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EFFECTS OF MARKET ORIENTATION ON BUSINESS PERFORMANCE OF COMMERCIAL BANKS IN NAKURU TOWN, KENYA

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ABSTRACT

The increase in the number of commercial banks in Kenya, coupled with the new regulatory regimes, globalization and changes in technologies has resulted in high competition amongst banks. As a result, banks have resorted to market their services in different and attractive ways to satisfy customer needs and desires which are continually changing. One such intervention can be achieved through an adept understanding of market orientation, which leads to the development of appropriate product and service strategies to meet customer needs. However, in doing so, due consideration should be given to the specific firm capabilities used to implement market orientation in the target market. The objective of this study was to determine the effect of marketing orientation on business performance of commercial banks in Nakuru Town, Kenya. The study targeted all employees of these banks and used a survey design using quantitative approaches. From the target population of 278, statistical formulae were used to tabulate the sample which gives a sample 74. The study used primary data which were collected using self-administered questionnaires. The data collected was analyzed using statistical package for social sciences and presented in tables. A regression analysis was undertaken to determine the relationship between marketing orientation and business performance. The R^2 value of 0.336 implies that 33.6% of the variations in the business performance of banks can be explained by the variations in the independent variables. It was also established that all the independent variables, namely; market dynamism, competitive intensity, technological turbulence and regulatory policies had a positive effect on market orientation. However, the market dynamism had the strongest effect while competitive intensity had the least effect. It is hoped that the findings of this study will be beneficial in outlining the effect of market orientation on business performance in commercial banks in Kenya.

KEYWORDS: The Effect of Marketing Orientation, Business Performance, Commercial Banks

INTRODUCTION

The competitiveness in the banking industry has increased significantly in recent years due to deregulation and globalization. Since the products and services offered by banks can often be easily duplicated, banks are not only competing with each other, but also with other non-banks financial institutions (Hull, 2002). When banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality and use of innovative solutions. Globally, the banking industry has reached saturation and has become commoditized since banks offer nearly identical products. Thus, it is essential for bank management to try their best to retain as many customers as possible in order to remain competitive. The increase in the number of commercial banks in Kenya, coupled with the new regulatory regimes, globalization and changes in information technologies has resulted in high competition among banks. As a result, banks have resorted to market their services in different and attractive ways to satisfy customer needs, which are continually changing. Banks are therefore exerting their best efforts for the purpose of achieving profits that help in covering their expenses, ensuring their survival, and maximizing their value. It is thus critical that, managers identify and understand strategic orientations as well as the key drivers in the business environment, in order to remain competitive. One such intervention can be achieved through an adept understanding of the concept of market orientation.

Market orientation is significantly important in enabling firms to understand the marketplace and develop appropriate product and service strategies to meet customer needs and requirements (Liu et al., 2012). Market-oriented firms that actively understand and utilize information about their customers, competitors, and business environments may directly improve new product and firm performance through all aspects of their marketing mixes and not just their product portfolios (Narver et al., 2004). Moreover, market orientation provides firms with market-sensing as well as customer linking capabilities. Although empirical researches have been carried out in Africa, results show showed mixed findings. For example, Mahmoud et al., (2010) reported a positive relationship between market orientation and business performance in the Ghanian public sector, while Chelariu et al., (2002) found limited market orientation in Ivorian firms. Oduyi (2014) established that there was a significant positive relationship between market orientation and bank performance in Kenya. Although a substantial amount of research on market orientation and firm performance can be found in the marketing literature, little attention has been paid in investigating the effect of market dynamism, competitive intensity, technological turbulence, and regulatory policies on bank performance.

