Brand extension strategies in the banking industry: Nature, institutional drivers, boundary conditions and performance consequences

Abstract

Building on insights from the structure-conduct-performance (SCP) paradigm, we explore the nature, institutional drivers, associated boundary conditions and performance consequences of brand extension strategies in the banking industry in emerging markets. Specifically, we plan to examine how brand extension strategies are conceptualised and operationalised in the banking sector, their institutional drivers, associated boundary conditions and performance consequences. From this perspective, we plan to apply an exploratory/qualitative research method (1st phase of study) to focus on brand extension strategies of banks in a large sub-Saharan African market. In doing so, this study contributes to the global branding and international business literature by advancing knowledge on the nature, institutional drivers, boundary conditions and performance consequences of brand extension strategies among emerging market banks.

Introduction

The banking industry is paramount to the functioning of an economy (Rao-Nicholson and Salaber, 2016). Banking services connect savers and investors through the investment chain; in turn helping the economy manage risk; while providing essential payment systems and mechanisms needed to store value (Du and Sim, 2016). Subsequently, banks make it possible for trade and commercial activities to materialise (Levine, 1999). Banking services are utilitarian in nature as banks provide access to money (and capital) needed to support people's daily activities, which is essential to individuals and corporate consumers (Esteban-Sanchez, Cuesta-Gonzalez and Paredes-Gazquez, 2017). According to Alhassan and Asare

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(2016), due to the institutional voids in emerging markets, banks play a crucial role in economic and commercial activities.

The global financial crisis of 2008 and the boom that preceded afterwards have renewed attention on the global factors that drive financial conditions worldwide (Mogaji, 2018). The global financial crisis of 2008 is believed to be partly associated with the failure of supervisory and regulatory frameworks in cross-border banking (Maobe, 2018). When swathes of subprime mortgage-backed securities became worthless following the crash of the US housing market in 2007, the contagion spread around the world, transmitted by cross-border financial institutions—e.g., banks, insurance companies, hedge funds—from United States to countries in Europe, Asia, and across the major emerging markets (Mogaji, 2018).

Cross-border banking refers to any financing arrangement that crosses national borders, allowing banks to open operations in another country (Beck, 2016). On this note, cross-border banking allows banks to set up financial operations in other countries other than their country of origin, while extending their brand name. Consequently, brand extension is when a firm uses an established brand name to introduce a new product or service (Keller, 2003). Brand extension strategies also involves firms using an established brand name to set up operations in another country (Aaker and Keller, 1993).

Studies have shown that brand extension strategies positively influence brand image which leads to superior performance (Martinez and Chernatony, 2004; Martinez, Polo and Chernatony, 2008; Buil, Chernatony and Hem, 2008 and Iglesias et al., 2019). However, despite the large audience that brand extension strategies have received in the extant literature, there is a dearth of research on brand extension strategies in the banking industry (Pratihari,

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and Uzma, 2018). Specifically, there is limited research on the nature, institutional drivers, boundary conditions and performance consequences of brand extension strategies among emerging market banks. On this note, our study aims to address these gaps in the extant literature. Considering these gaps in knowledge, the next section provides an overview of the banking sector in a large sub-Saharan African market, showcasing the importance of examining the nature, institutional drivers, boundary conditions and performance consequences of brand extension strategies among emerging market banks based on the premise of the SCP paradigm.

Study background

Nigeria—in the west of Africa—is the most populated country in Africa, with a population of over 195 million (Boso et al., 2018). This figure accounts for about 15.98% of the total African population. According to The Global Findex Database (2017), 60% of Nigerian adults are unbanked as they do not have an account with a financial institution or a mobile money provider. Nigeria and six other African countries contribute nearly half of the globe's unbanked adult population of 1.7 billion, and 56% of that figure are women. Meeting the financial needs of these enormous population presents a challenge. Before the banking reform of 2005, instituted by ex-governor of the Central Bank of Nigeria—Charles Soludo—Nigeria had as many as 89 banks operating as commercial and merchant banks, but now there are 24 registered banks in the country.

Following this consolidation, Nigerian banks are facilitating cross-border transactions as they expanded operations into other African countries. These Nigerian banks expanded their operations domestically and internationally by increasing branch networks in the domestic market and opening subsidiaries abroad (Alade, 2014). By the end of 2008, over 10 Nigerian

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banks had launched subsidiaries in at least one other African country, compared to only two of such banks in 2002 (Oguh, 2017).

United Bank of Africa (UBA) is present in 19 African countries, allowing the bank to follow their customers and businesses across national boundaries, providing them with all the support they need for their businesses and personal comfort, no matter where they decide to travel, do business or live. Zenith Bank has presence in five African counties. Access Bank operates seven subsidiaries within West Africa, East Africa and the United Kingdom. Access Bank has 319 in Nigeria and 52 branches in Ghana (Access Bank, 2019). Guaranty Trust Bank plc has business outlays spanning Anglophone and Francophone West Africa and East Africa and Europe. The Bank presently has an Asset Base of over N3.287 trillion Naira and employs over 10,000 professionals in Nigeria, Cote D'Ivoire, Gambia, Ghana, Liberia, Kenya, Rwanda, Uganda, Sierra Leone, Tanzania and the United Kingdom (GTBank, 2019). However, the cross-border banking has not always been a success as Skye Bank (now Polaris Bank) had to sell all its businesses in Gambia, Guinea, and Sierra Leone as part of a review aimed at streamlining operations and boosting its capital adequacy (Ohuocha, 2016).

