EFFECT OF COMPETITIVE STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

During the past few years, players in the banking sector have experienced increased competition due to increased innovation among the existing players and new entrants into the market. The sector is also contending with new regulations and challenges triggered by the global financial crisis as well as government regulations. There was hence a need to establish the effect of competitive strategies on performance of commercial banks in Kenya. The specific study objectives were differentiation strategy, diversification strategy, repositioning strategy and focus strategy. The study was hinged on the Porter’s Competitive Advantage theory, the dynamic capability Theory, Resource Based Theory and the Market Power Theory. The study adopted a descriptive study design. The target population comprised all the 39 commercial banks operating in Kenya at the time of the study. A census was conducted. The study respondents were the 78 top management employees from the strategic unit. A structured questionnaire was used to collect quantitative primary data. The data was analyzed through descriptive statistics and inferential statistics. Mean, frequencies and percentages comprised the descriptive statistics while correlation and regression analysis comprised the inferential analysis. The study findings were presented through tables and figures. The study findings revealed that competitive strategies, that is, repositioning, focus, diversification and differentiation have a positive effect on performance of commercial banks. However, the effect of diversification strategies is not significant. The study recommends that in order for commercial banks to enhance their performance, there is a need to consider improving their differentiation strategy practices such as developing a unique brand image valued by customers, offering distinguished and attractive services than other competitors, providing a wide range of products than competitors and offering distinguished and attractive products. The study also recommends that there is a need for financial institutions to focus on improving their repositioning strategies in order to improve their performance significantly.

Key Words: Differentiation strategy, Diversification strategy, Repositioning strategy, Focus strategy, Competitive strategies, Competitive advantage
Introduction

Porter (2008) contended that higher performance can be attained in a competitive industry through the pursuit of a generic strategy, which include development of an overall cost leadership strategy, differentiation strategy, or focus or niche strategy to industry competition. The above strategies if pursued results in performance of an organization. According to Thompson and Strickland (2010), a company is competitive if it has an edge over the rivals in safeguarding the consumers and countering competitive pressure.

If an organization generates enough returns or as much as what is being generated by the industry, that organization is in competitive parity to the industry. If an organization is making losses, it will find the shareholders withdrawing the capital and that organization will find it hard to survive. The ability for a company to constantly make profit is key to its survival (Thompson & Strickland, 2010).

There are 39 operational commercial banks in Kenya. These banks have realized that increased competition in this industry dictates the development of strategies to compete so as to enhance performance. The strategies developed will also lead to the bank survivals. Banks without clear strategies will find it hard to survive in this market. The banking environment in Kenya has drastically changed due to government regulations and stiff competition. According to Dulo (2006), each bank should know how to venture into the market and thereafter form, guard and uphold its competitiveness. This study sought to establish the competitive strategies adopted by commercial banks in Kenya in order to enhance their performance.

Statement of the Problem

Globally, the banking sector has grown as a knowledge sector becoming dynamic and attempting to cope with the competitiveness due to globalization of economies (Mavridis, 2004). Gathungu and Mwangi (2012) argued that globalization has accelerated change in innovation-based industries such as banking, finance and information industries. During the past few years, players in this sector have experienced increased competition due to increased innovation among the existing players and new entrants into the market. The sector is also contending with new regulations and challenges triggered by the global financial crisis as well as government regulations (Nyangosi, 2011). Advances in technology, increasingly informed customers, information overload, new regulatory requirements and liberalization of the world economy have created a common playing ground for all organizations making it more difficult for any organization to gain sustainable competitive advantage (De Groote, 2011). Reacting to these changes, some studies (Ganguly, Nilchiani, & Farr, 2009; Overby, Haradwaj, & Sambamurthy, 2006) have suggested that there is a need for advanced competitive strategies.

