Cost Leadership and Differentiation as Competitive Strategies on Performance of Commercial Banks: The Kenyan Perspective

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Abstract

Poor performance in commercial banks was viewed in terms of reduction in market share, decline in profitability, loss of customer, shrinking in asset base and liabilities which in turn lead to poor performance. Commercial banks use cost leadership and differentiation as competitive strategies to address performance. The aim in the study was to establish the effect of cost leadership and differentiation as competitive strategies on selected commercial banks in Nairobi City County, Kenya. Porter's generic strategies model and descriptive research design were used. The target population was 1,194 respondents which included head office employees from three selected commercial banks namely Kenya Commercial Bank, Equity bank, and Cooperative Bank of Kenya located in Nairobi City County in Kenya. Sample size of two hundred and ninety one (291) was computed using Krejcie and Morgan formula then selected using stratified sampling technique to ensure adequate representation. Primary data was collected using close and open ended structured questionnaire. The data was analyzed using descriptive statistics especially mean and standard deviation and inferential statistics specifically regression analysis, analysis of variance and analysis of coefficients. The analyses were conducted using Statistical Package for Social Science (SPSS) version 24. Open-ended responses were organized in themes and discussed in a narrative form. This study adopted Cronbach's alpha method to compute reliability and a coefficient of 0.957 was obtained which was more than a threshold of 0.80 hence the research instrument was reliable. Results were presented using tables. The study findings indicated that cost leadership, differentiation, and growth strategies had effect. The study results are valuable to management of commercial banks, policy makers, other organisations, academicians and researchers.

Keywords: Cost Leadership, Differentiation, competitive strategies, Performance

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INTRODUCTION

1.1 Background of the study

Performance is a critical facet of any organization's accomplishments and competitiveness in today's globalized and interconnected business environment (Dermine 2018). The author argues that performance is an increasingly significant factor in determining whether a company competes effectively in its chosen markets. In an unstable global economy, organizations face intense competition at both local and international levels (Loecker & Eeckhout 2018). The authors affirm that maintaining a higher performance has always been a crucial concern for businesses worldwide.

Regulatory agencies in 2008 ensured that banks remained financially stable by enforcing the Basel accords and this was subsequent to the global financial crisis (Chen, Mrkaic & Nabar 2019). The authors report that the banking industry has been impacted by technological advancements, deregulation, and globalization since the early 1990s. In the last 17 years, lower interest rates have been the selling point in customer uptake in banking (Mankiw 2020).

Performance challenges are not only confined to the global level but are also predominant at the regional level (Smith & Ruiz 2020). The authors argue that different regions face unique economic, political, and social challenges that affect organizations operating within their borders.

The sub Saharan region been marred with significant problems in the banking sector (Fang, Kothari &Yenice 2020).

In Kenya, financial institutions risk higher risks, lower profitability, and diminishing shareholder trust if these performance challenges are not resolved (Mwanzia 2021). Performance for the financial sector has been dwindling (Odwaro 2022.

Since 1980 to date, a total of 24 banks have gone under while others are in and out of receivership where non-performing loans has been the major contributor to this (Muriithi & Louw 2017). Non-performing loans have been the major cause of financial crisis (Kela 2018). The author argue that poor leadership, government interference and uncertainty in financial trends globally have also caused financial crisis. The Kenyan banking industry is a rapidly growing regional financial leader. However, the industry has experienced its fair share of challenges.

According to Dermine 2017, performance challenges faced by commercial banks in turn affect financial system, individuals, businesses, and national economy. Factors such as intense competition, evolving customer expectations, technological advancements, regulatory changes, and financial risks pose unique challenges in performance of commercial banks' performance (Mariga & Rugami 2020)

According to Ezenwa (2016), banks' management have adopted some competitive strategies for survival. Management of banks have left their traditional ways of thinking and have developed different competitive strategies to remain afloat in the ever dynamic environment (Muriithi & Louw 2017).

Competitive strategies offer solutions that address performance challenges faced by industries globally, regionally, and nationally and these strategies enable businesses to achieve improved performance across various sectors (Berger 2018). This means purposely outperforming rivals in order to deliver a distinctive combination of value that offers a higher value to the customers than the competitors (Mariga 2020).

In a global outlook, competitive strategies empower organizations to expand their operations internationally and focus on building a strong reputation (Mariga 2020).

Regionally, different institutions have implemented far-reaching competitive strategies and are now harvesting better results (Marete 2018).

Kenya Commercial Bank, Equity bank and Cooperative bank of Kenya have also faced a fair challenge being in existence for more than twenty years.

1.1.1. Performance

Riberolles (2021) describes performance as the outcome of commercial efficiency which covers qualitative and/or quantitative key performance indicators. Terpiłowski (2022) describes performance in business as the business's capacity to make a profit from its resources and fulfil its goals.

The measures used to examine banking performance include profitability, efficacy and competency (Odwaro 2022). Terpiłowski (2022) argues that performance indicators are dictated by the industry in which the organisations operates. Major indicators, include profitability, productivity, revenue, consumer satisfaction ratings, potential clients from various marketing campaigns, order conveyance, delivery time and improving project statistics (i.e., for projects done within stipulated budgetary allocations etc.) Performance can also be described as increasing profit margin from a single project or from all the projects (Twin 2023).