STATEMENT OF THE PROBLEM

Globally, the banking industry has reached saturation and has become commoditized since banks offer nearly identical products which carry the danger of creating a downward spiral of perpetual discounting such as fighting for customer share. In Kenya, the increase in the number of commercial banks in Kenya has resulted in high competition among banks. The recent enactment of laws on interest capping has further increased competition and limited sectors of profitability amongst Kenyan banks. This has resulted in the recently reported layoffs and cost cutting measures instituted by these banks in order to remain competitive. According to the Kenya Bankers Association Report of 2016, the major issues facing the banking industry include new regulations, especially with the passing of the new constitution, capping of interest rates, customer expectations, increasing competition from financial technology companies and regulatory pressures. One area of critical importance, in which, banks can mitigate such challenges is through enhanced market orientation strategies. Although a substantial amount of research on market orientation and firm performance can be found in the marketing literature in Kenya, most have exclusively focused on the traditional strategies proposed by various proponents of the market orientation approach which include customer, competition and inter-function orientation. Regulations of the Central Bank like capping of interest rates have made it difficult for some small banks to survive in the market and some have even gone into receivership like Dubai Bank, Imperial Bank and Chase Bank as a result of stiff competition in the market due to technological advancement and changes in market orientation. Technological changes like introduction of digital programs like Safaricom’s MPESA and other digital financial platforms like TALA have taken over traditional banking processes. Agency banking has also caused banks to downsize and lay off staff and prefer working with agents as compared to hiring or retaining work force, hence a study of the effects of market orientation is vital to determine its effect on business performance of commercial banks.

OBJECTIVES OF THE STUDY

The general objective of the study was to establish the effect of market orientation on business performance of commercial banks in Nakuru Town, Kenya. The study was guided by the following specific objectives:

- To determine the effect of market dynamism on business performance of commercial banks in Nakuru Town, Kenya.
- To establish the effect of competitive intensity on business performance of commercial banks in Nakuru Town, Kenya.
- To evaluate the effect of technological turbulence on business performance of commercial banks in Nakuru Town, Kenya.
- To examine the effect of regulatory policies on business performance of commercial banks in Nakuru Town, Kenya.

LITERATURE REVIEW

Various ways in which organizations attempt to develop their marketing orientation. For the purpose of this study, empirical review was presented in line with the objectives of the study.

Market Dynamism Effect on Business Performance

In a highly competitive market, banks operate in an intensely competitive atmosphere and further globalization of markets, fundamental changes occurred, and forced many banks to rethink and adapt their strategies to search for new philosophies and innovative management techniques to improve their competitive position and performance. Banks, therefore need to adopt a strategic management approach based on managerial philosophies and non-traditional strategies to address market dynamism aiming to achieve superior performance via more interest in external environment variables to bring added value for their customers. Therefore, market dynamism is a widely-explored construct in organization theory/strategic management literature. It has a growing importance according to the degree of instability/turbulence of such key operating concerns as market/industry conditions as well as more general technological, economic, social, political forces. An organization's ability to adapt to changing environmental circumstances is key to survival. Market dynamism has to be an essential factor for strategy development and source of profitability. Market dynamism represents the rate of change in an environment. Wijbenga and van Witteloostuijn (2007) outlined market dynamism as the rate at which the preferences of consumers and the services of organizations change over time. Studies such as those by Gül (2011) have linked market dynamism directly to improved firm performance. In the present context, the focus will be on customer's product preference, new banking products, unique product related needs developed and variation or consistency in the nature of customers served by commercial banks in Nakuru Town.

Competitive Intensity Effect on Business Performance

The estimation of the competitive intensity is of global importance in the market analysis, as it allows revealing the general appeal of intrusion on the market, making strategy of promotion of the goods, preliminary estimating activity results.

The estimation of the competitive intensity includes: the analysis of distribution of market shares among competitors; the analysis of growing rates of the market; the analysis of profitability of the market.

According to Ceptureanu (2016), for further estimation of interference of the competitive intensity and the distribution of market shares among the enterprises it is necessary to assess the competitive intensity in the set commodity market by means of measurement of the degree of similarity of market shares of competitors. According to Beal (2000), the indirect approach to an estimation of the size of the competitive intensity is based on an estimation of really controllable causes and/or consequences of the given relations. The essence of all indirect methods of estimation consists in the fact that, it is carried out not by an estimation of the scale of intensity of manifestation of the competitive forces, counteracting the activity of the considered subject of a competition, but by an estimation of the scale of the factors causing their manifestation with a certain level of intensity (Sun, 2011). For purposes of the present study, the focus will be on the nature of competition in the banking sector, type of promotional campaigns, bank unmatched unique features and relative functional weaknesses amongst commercial banks in Nakuru Town.