The year 2010 is the only year that PBT increased by around 52%. This trend is not impressive given that a lot of reforms have been done to enhance performance of the banking sector. (Onuonga, 2014). These statistics are further supported by a survey conducted by the Central bank of kenya which indicated that the Kenyan Banking Sector recorded an increase in gross loans in the year 2016 by 1.80% from kshs. 2.22 trillion to Kshs. 2.27 trillion (CBK 2016). In order to survive, functional competitive strategies are required. With a demonstration of three commercial banks collapsing in the last five years, that is Chase bank, Dubai bank and Imperial banks (Central Bank of Kenya Report, 2015), there is perhaps a need to reevaluate how to compete and gain competitive advantage in this sector. Within the context of current developments and with an increased breadth and depth of competition, the task of identifying the unique
characteristics that will enable any bank outperform its peers is becoming more challenging (Yaghoubi, Kord & Azadikhah, 2011) and to this end, this study was timely in evaluating some of the competitive strategies commercial banks in Kenya have adopted against their effect on performance.

The study also aimed to fill conceptual knowledge gaps in the previous studies which focused on different. Most of the studies have focused on specific competitive strategies and not a combination of various strategies such as Ansoff's growth strategies and generic strategies such as Muchira (2013) focused on strategy implementation; Enrico & Hien (2011) focused on diversification strategies and Onguko and Ragui (2014) focused on strategic positioning while Mutuma (2013) focused on expansion strategies. This study therefore sought to fill these conceptual knowledge gaps.

Objectives of the study

i. To assess the effect of differentiation Strategies on performance of commercial banks in Kenya
ii. To establish the effect of diversification Strategies on performance of commercial banks in Kenya
iii. To determine the effect of repositioning Strategies on performance of commercial banks in Kenya
iv. To find out the effect of focus strategies on performance of commercial banks in Kenya

Literature Review

Theoretical Framework

Porter’s Competitive Advantage Theory

The dominant paradigm in strategy at least during the 1980s was the competitive forces approach. Pioneered by Porter (1980), the competitive forces approach views the essence of competitive strategy formulation as ‘relating a company to its environment. The key aspect of the firm’s environment is the industry or industries in which it competes. Competitive advantage is obtained when an organization develops or acquires a set of attributes (or executes actions) that allow it to outperform its competitors (Porter, 2008). The development of theories that help explain competitive advantage has occupied the attention of the management community for the better part of half a century. The pursuit of competitive advantage is arguably the central theme of the academic field of strategic management (Furrer, Thomas & Goussevskaia, 2008). Armstrong and Taylor (2014) define strategic management as, ‘the set of decisions and actions resulting in formulation and implementation of strategies designed to achieve the objectives of an organization. Clear Organisation focus is concerned with defining organizational performance, variables of strategic choice and competitive advantage.

Organisation focus determines the market in which to participate and where to position the organization within those markets (concepts which, as we will see in the next section, are closely aligned with the market-based view of strategy) (Weerawardena & O'Cass, 2004). The theory is relevant to the study as it links to the independent variable of the study which is competitive strategies. Porter’s work on business strategy identified three generic strategies which include cost leadership; product differentiation and focus, each of which have different implications on performance of a firm. This theory hinges on the variables that is product differentiation and focus strategy.
The dynamic capability Theory

The dynamic capability theory proposed by Teece et al. (1997) suggests that the success of a firm relies on its ability to integrate, build, and reconfigure internal and external competencies to achieve new forms of competitive advantage. Scholars further proposed that the view of a hierarchy of capabilities and the view of capability embeddedness could constitute the basic views of the dynamic capability perspective.

The dynamic capability theory explains how competitive advantage is attained by a firm. Teece et al., (1997) contend that prosperous companies exhibit timely receptiveness to changes in the market. The theory states that successful firms respond timely to the dynamic environment and product invention resulting in competitiveness. Furthermore, successful companies are able to efficiently organize and redistribute internal and external capabilities. The capacity to attain competitive advantage in this framework is referred to as the Dynamic Capability. The term dynamic according to Teece et al., (1997) means the ability of a firm to redeploy competencies to achieve congruence with dynamic environment; this is very important where market time is crucial and competition nature is hard to describe and analyze”. Capabilities are referred to as “the key role of strategic management in appropriately adapting, integrating and reconfiguring, internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment.

The methodology describes that the way organizations develop firm specific capabilities to respond to changes in the business environment is ultimately linked to the firm’s business processes, market positions, and opportunities. These factors form the foundation for determining DC’s. The theory is relevant to the study in linking competitive strategies to performance of the firm. The theory argues that adoption of competitive strategies to appropriately adapt, integrate and reconfigure, internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment makes it dynamic and enhances performance.