Performance can be measured in several ways. Ontita (2020) claims that a firms' performance can be gauged by increased earnings, stakeholder contentment and increased customer base. In Kenya, The Central Bank of Kenya evaluates banks' performance by a combination of indicators which can be financial or non-financial indicators (Kori, Muathe &Maina 2020). Return on assets can be used to measure profitability in banking (Alam & Islam., 2021). The Kenya Financial Sector Stability Report of 2021 indicates that financial indicators include profitability which is derived from metrics like net interest margin, income from assets, dividends earned, asset quality which reflect a healthier loan portfolio and effective risk management practices, liquidity which ensures that banks can meet their obligations and fund customer withdrawals and finally capital adequacy which deals with regulatory capital requirements which are crucial for banks to maintain financial stability and absorb potential losses. The non-financial indicators include customer satisfaction levels, size of market share which indicates a stronger presence and competitiveness in the market, innovation and technology adaptation and regulatory compliance. Ranajee, (2018), Alam & Islam (2021), Irawati, Maksum & Sadalia (2020) focused mainly on financial performance while Mbugua (2020) concentrated on customer satisfaction levels and left out other key indicators that were covered in this study. Kioko (2019) focused on financial risks and only covered one aspect of performance on the liabilities side.

The ranking of Kenyan banks into tiers is done by entities such as financial publishers, research firms, and credit rating agencies in collaboration with the CBK (Kioko 2019). According to the CBK journal of 2020, the industry considers the following factors in regards to performance; asset size, profitability, market share, customer satisfaction. Banks are clustered into leagues called tiers depending on an array of factors Ramlall (2024).

Metrics/measurements of performance in the current study were factors that are used to rank banks into tiers (Central Bank of Kenya prudential guidelines published in January 2013). These indicators included market share, profitability Asset base, liabilities and product per customer these indicators were included because they were relevant as they align with regulatory requirements, are widely accepted standards, and allow for meaningful comparisons within the industry.

Market share constantly fluctuates between companies, and some allocate a lot of money on marketing in an effort to acquire market share from fellow industry players (Ontita 2020). Market share consist of the aggregate percentage of sales generated by a company in a given period and organisations must be a market leader as an organisation in an industry that has the huge chunk of active customers and generally controls the market (Hayes 2022). The author argues that ways to increase market share include implementing competitive strategies to help generating customer loyalty, and acquiring competitor's market. Jeremy Salvucci (2022) defines market share as a company's "portion in sales" of an industry's overall sales.

Jenkinns (2020) study insinuates that profitability can be achieved by employing several competitive strategies to attain the profitability required. Atieno (2022) defines profitability as the level of financial gain achieved by a business and that it's the purpose as to which every business exists.

Yakubu & Abokor's (2020) contend that in the short run, only branch expansion and large deposits supply matter for deposit mobilisation. According to Folger (2023) an asset is something of value that is owned and can be used to produce something. The author alludes that an asset in this context refers to the amount of customer deposits held by a bank and that this is the basis as to which banks lend their money. There are cheap deposits which are being deposited in current accounts by customers which earn little or no interest (Atieno 2023).

A liability is a debt or something owed and banks use customers' deposits and lend them to the public at a specified interest (Bonnett 2023). The author argues that loans issued constitutes liabilities to the bank as they owe the depositors of the funds they have issued out as loans. Consistent growth in loan book leads to more income in terms of interest as long as the loans are repaid back to totality (Hayes 2023). The author points out that for a quality loan book, strategies for consistent growth and controls must be put in place to curb slippages and provisions for the bad loans and recoveries efforts which are also a cost to the banks are avoided. These costs include legal fees, auctioneer fees and reputational costs.

According to Ndungu & Muturi (2019) innovations have also assisted in making the banks additional revenue as they market to their existing customers and also some non-customers who might be needing these services and might be swayed to open accounts with the banks. The authors pointed out that these products are like insurance brokerage, forex, trade finance, importation of goods etc. and the customers now have a variety of products to consume within the same bank which is also earning the banks additional income. Product per customer is a diversification that has been brought about by value addition to the banks existing products (Hayes, James & Velasquez 2022). The authors argue that banks have now ventured into several products that traditional banks didn't offer and they have turned to a one stop shop.

1.1.2. Competitive Strategy

The benefit of a competitive strategy is defined as the long-term advantageous use of a special combination of internal capacities and external advantages that differentiate competitive industry players apart from non-competitive ones (Nduta 2015). Competitive strategy has been defined by Chepchirchir (2017) as a general framework on how a company competes in an unpredictable environment. Namada's (2018) definition of competitive strategy is that it's the leverage a firm gets over its rivals in the same industry.

In order to establish the profit potential of an industry, a competitive strategy must take into account the bargaining power of consumers, the danger of new competitors, prospective alternative products, and interindustry competition (Namada, 2018).

Anwar (2021) alludes that by systematically analysing and selecting appropriate competitive strategies, banks can enhance their operational efficiency, customer engagement, and overall market position. Competitive strategy refers to a thoughtful and well-structured plan of action that a bank articulates and executes in realizing a sustainable gain over competition within the highly competitive banking industry (Farida & Setiawan 2022). To address performance problems, implementing a well-crafted competitive strategy is of essence (Odwaro 2022).

Several scholars have provided measurements of competitive strategy. In 1957 Ansoff indicated that the strategic choices made by banks to achieve growth reflected their broader competitive positioning and approaches and then provided measurement of growth strategy by introducing strategic planning tool, called the matrix that helps organizations identify growth strategies based on market and product type. The matrix comprises four growth strategies; market penetration, market expansion, product development, and diversification. Porter (1980) introduced the generic strategies, which helps analyse industry structure and competitiveness, and the Value Chain analysis, which examines the internal activities of firms to identify sources of competitive advantage. Kela (2018) recommends that product development, cost leadership, market focus and product differentiation strategies as measurements of competitive advantage. Ameraldo, Saiful, & Husaini (2019) recommend funding mechanism, establishing special purpose vehicle, and branchless banking as means to enhance performance. Ali & Anwar 2021 did a study on competitive strategies and its impact on performance and recommend porters product differentiation, cost leadership and market focus strategies as measurements for competitive advantage. Kumar & Balaramachandran (2021) recommends that customer experience, robotic process automation and technology adoption are measures of competitive strategy Odwaro (2022) suggest that competitive strategy is measured in terms of cost leadership and differentiation, cost focus and differentiation focus. As relevant indicators in the present study, cost leadership, and differentiation strategies were considered. These indicators are widely accepted in the banking

The measurements for cost leadership are economies of scale, capacity utilization, encompassing all functional groups and good interrelationship with service providers (Wang' 2019). Cost minimization can also be achieved by having a good relationship with suppliers (Adesina 2019). The author further argued that with this, orders can be received early, good quality and after sales services can be achieved while reducing cost. In essence, an organisation that employs a cost leadership strategy seeks to increase returns and competitive advantage by providing goods or services at lowest production costs possible by employing cost minimisation techniques to achieve cost leadership (Odwaro 2022).