Technological Turbulence Effect on Business Performance

The state of technology in any organization has a significant influence on the quality and quantity of production of its goods or services (Dauda, 2009). But despite this, technology is prone to constant change which organizations have to monitor, manage and cope with. Repeated economic crises and steadily increasing competition, brought about in particular by the globalization of markets, are forcing an unprecedented rationalization of resources. Improved productivity has thus become a concern of all banks. At the same time, technology is developing with blinding speed and is becoming the principal instrument for meeting this concern. This explains why many banks are investing large amounts of money in implementing information systems. However, the advantages offered by technologies, especially in terms of enhancing productivity, depend upon how these technologies are integrated into an organization. Technology in most organizations provides the required forces through various forms by which goods and services are produced. Dude (2009) suggested that technology may be in forms of machine equipment information and communication made up of knowledge, tools, method and system directed to work in a specific manner. Khalil (2000) sees technology to be the result of man’s land and acquired knowledge or his technical skills regarding how to do things well. The state of technology determines the quality and quantity of goods and services produced. For the purpose of this study, the changing nature or technology, opportunities and threats of these changes, unreliability in forecasting technology change, the unpredictability of the global banking sector use of technology and related security challenges arising from technological turbulence will form the core focus of the study.

Regulatory Policies Effect on Business Performance

The empirical work reviewed provides evidence that cumbersome, poorly functioning regulatory business environments undermine entrepreneurship and the economic performance of businesses and economies. They do so by, for example, impeding entry to production and labor markets, which promotes the informal economy and unemployment, and by making trades, accessing credit markets and resolving legal issues more expensive for businesses. Thus, efforts to promote economic and social development should focus on formulating policies that make business, regulatory environments work and not obstruct their creation, productivity and competitiveness (Djankov et al., 2010).

Although empirical research provides ample evidence for positive links between better business regulations and economic performance, more rigorous research is needed to better understand whether and to what extent the former causes the latter. Some of the most convincing evidence to date comes from natural experiments, which have focused mostly on firm entry regulation. Other areas of business regulations such as trade, taxation, labor markets, credit markets and protecting investors would benefit greatly from research using similar techniques (Ramalho, 2006). Furthermore, given that only a handful of studies separate out the impact of the business, regulatory environment for the overall firm performance more research on these issues would substantially enhance our understanding of the multifaceted relationships between business regulations and performance. In the present study, government making too many banking decisions, legislation of restrictive rules for banks, stringent rules on market entry for new banks, adequacy of laws and regulations for fair competition and nature of application of these regulations and policies will be the key focus of the study.

RESEARCH METHODOLOGY

The study adopted a descriptive research design. Saunders et al., (2009) descriptive, descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because the inherently cannot be manipulated. The target population comprised all 66 employees of the Department of Lands, County Government of Nakuru, Kenya. The study utilized simple random sampling technique which ensured that the target population was representative, reliable, flexible and efficient. In this study an appropriate method to collect the primary data was a questionnaire survey. For the purposes of this study, quantitative data were collected using a closed-ended questionnaire. The primary data were sourced from the answers the participants gave during the survey process. The data collected from the questionnaires were analyzed with Statistical Package for Social Sciences.

RESEARCH FINDINGS AND DISCUSSIONS

According to the findings, the majority of the respondents were male (61.8%) while the female respondents were 38.2%. The study attributed this trend to the existing gender gap in employment in the public sector in Kenya, which is predominantly dominated by the male gender. The majority of the respondents were in the age group 46 - 55 years (52.6%), while the least age group was between 26 – 35 years (7.3%). The majority of the respondents (58.2%) hold a university degree qualification, which was attributed to the higher entry requirements in the organization and the technical nature of the work undertaken. In terms of working experience, most of the respondents (41.8%) had between 5 – 10 years working experience. Cumulatively, more than 72% had more than 5 years of experience while only 7.3% had less than 2 years working experience.

Effect of Market Dynamism on Business Performance

Majority of the respondents agreed that over time in their bank, customers’ product preferences had changed a lot (4.23), that new customers tended to have product-related needs that are different from those of their existing customers (4.05), The they catered to many of the same customers that they used to in the past (4.02), that their customers tended to look for new banking products all the time (4.02), that the respective banks often tailored their products based on new market trends (4.12) and that the banking sector is dynamic and thus commercial banks continuously changed according to the market changes (4.10).

