses on the main constructs that the study sought to investigate and used to gather primary data. The data from the field was first coded according to the themes under research. This will be enabled by the use of a computer in summarizing of data in tables. Frequency tables will be produced using the statistical package for social sciences (SPSS) 22.0 package.

4.0 DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Data Analysis

4.1.1 Demographic Information

The study sought to establish the information on the respondents used by the study with regards to the job designation, and duration of service in the organization and level of education.

Years of operation in the bank: The study found that majority of the employees (55%) had been in the bank for a period of 0-5 years, 25% had been in the bank for a period of 6-10years, 12.5% had been in the bank for a period of between 11-15 years, while only 7.5% had been working with the respective bank for over 15yrs.

Level of respondent's education: All the respondents in the study were found to have acquired formal education. The majority (53%) held a postgraduate qualification, (34%) hold a university degree, (13%) had college level education while none of the respondents had secondary school qualifications. This shows that the respondents in the study were well educated and thus would be able to comprehend and provide the relevant information sought by the study.

4.1.2Market Leader Strategy

Respondents were asked to rate the following statements that relate to market leader strategy and indicate to what extent they agreed with them where;

1=Strongly Agree;2=Agree;3=Disagree;4=Undecided;5=StronglyDisagree

M=Mean; S.D=Standard Deviation. Their responses are indicated in Table 4.1

Respondents agreed with the statements that market leader strategy is one of their growth strategies that their firm has adopted in its regional expansion and has led to growth in size of the firm (65.4%, M=1.24, S.D=0.677), market leader strategy has helped their firm to effectively pursue and achieve high performance in the industry by increasing sales and market share (50.4%, M=1.28, S.D=0.690) and market leader strategy of their firm comprises expanding into new geographical regions of East Africa which has increased the companies' profits (52.0%, M=1.26, S.D=0.650).

4.1.3 Market Challenger Strategy

Respondents were asked to indicate how well their firms executed Market Challenger Strategy in the country in pursuance of firm performance. A five point likert scale was used to rate their responses and the outcome is highlighted in the following sub-units.

Respondents were asked to rate the following statements that relate to market expansion strategy and indicate to what extent they agreed with them where; 1=Strongly Agree; 2=Agree; 3=Disagree; 4=Undecided; 5=Strongly Disagree ;S.D=Standard Deviation. Their responses are indicated in Table 4.2

Respondents indicated that they agreed with all the five statements in regard to market challenger strategies. They agreed with the statements that market challenger is one of the growth strategies that their firm has adopted in its expansion strategy(70.7%, M=1.20, S.D=0.579), Market challenger strategy has helped their firm to effectively pursue and achieve competitiveness in its foreign expansion strategy (67.1%, M=1.12,S.D=0.627), the bypass attack strategy of their bank comprises redesigning of its existing products and has led to enhanced competitiveness of their firm. (73.6%, M=1.13, S.D=.510), their bank has been making small but useful changes, which repeatedly puts their brand in the forefront, and slowly but surely makes it a huge name in the market (72.4%, M=1.15, S.D=0.530) and that Market challenger strategy in our bank has influenced growth in profits.(65.4%, M=1.26,S.D=0.692).

4.1.4 Market Niche Strategy

Respondents were asked to what extent does segmentation of their products impact on their commercial banks' performance. Most respondents (55.5%) agreed with the statements to a very great extent while (31%) responded with to a great extent an indication that most of the respondents did affirm that segmentation highly impacted on the banks performance. (9%) agreed to a moderate extent, (4.5%) little extent while (0%) responded with not at all. The conclusion then is that majority if not all respondents do support market segmentation.

Respondents agreed with the statements that market niche strategy is one of the growth strategies that their firm has adopted in its regional expansion strategy and has led to enhanced performance due to growth in the market share and size of the firm (91.5%, M=1.07, S.D=0.306),Market Niche strategy of our firm comprises vibrant promotion and segmentation based on product type specialization (81.7%,M=1.17, S.D=0.449), Market Niche strategy has helped our bank to effectively pursue and achieve competitiveness in other regional countries (82.1, M=1.15, S.D=0.461). They also agreed that the strategy has influenced growth in sales and profits in regional expansion (64.5, M=1.24, S.D=0.986) and that staff and management of my

organization are committed to implementing market niche strategies across Kenya (60.0, M=1.41, S.D=0.733)

4.2Regression Analysis

The regression analysis was achieved by running the respondents responses on Anova statistical packages to establish the relationship between the independent and dependent variables. The results are as shown on Tables 4.4

Table 4.1 Model Summary

Model	R	RSquare	AdjustedRSquare	Std. Error of the Estimate
1	.974	.948	.945	.334

Source: Field data (2016)

Table 4.1 shows that the three independent variables that were studied explain 94.5% of the Bank performance as represented by coefficient of determination (R²). This means 94.5% of the effects of market expansion strategies in the Banking industry in Mombasa county are explained by the independent variables (Market niche strategies, Market leader strategies and market challenger strategies) 5.5% of the effect is not explained, this can be taken care of by the variables not considered in the study and the error term.