Differentiation strategy is an approach employed by organizations to offer unique value proposition better than competitors and is achieved through promotion, distribution, price, place and product (Islami, Mustafa & Latkovikj 2020). The distribution of the product must be at par so that the market never runs out of the product and customers try another substitute (Popescu 2020). The author argues that the goods/services offered must be available in the shelves either by opening other branches or through agencies or automated services and the price must also be competitive with the value of the product. The consumers must see the value in the price offered (Islami 2020).

1.2 Statement of the Problem

With the unpredictability in the business operating environment, developing a strategy is not only sufficient to improve performance but implementation of these strategies is key (Muriithi 2020).

Operational costs like running physical branches and investing in technology is also expensive and affects profitability (Ndungu 2019). Effective cross-selling of products to customers requires a deep understanding of their preferences and financial situations and inaccurate targeting has led to unsuccessful cross-selling efforts (Sitanggang 2019). The author argues that offering personalized products and services to each customer is resource-intensive, and ensuring that the customization adds value to the customer can be challenging. Profitability has largely been affected by interest rate dynamics (Gitau 2021). The author deduces that rapid changes in interest rates have made it challenging for banks to forecast and maintain consistent profits and that non-performing loans are provided for as bad loans, impacting profitability. Maintaining a firm grip on the market share in the industry is highly unlikely as there are numerous players in the market (Nanchengwa 2021). According to the author, entry of new digital and fintech players into the market has further stiffened competition. Customers have more options than ever before and can switch banks due to technological advancements and increasing awareness and maintaining a balance between loan growth and credit quality requires robust risk assessment and management frameworks (Odwaro 2022). The author alludes that a market with limited lending opportunities, maintaining consistent loan book growth has always been a challenge.

1.3 Objectives of the study

i. To evaluate how leadership cost strategy affects the performance of selected commercial banks in Nairobi City County, Kenya.

(ii) To examine the impact of differentiation strategy on the performance of selected commercial banks in Nairobi City County, Kenya.

1.4 Significance of the study

The study is useful to players in the lending sector by injecting fresh ideas to survive and contest competitively especially for the lower tiers in the industry, to other scholars as well as to existing body of knowledge acting as a reference point to researchers and scholars by assisting them in their study focus areas. The study is also beneficial to the Kenyan commercial banks' top management.

1.5 Scope of the Study

Project's scope in a research process is the size and what is essential to reach the aims and objectives (Bryson 1995). The study spans from 2020 to the present, focusing on KCB, Equity, and Cooperative banks' head offices in Nairobi City County. Performance was the dependent variable, while cost leadership, product differentiation, market focus, and growth strategies were the independent variables. The balanced scorecard model was the primary theory. Data was collected using a self-administered questionnaire, and descriptive statistics were used for analysis. The data was examined utilising mean, frequencies, proportions, and standard deviation. Qualitative data used Likert scale to provide measures of qualitative data to be subjected to the statistical process. This was achieved by creating numerical codes and grouping the codes by identifying the recurring themes which were presented in a cohesive manner.

LITERATURE REVIEW

2.1.1 Balance scorecard model

The model was pioneered by Kaplan and Norton in the year 1990. The authors define balanced scorecard as a tracker used by management for monitoring execution of staff activities documenting consequences of staff action. Teixeira & Ribeiro (2017) study concludes that the theory is crucial in evaluating performance and recommended the theory to be adopted by organisations to enhance performance on individual functional groups in organizations. The results of this instrument are the demonstration of results to be compared to a pre-set target (Ratnaningrum 2020).

The balance scorecard can have several limitations. Nielsen (2017) argues that it is robotic in the implementation. The author portrays the most important information needed by the management. Said, Ahmad & Ahmad (2018) carried out systematic literature review of the balanced scorecard on trends and theme. The scholar recognizes the use of balance scorecard towards performance evaluation. Ratnaningrum (2020) reveals that this model can be complex in larger organisations in defining matrix and data collection and establishing cause-effect relationship is often time consuming. The author contends that it creates a tendency to destroy the human touch in organisations while enforcing mechanistic approach and that it overlooks the external environment.

The current study focused on indicators such as market share, profitability, asset base, liabilities growth, and product per customer. To evaluate the performance comprehensively in the current study, the Balanced Scorecard model was used. The Balanced Scorecard incorporates non-financial indicators that are crucial in assessing the overall health and success of a bank. The chosen indicators, such as market share, profitability, asset base, growth in liabilities and product per customer, align well with the financial, customer, learning and growth perspectives of the model. Profitability directly aligns with the financial perspective. Profitability of the banks is measured using metrics such as return on assets, return on equity and net profit margin (CBK Prudential Guideline, 2013).

Growth in loan book can include aspects like continuous improvement in lending practices, risk management, and employee skill development related to loan processing (Mwangi and Waithaka 2020). Sudarto (2020) alluded that this model provides structured frameworks for communicating and reporting performance measures. Market share growth is crucial for financial success (Atieno 2022). The author alludes that this metric can be aligned with the financial perspective, as a higher market share generally contributes to increased revenue while also as a financial indicator, market share growth can be seen from the customer's perspective, reflecting the bank's success in attracting and retaining customers.