Resource Based Theory

The approach known as Resource-Based (RB), originated from Penrose’s idea (1959) and expounded by Barney (1991) suggested a link between firms’ resources and competitive advantage. He viewed firms in terms of their resources rather than in terms of their product markets and developed economic tools for examining and managing the relationship between firms’ resources and profitability.

The resource based theory (RBV) emphasizes that the resources managed by a firm are the key determinant of its competitiveness and performance. The theory explains that the organizations source of competing with rivals is founded within the company’s ability to manage the internal resources (Das & Teng, 2000). Resource heterogeneity uniqueness is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument is that because some resources can be specific to organizations and are not easily imitated, organizations differ in terms of their resource base. This distinctiveness is essentially what leads to competitive advantage.

These include financial, human, physical, commercial and technological, assets used by firms to develop, produce, and supply products and services to its customers. The theory is relevant to the study in explaining the importance of unique resources of an organization such as competitive strategies that are not imitable. The argument is that because some resources can be specific to organizations and are not easily imitated, organizations differ
in terms of their resource base. This distinctiveness is essentially what leads to competitive advantage. The theory agrees that having competitive strategies that are not imitable by other firms leads to competitive advantage.

**The Market Power Theory**

The theory is mostly applied in banking and it states that the market structure of a banking industry influences individual banks’ performance. According to Tregenna (2009), this theory holds on two major approaches to define market power: Relative Market Power hypothesis (RMP) and Structure-Conduct-Performance (SCP). RMP hypothesis explains that profitability for individual commercial banks is influenced by market share.

The assumption underlying this hypothesis is that, big banks with the capacity to differentiate their products have the ability to influence the industry’s market prices and make more profits as corporates. They do this by exercising their market power that affords them high non-competitive profits. Smaller banks don’t have the ability to influence prices and increase profits (Tregenna, 2009). The SCP approach on the other hand, states that when clients are highly concentrated in a banking market, they create potential market power for the banks and increase bank profitability. Banks that operate in highly concentrated markets will potentially make very high profits. This is because they have the viable option of charging high interest rates through monopolistic or collusive approaches; or lowering their rates charged on bank deposits (Tregenna, 2009).

This theory is relevant to the study as it explains some of the determinants of performance of the commercial banks. The theory argues that profitability of commercial banks is not only established internally but also externally. According to the theory’s RMP hypothesis, performance of individual commercial banks is influenced by the banks’ ability to differentiate their products and have the ability to influence the industry’s market prices and make more profits as corporates. The theory therefore supports the effect of product differentiation strategies on performance of commercial banks in Kenya.
Conceptual Framework

**Differentiation strategy**
- Unique Brand image
- Unique products and services
- Improved / Innovative products

**Diversification Strategy**
- Asset diversification
- Service diversification
- Product diversification

**Repositioning strategy**
- Demographic positioning
- Positioning based on consumer convenience
- Geographical positioning

**Focus Strategy**
- Service to suit unique needs
- Service for particular segments
- Product for particular segments

**Firm performance**
- Profitability
- Return On Assets
- Return on Equity

Independent Variable | Dependent Variable

**Differentiation Strategy**

Product differentiation strategies implies tailored or new monetary services for instance the inclusion of fresh deposit accounts, debit card, credit card, leasing, insurance, hire purchase as well as other monetary services. To respond accordingly to variations in business demand or to better the effectiveness of job, product innovations are introduced. According to Wang, Yeung & Zhang’s (2011), trust has a positive association with innovation. Transparency is brought about by trust between supplier and manufacturer association for joint innovation. High environmental uncertainty strengthens the relationship.

The relationship between the company’s key competencies with the particular product instead of its experience with the exact market section may be a good strategy of creating new markets for the product (Jobber, 2010). Since the firm is continuously encroaching into fresh markets, a creation of a market expansion plan characteristically contains higher threat than a market accessibility policy.