While Nigerian banks are expanding to other African countries, there are instances of banks from other emerging markets coming into Nigeria. For instance, Ecobank (from Togo) and Stanbic IBTC Nigeria (a subsidiary of Standard Bank of South Africa) are examples of a successful foreign-owned bank operating in Nigeria. Cross-border expansion of Nigerian banks has brought several benefits to the financial systems of their host countries (Oguh, 2017). Recipient banking systems have benefited from improved technology, greater competition, increased financial intermediation, and strengthening of the regulatory and supervisory framework that the Nigerian banks have brought it (Alade, 2014). However, it is argued that

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Nigerian banks have not significantly benefited from their presence in other countries beyond prestige and branding (Oguh, 2017).

Though the internationalisation of Nigerian firms is a recent phenomenon (Omokaro-Romanus et al., 2019), evidence suggests that Nigerian banks are engaged in cross-border banking. Despite this trend, there is no empirical insight into their brand extension strategies as they enter into these new African markets. Omokaro-Romanus et al., (2019) noted that the study of the internationalisation process of sub-Saharan African firms in the international business literature is quite limited even when recognised that Nigerian firms followed different routes in their internationalisation journey. Specifically, for Nigerian firms, for cross-border arrangements, the motivating factors are linked to home-country factors, firm-specific factors, and regional-/host-market factors (Omokaro-Romanus et al. 2019)

Building on this, Nigerian banks had relied on the country's favourable macroeconomic environment to launch their cross-border operations across Sub-Saharan Africa (Oguh, 2017). However, by recognising the global pursuit of financial inclusion as a vehicle for economic development (Mogaji, 2018), increasing penetration of financial technology (fintech) companies to reach the unbanked, cross-border banking for diversification gain (Berger, et al., 2000), the need to operate in conformity with the regulations amidst an increasingly competitive business environment, close-proximity market and languages (Omokaro-Romanus, et al., 2019) and the dwindling economic conditions of the country due to the collapse of global oil prices (Oguh, 2017), it is imperative to have a better understanding of the financial services in Nigeria and their brand extension strategies as they cross-border to expand their conglomerate. As Berger, et al. (2001) suggested that cross-border decision involving partners from developing countries should be treated differently in empirical research from

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those involving partners from developed countries only. Thus, this study aims to extend knowledge about the nature, institutional drivers, boundary conditions and performance consequences of brand extension strategies in the banking industry of emerging market firms.

On this note, the study stands on the SCP paradigm to investigate the nature, institutional drivers, boundary conditions and performance consequences of brand extension strategies in the banking domain. With roots in industrial organisation economics, the SCP paradigm submits that firms derive superior performance by conforming to the external environmental characteristics in the society, region, or country in which they operate (Ralston et al. 2015). The central premise behind the SCP paradigm is the consideration that a firm's external environmental characteristics and dynamics (structure) will influence its behaviour (conduct) in formulating and implementing corporate strategies which leads to superior performance and in turn ensuring survival in business (Panagiotou, 2006; Lo, 2013; Leonidou et al. 2013; Ralston et al. 2015). Building on this paradigm, we argue that institutional drivers (external environment) of the host country would drive the brand extension strategies (conduct) of emerging market banks, in turn, ensuring superior performance.

Research questions and objectives

Following the gap in knowledge identified in the extant literature, this study hopes to build on and extend the literature on brand extension strategies in the banking industry in emerging markets by providing answers to the following questions:

1) How are brand extension strategies conceptualised and operationalised in the banking domain?
2) What are the institutional drivers of brand extension strategies in the banking industry in emerging markets?

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3) What are the performance consequences of brand extension strategies in the banking domain?
4) What are the associated boundary conditions that strengthen or weaken the formulation and implementation of brand extension strategies in the banking domain in emerging markets?

In line with these research questions, the study's objective is to provide answers to the research questions posed. The next section discusses the proposed research methodology.

Research Methodology

To answer the stated research questions, the study will adopt a two-stage mixed methodology approach—using qualitative and quantitative research methods. The qualitative research will be the first stage of the study. This stage will consist of semi-structured face-to-face interviews with top-banking managers in Nigeria—serving as an exploratory phase of the study—which will facilitate the understanding of the theoretical model. Specifically, in-depth interviews will be conducted with chief-operating banking managers in Nigeria, until a saturation point is reached, ensuring that the study benefits from the principles of grounded theory methodology (Strauss and Corbin, 1998). This approach is aimed at deepening our understanding of the nature, institutional drivers, associated boundary conditions and performance consequences of brand name extension strategies in the banking industry in emerging markets. The data gotten from the interviews will be coded and analytical procedures with thematic analysis will be performed using the Nvivo software (Smith and Firth, 2011). The aim of this approach is to organise the data gotten from the interviews into several meaningful categories and to provide themes around the proposed constructs, as well as relationships between them (Gioia et al., 2013).

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Building on insights from the qualitative interviews, the second stage of the study will adopt the quantitative research method, using a structured questionnaire instrument. The purpose of this stage is to carry a confirmatory function to verify the findings of the qualitative stage and achieve greater generalizability of the findings

RESULTS DISCUSSION AND IMPLICATION

In progress

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