2.1.2 Porters Generic Strategies Model

Michael E. Porter in 1980 pioneered this model and argued that in order for a firm to occupy this position of superiority, it must employ the use of generic strategies; low cost, differentiation and market focus strategies. Different scholars propose this theory at it has applicable strengths (Mariga 2020). The author alludes that the theory is clear and has actionable framework for organizations to choose and implement competitive strategies.

The author further alludes that it has a competitive focus as the theory places a strong emphasis on competition and how organizations can position themselves relative to competitors. Wanjiku (2021) insinuates that the theory offers strategic direction as it prompts them to decide whether they want to compete on cost, product differentiation, or focus on a specific market segment and that this clarity can guide decision-making and resource allocation.

The theory has several limitations according to several studies. Marete (2018) alluded that Porter's Generic Strategies may not be as applicable in highly dynamic or emerging markets, where the competitive landscape is constantly evolving, and traditional industry boundaries are less defined. The author points out that the theory overemphasises on cost reduction at the expense of other critical factors like quality and innovation. Mariga (2020) argues that one of the key criticisms of Porter's generic strategies model is that it can be overly rigid and in reality, some organizations may need to combine elements of different strategies to succeed. The author noted that the theory does not account for hybrid strategies and places a heavy emphasis on internal factors and competitive positioning but tends to overlook external environment which can significantly impact a firm's success.

According to Marete (2018) focus strategy exclusively used by a firm as it endeavours to serve in a niche market. The author alludes that a firm's management may therefore choose cost leadership, differentiation or focus strategies to achieve competitive advantages over rivals. The low-cost producer boosts sales hence a broader market network to the firm. Differentiation requires a selection of a niche for the organisations product that enhances customer's loyalty boosting sales (Sitanggang 2019). A firm may choose to use the cost strategy whereby it employs economies of scale minimising on production cost due to mass production making it advantageous in low pricing (Wanjiku & Deya 2021). The authors contend that, if a firm chooses the differentiation strategy, it will then focus on producing a unique product and in this case, its target market is usually not price sensitive. This theory anchors the variables of cost leadership and differentiation in the current study.

2.1.3 Ansoff Matrix

H. Igor Ansoff created the matrix, in 1957 to illustrate the various levers used in exploring growth opportunities. This matrix includes four strategies: product development, market penetration, diversification and product penetration. Different scholars propose this theory as it has applicable strengths (Mwangi and Waithaka 2020). The authors alluded that market penetration strategy is the most important predictor of performance. Sudarto (2020) recommended institutions to focus on market development. Developing a new market is achieved through differentiation of customer segments; households, industrial buyers as well as entering into new regions and foreign markets (Clarissia 2020). An organization can thrive in the competitive market only when the innovative product developed by the company can be presented in such a way that the audience gets attracted to it and reach for it (Mavratzas 2020). This is a useful tool for an organization which tries to explore the various risk quadrants and offers the best successful quadrant to face the multiple unrelated markets (Clarissia 2020). Market penetration strategies are evidenced in; rise in market share and revenue, sales growth, more acquisition of new customers, innovation development and enhanced service delivery (King'ori 2023). The author points out that financial institutions are more deeply integrated into the market, rendering them adept at fulfilling customer wants and achieving a superior market position.

The theory has several limitations according to different scholars (Mensah 2020); Product diversification diminishes profit, efficiency, and financial stability, as the relationship with profit and stability is U-shaped, while intense rivalry undermines both profitability and efficiency.

2.2 Empirical Literature Review

2.2.1 Cost Leadership Strategy and Performance

Kahingo (2018) conducted a study on competitive strategies and the viability of microfinance institutions in Murang'a County, Kenya. The study used a descriptive design targeting 20 microfinance institutions (MFIs) in Murang'a County. A census and self-administered questionnaire were utilized. Multiple regression analysis revealed that cost leadership strategy significantly enhances the sustainability of MFIs. Further research is suggested. The current study focused on banking institutions in Nairobi City County, linking capacity utilization and resource sharing to performance.

Gure (2018) explored how a low-cost leadership strategy affects SME performance in Nairobi County. Using a descriptive design, the study targeted 100 respondents. Findings revealed that SMEs widely adopt low-cost leadership by reducing operational costs to lower product prices and consumer expenses, thus gaining a competitive edge. These businesses also use discounts and promotions to boost market demand and improve the delivery and accessibility of their products and services. This method also facilitated a reduction in transportation costs for their commodities and resources, hence lowering the price of their end output. This suggests that the SMEs have adopted a low-cost leadership strategy; yet, most have not substantially decreased transportation costs, rendering their cost reduction efforts ineffective. This study concentrated on the pricing and production of commodities. The study focused on SMEs engaged in manufacturing items. Results indicated that SMEs have universally adopted low-cost leadership practices and have decreased expenses. The foregoing study examined banks' performance on profitability, asset growth, loan growth, and product per customer ratio, as the banking business provides goods and services. The current study revealed that banks utilised resource sharing with various groups as a strategy to reduce costs.

Mariga (2020) examined how competitive strategy impacts the performance of commercial banks in Mombasa County, Kenya. Using a descriptive research design, the study targeted 280 staff members and collected primary data through self-administered surveys. Regression analysis revealed that banks gained a competitive advantage by providing equal value to customers and operating more efficiently than their competitors, leading to lower costs. However, the study was limited to efficiency and a single geographic area. In contrast, the current study focused on the performance at the head offices of KCB Bank, Equity Bank, and Cooperative Bank, where strategies are formulated. Findings indicated that economies of scale reduce production costs, enhancing performance. Additionally, capacity utilization was found to improve bank efficiency, resulting in better overall performance.