Table 1: Effect of Market Dynamism on Business Performance

	n	Min	Max	Mean	Std. Dev.
Over time in our bank, customers' product preferences have changed a lot	60	2	5	4.23	.722
New customers tend to have product-related needs that are different from those of our existing customers	60	2	5	4.05	.811
We cater to many of the same customers that we used to in the past	60	2	5	4.02	.892
Our customers tend to look for new banking products all the time.	60	1	5	4.02	1.000
We often tailor our products based on new market trends	60	3	5	4.12	.739
The banking sector is dynamic and thus we continuously change according to the market	60	1	5	4.10	.706

Effect of Competitive Intensity on Business Performance

The respondents, on average, agreed that there were many aggressive promotion campaigns in the banking sector (4.17), that anything that one bank can offer could be readily matched by other banks (4.18), that competition in the Kenyan banking sector was highly intensive (4.30), that despite the competition, most competitors were relatively weak compared to their commercial bank (3.63) and that the intensity of competition had made their banks to invest more resources on marketing activities (4.03).

Table 2: Effect of Competitive Intensity on Business Performance

	n	Min	Max	Mean	Std. Dev.
There are many aggressive promotion campaigns in the banking sector.	60	1	5	4.17	.847
Anything that one bank can offer can be readily matched by other banks.	60	1	5	4.18	.965
Competition in the Kenyan banking sector is highly intensive	60	2	5	4.30	.809
Despite the competition, our competitors are relatively weak compared to our bank.	60	1	5	3.63	1.178
The intensity of competition has made our bank to invest more resources on marketing activities	60	1	5	4.03	.843

Effect of Technological Turbulence on Business Performance

From the findings on Table 3, The study established that most of the respondents agreed that technological changes provided big opportunities in the Kenyan banking sector (4.32), that the technology used in the Kenyan banking sector was changing rapidly (4.12), that technological developments in the banking sector were rather minor and does not affect their performance (3.70), that their bank had effective strategies aimed at mitigating the effect of technological changes (3.98) and that the technological turbulence affected their bottom line (4.13). The respondents however were unsure as to whether it was difficult to forecast where the technology in the banking sector will be in the next few years (2.77).

Table 3: Effect of Technological Turbulence on Business Performance

	n	Min	Max	Mean	Std. Dev.
Technological changes provide big opportunities in the Kenyan banking sector	60	2	5	4.32	.813
It is difficult to forecast where the technology in the banking sector will be in the next few years	60	1	5	2.77	1.079
The technology used in the Kenyan banking sector is changing rapidly.	60	1	5	4.12	.922
Technological developments in the banking sector are rather minor and does not affect our performance	60	1	5	3.70	1.139
Our bank has effective strategies aimed at mitigating the effect of technological changes	60	1	5	3.98	.948
Technological turbulence often affects our bottom line	60	2	5	4.13	.769

Effect of Regulatory Policies on Business Performance

From the findings in Table 4.8, majority of the respondents were in agreement that the government had very restrictive rules on the business scope of banks (4.30), that many more new banks would enter the banking sector if there were fewer regulations to comply with (4.30), that the government was making too many decisions on behalf of the banking sector (3.92) and that the regulatory policies in the Kenyan banking sector often affected their business performance (4.15). The respondents were however unsure as to whether there were adequate laws and regulations to ensure fair competition in the banking sector (2.77).

Table 4: Effect of Regulatory Policies on Business Performance

	n	Min	Max	Mean	Std. Dev.
The government has very restrictive rules on the business scope of banks	60	3	5	4.30	.591
Many more new banks would enter the banking sector if there were fewer regulations to comply with.	60	2	5	4.30	.962
There are adequate laws and regulations to ensure fair competition in the banking sector.	60	1	5	2.77	1.294
The government is making too many decisions on behalf of the banking sector.	60	1	5	3.92	.850
Regulatory policies in the Kenyan banking sector often affects our business performance	60	1	5	4.15	.899

Business Performance

From the findings in Table 4.9, it was established that most respondents were in agreement that profitability of their bank in comparison to their competitors was higher (4.27), that they often posted better return on investment in comparison to their competitors (4.37), that their customers seemed more satisfied than those of their competitors (4.27), that their market share was bigger than those of their competitors (4.35), that their bank's profitability had been on the increase over the past few years (4.57) and that the growth of their banks market share in the past few years has been on an upward trend.