Jobber (2010) further states that market growth can contain acquiring more a chances for utilization abroad. Perreault, Cannon and McCarthy (2011) also posit that companies endeavor to better their transactions by trading present services and products in latest markets. The commercial banks are currently incorporating latest plans in advancement and product expansion. The commercial banks have been in the front position in marshaling investments from the members to provide for their financial demands.
Diversification Strategy

Constable and McCormick (2009) argued that among the managerial possibilities presumed as the explicit contributor to the economic functioning of organizations is the extent of diversification. According to Dibb (2007), diversification of organizations is by the extension of the operations scope into multiple markets and a diversification strategy. In multiple markets, the assumption is that there are some raised benefits that may be attained by diversification through a more competent utilization of organizational resources.

Dibb (2007) indicated that diversification increases profitability although only up to the limit of complexity. Organizations have to learn to acclimatize themselves in changing environment. For organizations to have a competitive advantage against their competitors, it is needful for them to engage proactively in strategies that will enable them to respond to the environmental challenges besides the organization’s achievements and for their continued existence in the markets.

Hitt, Hoskisson and Kim (2011) reveals that diversification in firms which are now involved in products that make use of current internal resources or abilities will gain immensely from economies of scale leading to higher returns. It therefore follows that those commercial banks involved in related diversification are anticipated to benefit from economies of scale that strengthens the competitive advantage resulting in improvement in the performance of commercial banks. Diversified products/markets accords firms the opportunity to retain existing customers as well as attract new customers because they become a one stop shop, thus promoting customer loyalty as well as a favorable customer experience.

Diversification can potentially gain ground in an attractive industry and decrease the overall business portfolio risk. Ireland et al (2013) say that diversification strategies can lead to strategic competitiveness and above average returns. However, according to Wowak and Hambrick (2010), if a firm’s governance mechanism is not strong, the executives may diversify the firm to the point that it fails to earn even average return.

Repositioning Strategy

Repositioning involves processes taken by firms to change their image in the marketplace. It is concerned with challenges facing business, detailing a way of achievement for tackling the issues confronting the firm so as to alter their representation in the marketplace. Repositioning plans are then done according to the organizations’ reconciliation of both the internal and external setting by matching the requirements of the market with the organizations capability to provide them. An example initiating the need for repositioning, as the aforesaid authors present; can be a situation when an existing positioning base is being continually eroded as a market matures and aggressive competitors seek opportunities for profit and growth (Shimp, 2010).

According to Shimp (2010) two critical aspects must be satisfied in order to have a good positioning statement; it should motivate customers into buying a product or procuring a service while substantially reflecting the organization’s distinctive or superiority vis-a-vis that of competitors. Positioning is understood from either product-related or non-product related aspects. Product related focuses on a product’s superiority that consumers will find desirable; such as superior materials design and colour while non-product attributes are those images associated with usage and create an impression of a product.
Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The basis is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly (Shimp, 2010). A focus strategy, whether anchored in a low-cost base or a differentiation base, attempts to attend to the needs of a particular market segment. Likely segments are those that are ignored by market appeals to easily accessible markets, to the ‘typical’ customer, or to customers with common applications for the product. A firm pursuing a focus strategy is willing to service isolated geographic areas; to satisfy the needs of customers with special financing, inventory or servicing problems; or to tailor the product to the somewhat unique demands of the small-to-medium-sized customer. The focusing firms profit from their willingness to serve otherwise ignored or under-appreciated customer segments (Wowak and Hambrick, 2010).

Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist. Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well (Wang, Yeung & Zhang, 2011).

Firms can make use of the focus strategy by focusing on a specific niche in the market and offering specialized products for that niche. Therefore, competitive advantage can be achieved only in the company's target segments by employing the focus strategy. The company can make use of the cost leadership or differentiation approach with regard to the focus strategy. In that, a company using the cost focus approach would aim for a cost advantage in its target segment only (Jobber, 2010).

If a company is using the differentiation focus approach, it would aim for differentiation in its target segment only, and not the overall market. This strategy provides the company the possibility to charge a premium price for superior quality (differentiation focus) or by offering a low price product to a small and specialized group of buyers (Cost leadership focus) (Jobber, 2010).