Gitau (2021) utilised a descriptive design, focusing on a target population of 40 publicly listed commercial banks in Nairobi. The data were analysed utilising descriptive multiple regression analysis to evaluate the multivariate impact of the study's independent variables. The research noted how performance of Nairobi County banks was significantly determined by cost leadership strategy. This study focused on 40 banks in the industry and the findings are too general as it includes even the banks making losses and others that have been acquired by bigger banks. In the current study, the study focus was KCB bank, Equity bank and Cooperative bank with a population of 1,174. In the current study, the findings indicated that bank's cost leadership strategy has resulted in improved performance.

2.2.2 Differentiation Strategy and Performance

The study by Marete (2018) aimed to evaluate the impact of differentiation strategy on the performance of 39 commercial banks in Kenya. Primary data was gathered using a structured questionnaire within a descriptive research design, while secondary data on the dependent variable was collected through a specific template. The findings demonstrated that enhancement in differentiation strategy techniques and appealing products result in a notable increase in performance. The previous study overlooked the growth plan. This study incorporated a growth strategy involving market penetration, expansion, product development, and diversification. Results indicated that banks offered unique products and services at distinct rates, leading to higher ratings and improved performance.

Islami (2020) study based on generic strategies of Porter was done in Kosovo in South East Europe targeting 150 firm managers who were given questionnaire to collect primary data. The study used regression analysis. It was concluded that differentiation strategy showed a positive correlation with performance of firms in Kosovo. In the current study, two generic strategies (cost & differentiation) were considered. The other strategies included were market focus and growth strategies. In the current study, research findings showed that market segmentation increased market coverage and in turn increased performance significantly.

The primary objective of Mariga's (2020) study was to assess the influence of differentiation strategy on the performance of commercial banks in Mombasa County. The study, however, concentrated on differentiation approach. In conclusion, competitive tactics are pertinent to the performance of commercial banks. The current study considered differentiation strategy as one of the strategies alongside cost leadership, market focus and growth strategies. The current findings indicated that banks had effective promotions they offered and these promotion activities increased awareness hence performance.

Bayad (2021) examined how Porter's generic competitive strategies affect competitive advantage using content analysis. A questionnaire was distributed to four banks in Erbil, targeting 210 units. The researcher found out that differentiation strategy had significant effect on competitive advantage. However, the study's problem was competitive advantage. In the current study the problem was performance. The current study findings indicated that accessibility of the banks' products and services all over the country which increased performance significantly.

2.3 Literature Review and Research Gaps

A synthesis of previous literature review and the findings of various authors and researchers indicates that organisations may implement competitive strategies differently based on their size, company nature, and overarching vision. Porter adds that employing many strategies may detract from the organization's concentration hence hindering the establishment of a clear future trajectory suggesting a gap in how existing theories guide strategic focus. Miles (2017) contends that the theory must facilitate the creation of novel insights in the theoretical gap where current theory may not adequately generate new perspectives or ideas.

Gure (2018), focused on price as a measure of performance despite other variables that can be used to show performance in firms revealing a conceptual gap in how performance is defined and measured. The study sought to generate new insight with regards to the service industry as the theory is biased to the goods production industries. Mariga (2020) investigation targeted branches that are aligned to strategies formulated by head office as they only implement these strategies. Wanjiku (2021) focused on MFIs and did not incorporate growth strategy as a variable. The study used different theories demonstrating the contextual gap on the variables employed in the study.

Gitau (2021) study was done in all banks including the ones that have collapsed and merged. The results are broad and general as different banks have different capabilities. Not all banks are in the industry have the same infrastructure and capabilities as insinuated in the findings. Mariga (2020) study was conducted in in Mombasa representing an empirical gap and lacks a wider data set that could make the findings more generalisable.

METHODOLOGY

In the current study descriptive research design was used. The target population were 3 commercial banks and 1194 respondents. Stratified sampling technique was used to select a sample size of 291. Closed and open questionnaire was used to collect data. Quantitative data analysed using descriptive and inferential statistics while qualitative data was analysed using content analysis and discussed in a narrative form. Content validity, construct validity, and criterion validity were considered. Content validity was determined by experts. For construct validity the researchers ensured that the key variables aligned with existing theory and discussed in the context of existing literature. Criterion validity was used to assess the extent to which the instrument could predict external criterion. In the current study reliability coefficient was of 0.9 which was considered acceptable as the threshold was 0.6. This shows that the research instrument that was used was. The researcher obtained permission from the management of commercial banks and approval from the National Commission for Science Technology and Innovation in Kenya.

RESULTS

Response Rate

Two hundred ninety-one (291) questionnaires were distributed to randomly selected staff in decision-making departments at the bank's main office, of which two hundred thirty-two (232) were returned, yielding a response rate of 79.7%. Fifty-nine (59) questionnaires were not submitted, indicating a non-response rate of 20.3%. A response rate of 50% is deemed adequate for analysis and publication, 60% is regarded as good, and 70% is classified as excellent (Mugenda, 2008).

Table 4. 1 Response Rate

	Frequency	Percentage
Questionnaires returned	232	79.7%
Questionnaires not returned	59	20.3%
Total	291	100%

Source: Research data, (2023)

Table 4. 2 Reliability Results

Constructs	Cronbach's Alpha	Comments
Performance	.965	Accepted
Cost leadership strategy	.960	Accepted
Market focus strategy	.957	Accepted
Differentiation strategy	.957	Accepted
Growth strategy	.959	Accepted

Source: Research data, (2023)

The strategies of leadership, differentiation, growth, and market focus all exhibited internal consistency, as per Cronbach's Alpha coefficients. The fact that every indication exceeded the predetermined acceptance threshold suggests that research was reliable.