Table 5: Business Performance

	n	Min	Max	Mean	Std. Dev.
Profitability of our bank in comparison to our competitors is higher.	60	3	5	4.27	.516
We often post better return on investment in comparison to our competitors	60	3	5	4.37	.637
Our customers seem more satisfied than those of our competitors.	60	2	5	4.27	.686
Our market share is bigger than those of our competitors	60	3	5	4.35	.606
Our banks profitability has been on the increase over the past few years	60	3	5	4.57	.563
The growth of our banks market share in the past few years has been on an upward trend	60	3	5	4.28	.555

Regression Analysis

The study carried out a regression analysis and model summary is depicted in Table 6.

Table 6: Regression Model Summary

Model	R	R^2	Adjusted R^2	Std Error of the Estimate
1	0.579[a]	0.336	0.287	0.25074

The R^2 value of 0.336 implies that 33.6% of the variations in the business performance of banks can be explained by the variations in independent variables. This therefore means that, other factors not studied in this study contribute 66.4 % of business performance of banks in Nakuru Town, Kenya. The researcher further conducted a multiple regression analysis and the findings of the multiple regression model is depicted in Table 7.

Table 7: Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
1		B	SE	B	t	p
	Constant	2.550	.367		6.939	.000
	Market Dynamism	.196	.101	.304	1.928	.059
	Competitive Intensity	.047	.076	.089	.611	.544
	Technological Turbulence	.101	.091	.180	1.107	.273
	Regulatory Policies	.109	.076	.181	1.439	.156

Further, it was established that a unit increase in market dynamism would cause an increase in business performance by a factor of 0.196, a unit increase in competitive intensity would cause an increase in business performance by a factor of 0.047, a unit increase in technological turbulence would cause an increase in business performance by a factor of 0.101 and a unit increase in regulatory policies would cause an increase in business performance by a factor of 0.109. The un-standardized beta coefficients in Table 4.11 were then used to obtain the overall relationship of the independent variables and the dependent variable and model was formulated as:

$$Y = 2.55 + 0.196X_1 + 0.047X_2 + 0.101X_3 + .109X_4$$

ANOVA findings (P-value of.000) in Table 4.12 show that there is correlation between the predictor variables (market dynamism, competitive intensity, technological turbulence and regulatory policies) and dependent variable (Business performance of banks).

CONCLUSIONS

The study concluded that over time in their bank, customers' product preferences had changed a lot, that new customers tended to have product-related needs that are different from those of their existing customers, that they catered to many of the same customers that they used to in the past, that their customers tended to look for new banking products all the time, that the respective banks often tailored their products based on new market trends and that the banking sector is dynamic and thus commercial banks continuously changed according to the market changes. Further, the study concluded that there were many aggressive promotion campaigns in the banking sector, that anything that one bank can offer could be readily matched by other banks, that competition in the Kenyan banking sector was highly intensive, that despite the competition, most competitors were relatively weak compared to their commercial bank and that the intensity of competition had made their banks to invest more resources on marketing activities. the study concluded that technological changes provided big opportunities in the Kenyan banking sector, that the technology used in the Kenyan banking sector was changing rapidly, that technological developments in the banking sector were rather minor and does not affect their performance, that their bank had effective strategies aimed at mitigating the effect of technological changes and that the technological turbulence affected their bottom line. The findings differ from those of other scholars and they indicate a minimal positive effect on business performance of banks. The study further concluded that the government had very restrictive rules on the business scope of banks, that many more new banks would enter the banking sector if there were fewer regulations to comply with, that the government was making too many decisions on behalf of the banking sector and that the regulatory policies in the Kenyan banking sector often affected their business performance. The findings differed with those of other scholars who report a negative effect of regulatory policies on business performance.

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