Table 4.2 Analysis of Variance (ANOVA)

Model	Sum of squares	Mean Square	F	Sig.
Regression	182.106	45.526	408.034	.001
Residual	10.042	.112		
Total	192.147			

Source: Field data (2016)

From Table 4.2, the significance value is 0.001; this means all market expansion strategies have significant influence on banks performance in Mombasa since they have significant value less than 0.05. The correlation between the variables was achieved by running the respondents response on SPSS statistical package to establish the correlation between the independent and dependent variables. The results are as shown on tables 4.5.

From the findings there was strong correlation coefficient between firm performance and Market leader strategy as shown by correlation factor of 0.842. Which was significant at 99% found to be statistically significant as the significant value was 0.003 which is less than 0.05. This

concluded with the expectation that companies that use Market leader strategies have enhanced firm performance over the others. The study also found strong positive correlation between market challenger strategy and firm performance as shown by correlation coefficient of 0.685. This was also found to be significant because 95% which is less than 0.05. This also concurred with the expectation that firms that use Market challenger strategy have competitive advantage over other firms in terms of firm performance.

The correlation between firm performance and market niche strategy was also found to be strong positive as shown by correlation coefficient of 0.523; this was significant because 99% which was less than 0.05. This also concurred with the study expectation that Banking institutions that use market niche strategies well have a better performance than others. In general, all market expansion strategies were found correlated and significant to firm performance.

Table 4.3 Multiple Regression of Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.614	.179		.240	.811
Market leader Strategy	.437	.034	.979	30.017	.035
Market challenger Strategy	.219	.027	.042	1.516	.019
Market niche strategy	.523	.033	.048	1.557	.047

Source: Field data (2016)

From the findings in Table 4.3 the established regression equation was

$$Y = 0.614 + 0.437 X_1 + 0.219 X_2 + 0.523 X_3 + e$$

From the above regression model, holding market leader strategy, Market challenger strategy and Market niche strategy to constant zero firm performance would be at 0.614. It was established that a unit increase in market leader strategy would cause an increase in firm performance by factor of 0.437. The study also revealed that a unit increase in Market challenger strategy would cause an increase in bank performance by a factor of 0.219. One unit increase in Market niche strategy would lead to increase in firm performance by a factor of 0.523. This shows that there is a positive relationship between firm performance and market expansion strategies.

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Considering how market expansion strategies influence the performance of Commercial Banks respondents indicated that they agreed with the statements that market leader strategy is one of the market expansion strategies that their firm has adopted in its foreign expansion 70.7% .This strategy has helped their bank to effectively pursue and achieve competitiveness in its expansion hence enhanced performance and also market leader strategy of their firm comprising of redesigning its existing products.

They also agreed with the statements that market challenger strategy is one of the market expansion strategies that their bank has adopted in its bid to enhance performance and has led to growth in size of the firm, market challenger strategy has helped their firm to effectively pursue and achieve improved performance by increasing sales and market share and it comprises expanding into new geographical regions of East Africa which has increased the banks' profits.

Respondents agreed of market niche strategy on the performance of the commercial Banks. Respondents rated highly all the variables under niche strategy as they did strongly agree with the statements. The statements include; market niche strategy is one of the growth strategies that their firm has adopted in its regional expansion and has increased its size, market niche strategy has helped their firm to effectively pursue and achieve improved performance in other regional countries in terms of profits and sales growth , market niche strategy of their firm comprises developing new products for newly created markets in East Africa therefore boosting the company's product line and market size and Market niche strategy comprises vibrant promotion and segmentation based on product type specialization.

5.2 Conclusions

To address the issue on the specific Growth strategies adopted which promotes firm performance, the study concluded that in order to achieve enhanced bank performance, firms need to come up with sound market expansion strategies which comprises of redesigning of its existing products that suit specific markets and consequently this will result to firms leading in terms of customer base and market expansion.

Firms should also develop strategies that aim to increase the market share in a bid to achieve competitive advantage. This is so because, market challenger strategy has been shown to lead to growth in size of firms, helped firms to effectively pursue and achieve enhanced growth by increasing sales and customer numbers and has enabled firms to expand into new geographical regions thus increasing their profits.

Market niche strategy has been as the most aggressive strategy adopted by firms to gain a competitive edge as indicated by the respondents. It comprises of firms vibrant promotions, distributing and pricing of existing products in already existing market, helped firms to

effectively pursue and achieve competitiveness in other regional countries and overall market penetration through segmentation of products has influence growth in profits.

5.3 Recommendations

In light of the above findings, the researcher made the following recommendations:

The study found out that staff commitment to the implementation of growth strategies is crucial and therefore firms should ensure that there is enhanced staff and management commitment towards performance achievement, Commercial banks should conduct more corporate social responsibilities as this will enable them position the firms in the minds of the consumers, come up with more effective and efficient organization promotion strategies as compared to their competitors.

Product re-engineering should be done to come up with competing new, unique and outstanding products that are competitive in the market and tailor made for specific clientele.

The researcher also recommends that there should be clearly laid down formulation and Implementation plans of the strategies and indeed ensure they are implemented, ensure that the branch managers have sufficient skills and knowledge on how to develop and implement market expansion strategies as the success and failure of these strategies depend on them and firms should ensure that they put in place the best distribution channels and pricing strategies.

5.4 Suggestions for Further Studies

More studies should be carried out on market expansion strategies and how they affect the organizations performance in the market because of the dynamism of the market environment which is always changing in terms of opportunities and threats thus necessitating the change in the strategic approach. This will lead to the identification, formulation and implementation of market expansion strategies.

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