Table 4.3: Cost Leadership Strategy and Performance of Selected Commercial Banks in Nairobi City County, Kenya.

Cost Leadership Strategies			
	N	Mean	Std. Deviation
Economies of scale have reduced production costs.	232	4.03	1.060
The bank is at capacity in utilizing available resources.	232	3.89	.912
Capacity utilization improves efficiency.	232	4.42	.899
The bank encompasses resource sharing with different functional groups.	232	4.24	.908
The bank has strong interrelationship with its suppliers.	232	4.38	.895
The bank's cost leadership strategy has resulted in improved performance.	232	4.50	.930
Aggregate		25.46	5.604

Source: Research data, (2023)

Economies of scale have reduced production costs as per the mean of 4.03 which in turn didn't vary much (standard deviation of 1.06). Banks were at capacity in utilizing available resources, (mean of 3.80) though variation was low (standard deviation of 0.912). Capacity utilization improved efficiency (mean =4.42, SD= 0.899) which indicates low variation in efficiency. Banks encompass resource sharing with different functional groups with a mean score of 4.24, standard deviation of 0.908 hence implying a low variation. Banks had strong interrelationship with suppliers (mean of 4.38) and a standard deviation of 0.895 showing that variation was low. Banks' cost leadership strategy resulted in improved performance, mean of 4.50 but a low variation in improvement of performance due to a standard deviation of 0.930. An aggregate mean of 25.46 showed that the selected commercial banks adopted cost leadership strategy though a standard deviation of 0.934 showed there was minimal achievement in performance. The findings in the current study collates with Taouab and Issor's (2019) study findings that for a firm to remain competitive, adoption of cost leadership strategy will achieve greater performance.

The researcher used an open ended question to get further insight on the matter and also to confirm if the respondents are in context. The response has been highlighted in the table 4.4 below.

Qualitative data on cost leadership strategy

The question was; "In your opinion, how has the bank's cost leadership strategy impacted in its competitive position and overall performance in the market?"

Table 4.4 Qualitative data on cost leadership strategy.

		Frequency	Percent
Valid	Affordable charges	13	5.6
	Cost reduction	135	58.2
	Increased customers	7	3.0
	Increased profitability	55	23.7
	Null	21	9.1
	Poor	1	.4
	Total	232	100.0

Source: Research Data (2023)

The revelation demonstrate that 5.6% of the respondents attributed affordable charges to cost leadership strategy and 58.2% confirmed that there was cost reduction due to cost leadership which eventually translated to profitability, 3.0% indicated that increased number of customers have led to profitability while 23.7% indicated that cost leadership strategy has led to increase in profitability. About 9% (21 respondents) offered different responses which confirmed that cost leadership strategies greatly contributed to increased performance while one respondent (0.4%) disagreed to the statement.

The current study results are similar to argument by Porter (2012) who advised organizations to use cost leadership strategy for purposes of enhancing their performance. The study collates with Mulu‘s (2019) study findings that cost leadership affects performance of commercial banks in Kenya

Differentiation Strategy and performance of selected commercial banks in Nairobi city county, Kenya

The second objective of the study was to assess the degree of consensus or dissent regarding the impact of differentiation strategy on the performance of chosen commercial banks in Nairobi City County, Kenya. The responses were evaluated using a Likert Scale of 1-5, where: 1 - Strongly Disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly Agree. The findings are displayed in Table 4.5.

Table 4.5. Differentiation strategy on the Performance of Selected Commercial Banks in Kenya

Differentiation strategy			
	N	Mean	Std. Deviation
The bank offers effective promotion.	232	4.21	.999
Product promotion increase product awareness	231	4.51	.894
The bank has a significant number of branches in different locations	232	4.03	.837
The bank’s product and services can be accessed all over the country.	232	3.94	.893
The bank's prices are competitive in the market	232	4.06	.817
The bank offers unique prices for its products and services.	232	3.83	.869
The bank’s products have high customer ratings.	232	4.08	.957
The bank offers unique products and services.	232	3.76	.868
The implementation of the product differentiation strategy improves performance.	232	4.44	.970
Aggregate		36.9	8.1

Source: Research data (2023)

Banks excel in effective promotion, with a mean score of 4.21 and a low variation (standard deviation of 0.999). Product promotions significantly boost awareness, reflected by a mean of 4.51 and a standard deviation of 0.894, indicating consistency. The presence of numerous branches across various locations is notable, with a mean of 4.03 and a standard deviation of 0.837, showing minimal variation. Accessibility of products and services nationwide is high, with a mean of 3.94 and a standard deviation of 0.893, indicating uniformity. Lastly, banks maintain competitive pricing, evidenced by a mean of 4.06 and a low variation (standard deviation of 0.817).

Banks provide unique product pricing, with a mean score of 3.83 and a low variation (standard deviation of

0.869). Customer ratings for these products are high, averaging 4.08, with a standard deviation of 0.957, indicating consistency. The uniqueness of the products is supported by a mean of 3.76 and a standard deviation of 0.868, showing minimal variation. Implementing a product differentiation strategy enhances performance, as evidenced by a mean of 4.44 and a low variation (standard deviation of 0.970).

The general mean of 4.10 and an aggregate standard deviation of 0.900 showed that selected commercial banks adopted differentiation strategy to achieve higher levels of performance though didn't vary much. The current study findings support Gure's (2018) study recommendation that differentiation strategy can be used to enhance performance. The result support the findings by Deya (2021) who reported that telecommunication companies preferred product differentiation strategies

The researcher also used an open-ended question to get further insights on differentiation strategy and performance. The findings have been highlighted in table 4.6 below.

Qualitative data on differentiation strategy

The question was "From your perspective, what are the key advantages or benefits that your bank differentiated products and services offer compared to our competitors"?