Organizational Performance

Daft and Marcic (2013) describes organizational performance as an organization’s ability to achieve its goals effectively and efficiently with available resources. Performance is the record of results achieved on a given action during a given period of time (Wang et al, 2011). According to Moruri (2015), there are various ranges of organizational performance from monetary, market as well as shareholder returns. He argues that some of the monetary performance indicators are profits of an organization and the returns on assets, equity as well as investments. Some of the indicators of market performance are changes in sales and the market share while some of the indicators of shareholder return are earnings per share.

Other scholars such as Fahey and King (2010) have argued that the performance of the firm can be captured from the point of efficiency, effectiveness and relevance. Machuki and Aosa (2011) agree that performance refers to the efficiency in which various activities are run in the firm. In terms of effectiveness, it has been referred to as the various unique capabilities which a firm has to enable it achieve results. Marangu (2012)
argues that there has been an increase in complexity of performance in organizations. However, he also states that performance can be measured in terms of financial or non-financial approaches. Financial approaches involve indicators such as profits, liquidity, returns, sales and market share. Non-financial measures of profitability range from customer satisfaction indicators, production efficiency, timely delivery as well as internal and external corporate social responsibility.

Kirkendall (2013) also asserts that there are many other aspects of organizational performance measurement. One of these aspects includes the use of financial measures such as profitability of the organization. Under this measure the outcome to input ratio is determined using ration such as the Return on Assets (ROA). An organization can also use quality in measuring performance. In this case the actual quality and its timeliness are measured against the expected outcome. The level of productivity and innovation of an organization can also be used to measure performance. Innovation measures the ability of the organization to create change whereas productivity focuses on the ratio of output to input (Kirkendall, 2013).

Research Methodology
This study adopted a descriptive survey design concerned with only explaining the facts of a phenomenon. The target population comprised all the 39 commercial banks operating in Kenya at the time of the study. The study adopted a census technique with respect to the unit of analysis which is 39 commercial banks in Kenya. This study made use of both primary and secondary data. Primary data was gathered by use of structured questionnaires and captured through a 5-point likert scale type. Secondary data on the dependent variable was collected through a secondary data collection template. Quantitative data was analyzed using descriptive statistics involving percentages and mean scores. In addition, regression analysis was used to determine relationship between the study's quantifiable variables. Pearson’s Correlation, Analysis of variance (ANOVA) and Multiple Regression Analysis was used to establish the relationships among the study variables. Equation below shows the linear regression model of the independent variables against the dependent variable.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e \]

Where: \( Y \) = Firm Performance, \( X_1 \) = Differentiation strategy, \( X_2 \) = Diversification strategy, \( X_3 \) = Repositioning strategy, \( X_4 \) = Focus Strategy, \( e \) = Error Term, \( \beta_0 \) = the constant term
And \( \beta_i = 1 \ldots 4 \) are the coefficients of the predictor variables

Results
The number of questionnaires that were administered was to 78 top management employees from the corporate banking and finance sections of each commercial bank. However, a total of 52 questionnaires were responded to. This represented an overall successful response rate of 66.7%.
Figure 2 Response Rate

Respondents Demographic Information

Table 1 Respondent Demographic Information

<table>
<thead>
<tr>
<th>Demographic Characteristic</th>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondent’s level of education</td>
<td>Diploma/certificate</td>
<td>0.00%</td>
</tr>
<tr>
<td></td>
<td>Barchelors Degree</td>
<td>54.4%</td>
</tr>
<tr>
<td></td>
<td>Masters and above</td>
<td>45.6%</td>
</tr>
<tr>
<td>Respondent’s work experience</td>
<td>Below 1 year</td>
<td>5.6%</td>
</tr>
<tr>
<td></td>
<td>1 year</td>
<td>7.8%</td>
</tr>
<tr>
<td></td>
<td>2 years</td>
<td>15.6%</td>
</tr>
<tr>
<td></td>
<td>3 years</td>
<td>34.6%</td>
</tr>
<tr>
<td></td>
<td>Above 3 years</td>
<td>36.4%</td>
</tr>
<tr>
<td>Respondent’s age</td>
<td>Less than 30 years</td>
<td>11.5%</td>
</tr>
<tr>
<td></td>
<td>Between 31-40 years</td>
<td>36.1%</td>
</tr>
<tr>
<td></td>
<td>Between 41-50 years</td>
<td>11.5%</td>
</tr>
<tr>
<td></td>
<td>51 years and above</td>
<td>41%</td>
</tr>
</tbody>
</table>