Table 4.6 Qualitative data on differentiation strategy and Performance of Selected Commercial Banks in Nairobi City County, Kenya.

		Frequency	Percent
Valid	Accessibility	5	2.2
	Affordable rates	5	2.2
	Brand Loyalty	97	41.8
	Customer service	32	13.8
	Market adaptability	7	3
	Null	34	14.7
	Unique catalogue	52	22.4
	Total	232	100

Source: Research Data (2023)

In Table 4.6, about 5, (2.2%) indicated that the key advantage of differentiated products was accessibility while the same percentage of respondents attributed that it assisted in affordable rates. Approximately 41% (97) of the respondents indicated that differentiated products create brand loyalty, and 13.8% appreciated customer service as a key benefit to the customers. Seven respondents (3%) attributed the benefits to market adaptability while 34 (14.7%) plainly hinted that it was just advantageous. Approximately 22.4% of the respondents mentioned different individual benefits to be unique catalogue. The study findings support Wang, Yasmin and Ahmed's (2020) study outcome which indicated that differentiation through high service quality significantly enhances customer satisfaction and loyalty, which in turn builds strong service brand equity.

Growth Strategy and performance of selected commercial banks in Nairobi city county, Kenya

The objective was to find out the influence of growth strategy on the performance of selected commercial banks in Nairobi city county, Kenya. The responses have been indicated in table 4.9 below.

Performance of selected commercial banks in Nairobi city county, Kenya

Respondents were asked to indicate the level of agreement/disagreement on a scale of 1-5 where 1 - Strongly disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly agree. The summary has been presented as in the table 4.11 below.

Table 4.11 Performance of selected commercial banks in Kenya.

Performance			
	N	Mean	Std. Deviation
The organisation's market share has expanded over time.	232	4.24	.944
The organisation's net profit margin has increased over time.	232	4.22	.959
The bank's total assets have increased over time.	232	4.32	.869
The bank has improved its loan book value over time	232	4.28	.879
The bank offers a wide variety of products to customers	232	4.39	.881
Aggregate		21.45	4.532

Source: Research data (2023)

The organization's market share has grown over time, with a mean of 4.24 and a low variation (standard deviation of 0.944). Banks' net profit margins have also increased, reflected by a mean of 4.22 and a standard deviation of 0.959, indicating consistency. The asset base has expanded, shown by a mean of 4.32 and a standard deviation of 0.869. Loan book values have improved, with a mean of 4.28 and a low variation (standard deviation of 0.879). Banks offer a diverse range of products, evidenced by a mean of 4.39 and a standard deviation of 0.881. These findings align with Kamau (2019), who highlighted that superior skills, positioning, and resources significantly contribute to competitive advantage.

The researcher used open ended question to gather more insights from the respondents on this topic and the results are as displayed in the table 4.12

Qualitative data on Performance

The question was "From your perspective, how would you assess and evaluate the bank's overall performance in terms of achieving its competitive strategy objectives?"

Table 4.12 Qualitative data on performance of selected commercial banks in Nairobi city county, Kenya

		Frequency	Percent
Valid	Excellent	8	3.4
	Fair	2	.9
	Good	174	75.0
	Null	7	3.0
	Very Good	41	17.7
	Total	232	100.0

Source: Research data (2023)

Respondents were asked about the banks overall performance in terms of achieving its objectives and 75% of the respondents admitted that the performance was good, 17% indicated that performance was very good while 3.4% mentioned that performance was excellent. Approximately 3% of the respondents pointed out the banks performance was okay while 0.9% stated that the performance was fair.

Regression Analysis

This study concentrated on essential variables like Cost Leadership Strategy, Market Focus Strategy, Differentiation Strategy, and Growth Strategy, aimed to uncover the nuanced relationships shaping overall bank performance. This statistical approach allowed for a precise examination of the individual and collective impacts of these strategies. By leveraging the capabilities of SPSS, the researcher ensured a rigorous and systematic analysis, laying the groundwork for insightful conclusions that contribute to a deeper understanding of the dynamics within the Kenyan banking industry.

Table 4.13: Analysis of Coefficient of Determination using SPPS version 20

Mode1	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874[a]	.763	.759	.40354

Predictors: (Constant), Cost leadership strategy, market focus strategy, differentiation strategy and growth strategy

Dependent Variable: Performance

Source: Research data, (2023)

The adjusted R2 was used to establish the predictive power of the study model and it was found to be 0.763 implying that 76% of the variations in performance of user selected commercial banks in Kenya are explained by Cost leadership strategy, market focus strategy, differentiation strategy and growth strategy and 24% are determined by other factors which were not considered in the current study.The study aligns with Islami's (2020) findings, which concluded that to attain objectives such as profit maximisation, cost offsetting, business sustainability, and competitive advantage, commercial banks must implement competitive strategies to thrive in a dynamic business environment.

Table 4. 14: Analysis of Variance on Competitive Strategy using SPSS. Version 20

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	119.169	4	29.792	182.950	.000[b]
1	Residual	36.966	227	.163		
	Total	156.135	231			

a. Dependent Variable: Performance

b. Predictors: (Constant), cost leadership strategy, market focus strategy, differentiation strategy and growth strategy.

Source: Research data (2023)

The total variability is 119.169 with 4 predictors and the F statistic being 182.950. The F statistic being associated with the p- value (usually < 0.05) , a low p- value indicates that the overall model is significant and the model has a p- value of very close to zero (".000b") The overall model is statistically significant ($p < 0.05$) because the p-value associated with the F-statistic is very close to zero (".000b"). The predictors (cost leadership, differentiation, market focus, and growth strategies) collectively contribute significantly to the prediction in performance.