Descriptive results of the study

Differentiation Strategy

The findings reveal that commercial banks in Kenya develop a unique brand image valued by customers, offer distinguished and attractive services than other competitors, wide range of products than competitors and distinguished and attractive products than other competitors to a high extent (mean 4.13, 4.02, 3.66 and 3.75 respectively). It was also established that commercial banks in Kenya aim to continuously improve the services and products in range to a high extent (mean 4.08). However, offering wide range of services than competitors was only practiced to a moderate extent by most commercial banks in Kenya (mean 3.46). On average, differentiation strategy is practiced to a high extent among commercial banks in Kenya (mean 3.85).
Table 2 Descriptive Analysis of Differentiation Strategy

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing a unique brand image valued by customers</td>
<td>4.13</td>
<td>0.98</td>
</tr>
<tr>
<td>Offering distinguished and attractive services than other competitors</td>
<td>4.02</td>
<td>1.02</td>
</tr>
<tr>
<td>Offering wide range of products than competitors</td>
<td>3.66</td>
<td>1.16</td>
</tr>
<tr>
<td>Offering distinguished and attractive products than other competitors</td>
<td>3.75</td>
<td>1.12</td>
</tr>
<tr>
<td>Offering wide range of services than competitors</td>
<td>3.46</td>
<td>1.28</td>
</tr>
<tr>
<td>Continuously improving the services and products in range</td>
<td>4.08</td>
<td>1.01</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.85</strong></td>
<td><strong>1.10</strong></td>
</tr>
</tbody>
</table>

Diversification Strategy

It was established that commercial banks in Kenya have invested in product diversification practices such as banc assurance, asset diversification practices such as bonds and rebranding new products to a moderate extent (mean 2.61, 3.22 and 3.36 respectively). Furthermore, the findings revealed that commercial banks invest in service diversification practices such as agency banking and also in mobile and internet banking (mean 3.68 and 4.58 respectively). On average, commercial banks in Kenya practice diversification strategy to a high extent (mean 3.51).

Table 3 Descriptive Analysis of Diversification Strategy

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in product diversification practices such as banc assurance</td>
<td>2.61</td>
<td>1.38</td>
</tr>
<tr>
<td>Investment in service diversification practices such as agency banking</td>
<td>3.68</td>
<td>0.85</td>
</tr>
<tr>
<td>Investment in asset diversification practices such as bonds</td>
<td>3.22</td>
<td>1.36</td>
</tr>
<tr>
<td>Investment in market diversification practices such as rebranding new products</td>
<td>3.36</td>
<td>1.22</td>
</tr>
<tr>
<td>Investment in service diversification practices such as mobile and internet banking</td>
<td>4.58</td>
<td>0.76</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.51</strong></td>
<td><strong>1.11</strong></td>
</tr>
</tbody>
</table>
Repositioning Strategy

The findings revealed a high extent of practicing demographic positioning based on occupation of consumers, positioning based on consumer convenience and consumer demand for the service as well as geographical positioning to target unbanked areas (mean 3.82, 4.17, 3.90 and 3.72 respectively). It was however revealed that demographic positioning based on the population of the area was adopted to a moderate extent by the commercial banks in Kenya (mean 3.10). Overall, adoption of repositioning strategies among commercial banks has been done to a high extent (mean 3.74).

Table 4 Descriptive Analysis of Repositioning Strategy

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practicing demographic positioning based on the population of the area</td>
<td>3.10</td>
<td>1.43</td>
</tr>
<tr>
<td>Practicing demographic positioning based on occupation of consumers</td>
<td>3.82</td>
<td>1.04</td>
</tr>
<tr>
<td>Positioning based on consumer convenience</td>
<td>4.17</td>
<td>0.95</td>
</tr>
<tr>
<td>Positioning based on consumer demand for the service</td>
<td>3.90</td>
<td>0.89</td>
</tr>
<tr>
<td>Geographical positioning to target unbanked areas</td>
<td>3.72</td>
<td>1.12</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.74</strong></td>
<td>1.08</td>
</tr>
</tbody>
</table>