Table 4.15: Coefficients of regression equation

Mode1		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	0.181	0.154		1.172	0.242
	cost leadership	0.168	0.077	0.165	2.187	0.03
	market focus	0.293	0.085	0.281	3.434	0.001
	differentiation	0.276	0.092	0.253	2.987	0.003
	Dependent Variable: Performance					

Source: Research (2023)

Considering all criteria held constant at zero, the performance of the selected commercial banks in Kenya was 0.181.Maintaining all variables constant, a unit increase in cost leadership strategy results in a 0.168 unit gain in performance, whereas a unit increase in market focus strategy yields a 0.293 unit increase in the performance of the selected commercial banks in Kenya. When all factors are held constant, a unit increase in differentiation strategy results in a 0.276 unit gain in performance, but a unit change in growth strategy leads to a 0.217 unit rise in the performance of commercial banks in Kenya. The most significant variable was the market focus strategy, followed by the differentiation strategy, growth strategy, and cost leadership strategy, in that sequence. The market focus strategy was the most significant due to its p-value of 0.001.The Cost Leadership Strategy significantly influenced Performance (P=0.03, <0.05). The market focus strategy significantly impacted performance (p=0.001, <0.05). The differentiation strategy influenced performance. The p-value was 0.003, which is less than 0.05, indicating statistical significance. The growth plan had a p-value of 0.005, which is less than 0.05, indicating a statistically significant effect.

The established optimal model for the study was:

Linear Equation: Performance=.181+(0.168*1)+(.293*2)+(.276*3)+(.217*4)= 2.631

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

This study aimed to analyse competitive strategies and performance of specific commercial banks in Nairobi City County, Kenya. This study established that competitive strategies utilised influence the performance of commercial banks in Kenya. The study determined that the primary strategies influencing commercial bank performance included cost leadership, market focus, differentiation, and expansion strategies, all of which significantly impacted bank performance.

Cost leadership strategy and performance

The research findings indicate that sustaining a low cost base is the principal factor in the cost leadership strategy hence a firm must possess a substantial market share to achieve favourable economies of scale; nevertheless, this strategy is associated with a drawback of diminished consumer loyalty. Any alternative low-cost manufacturer in the market observes clients transitioning to the more affordable provider. Consequently, sustaining a minimal cost structure is an essential and critical objective. The data demonstrates a statistically significant impact of Cost Leadership Strategy on performance. The evidence suggests that the implementation of cost-effective measures positively influences overall performance in the commercial banking sector in Kenya.

Differentiation strategy and performance

The study establishes a statistically significant association between Differentiation Strategy and bank performance. This implies that commercial banks in Kenya, by adopting distinctive strategies to set themselves apart, can experience positive effects on their overall performance. From the research findings, differentiation strategy is a key ingredient to performance. A successful differentiated strategy creates product that is not easy to imitate with high customer ratings gaining competitive advantage. The product must also be easily accessible to the intended consumer with intensive product awareness drives. The downside of this strategy is that it may attract competitors in the market segment who may copy the differentiated product. The findings highlights that a successful differentiation strategy is crucial to achieving enhanced performance. Such a strategy involves creating products that are not easy to imitate and are highly rated by customers, thereby gaining a competitive advantage and improved performance.

Conclusion

The research findings indicate that through cost leadership, a corporation that considers economies of scale, capacity utilisation, resource sharing among functional areas, and maintains robust relationships with its suppliers is likely to achieve significant cost reductions, ultimately resulting in increased profits.

The research concluded that market focus strategy have a statistically significant influence of performance of selected commercial banks. The company focuses and serves several market segments, the banks evaluates for a sustainable segment before its chosen, the banks ensure the products offered meet the needs of the targeted segments, the banks try to deter competition by guarding their market segment and the initial capital costs for setting up banks in the region has made it expensive for new entrants in the market. These factors have assisted the banks in the implementation of the market focus strategy

The research finds that the differentiation strategy employed by the selected commercial banks in Kenya greatly enhances their performance. Product awareness, promotions, having a significant number of branches to increase accessibility, offering products that are of high quality leading to increased high ratings and offering exclusive products with unique prices have really assisted in gaining competitive advantage over other institutions.

From the study results, the management of commercial banks should prioritise cost reduction methods. Reduced costs will enable commercial banks to offer relatively standardised products with characteristics appealing to a broad client base at the lowest competitive pricing, thereby securing a competitive edge and enhancing market share. Decision makers should be urged to meticulously evaluate the cost efficiency of commercial banks' activities. Preserving a low cost structure will be the principal factor in the cost leadership approach.

The differentiation strategy is strongly advised due to the abundance of substitute products in the market. This implies that commercial banks provide services and products that distinguish them from their competitors. Commercial banking institutions have endeavoured to maintain core deposits, recognising that deposit growth correlates directly with client satisfaction. To achieve success, commercial banks should contemplate distinguishing their goods for customers. This would result in the withdrawal of significant deposit sums.

Recommendation for Further Research

Additional research is necessary to enhance the understanding of competitive strategies based on the findings of this study. The researcher advocates for an investigation into the effects of competitive strategies and their implementation on performance, as well as the obstacles encountered by commercial banks in Kenya in their operations.

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Appendices

Questionnaire

Dear Participant

I ‘am an independent researcher undertaking a research project to determine the effects of competitive strategies on the performance of banking organizations in Kenya. To this end I kindly request that you complete the following short questionnaire regarding your views on the subject. It should take not longer than 10 minutes of your time. Your response is of the utmost importance to the researcher. Please do not enter your name or contact details on the questionnaire. It remains anonymous. Kindly return the completed questionnaire to the researcher. Summary results of this research will be used for academic purposes only.

Should you have any queries or comments regarding this survey, you are welcome to contact.

The researcher on 0721-998882 or e-mail at vincentogal1@gmail.com.

Yours sincerely,

Researcher.