Focus Strategy

It was established that some of the focus practices that have been adopted to a high extent among commercial banks in Kenya is offering services to suite unique specific needs of customers more than competitors, developing unique low cost services for a particular segment, targeting a specific market segment as well as developing unique low cost products for a particular segment (mean 3.84, 4.38, 3.69 and 3.72 respectively). It was also shown that the focus practice of offering products to suite unique specific needs of customers more than competitors was only practiced to a moderate extent (mean 3.40). Generally, there was indication that focus strategy has been implemented among commercial banks in Kenya to a high extent (mean 3.81).
The findings of the study indicated that differentiation strategy positively and significantly affect performance of commercial banks in Kenya (R = 0.342, p value = 0.000). These findings imply that an improvement in differentiation strategy practices such as developing a unique brand image valued by customers, offering distinguished and attractive services than other competitors, providing a wide range of products than competitors and offering distinguished and attractive products leads to a significant improvement in performance of commercial banks in Kenya. It was also established that repositioning strategy positively and significantly affect performance of commercial banks in Kenya (R = 0.425, p value = 0.000). The findings imply that an improvement in repositioning strategies such as demographic positioning based on occupation of consumers, positioning based on consumer convenience, consumer demand for the service as well as geographical positioning and also demographic positioning based on the population of the area leads to a significant improvement in performance of commercial bank in Kenya.

Moreover, study findings revealed that focus strategy positively and significantly affect performance of commercial banks in Kenya (R= 0.364, p value = 0.000). The findings imply that an improvement in focus practices such as offering services to suite unique specific needs of customers more than competitors, developing unique low cost services for a particular segment, targeting a specific market segment, developing unique low cost products for a particular segment as well as offering products to suite unique specific needs of customers leads to a significant improvement in performance of commercial banks in Kenya. Finally, correlation findings revealed that diversification strategy positively but not significantly affect performance of commercial banks in Kenya (R = 0.172, p value = 0.063). The findings imply that an improvement in diversification strategies such investing in product diversification practices such as banc assurance, asset diversification practices such as bonds, rebranding new products, investing service diversification practices such as agency banking as well as mobile and internet banking leads to positive but not significant effect on performance of commercial banks in Kenya. The findings are presented in Table 6.

Table 5 Descriptive Analysis of Focus Strategy

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offering services to suite unique specific needs of customers more than competitors</td>
<td>3.84</td>
<td>1.02</td>
</tr>
<tr>
<td>Offering products to suite unique specific needs of customers more than competitors</td>
<td>3.40</td>
<td>1.21</td>
</tr>
<tr>
<td>Developing unique low cost services for a particular segment</td>
<td>4.38</td>
<td>0.84</td>
</tr>
<tr>
<td>Targeting a specific market segment</td>
<td>3.69</td>
<td>1.12</td>
</tr>
<tr>
<td>Developing unique low cost products for a particular segment</td>
<td>3.72</td>
<td>1.08</td>
</tr>
<tr>
<td>Average</td>
<td>3.81</td>
<td>1.05</td>
</tr>
</tbody>
</table>
Table 6 Correlation Analysis

<table>
<thead>
<tr>
<th>Correlations</th>
<th>Differentiation Strategy</th>
<th>Repositioning Strategy</th>
<th>Diversification Strategy</th>
<th>Focus Strategy</th>
<th>Firm Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differentiation Strategy</td>
<td>Pearson Correlation</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repositioning Strategy</td>
<td>Pearson Correlation</td>
<td>.226**</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Diversification Strategy</td>
<td>Pearson Correlation</td>
<td>0.101</td>
<td>.221**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.076</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>Pearson Correlation</td>
<td>.161**</td>
<td>0.058</td>
<td>.198**</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm Performance</td>
<td>Pearson Correlation</td>
<td>.342**</td>
<td>.425**</td>
<td>.172</td>
<td>.364**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>52</td>
<td>52</td>
<td>52</td>
<td>52</td>
<td>52</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
*Correlation is significant at 0.05 level of significance.

Regression Analysis

The findings of the model summary revealed that jointly, competitive strategies, that is, differentiation, diversification, repositioning and focus strategy affect performance of commercial banks positively as shown by a joint R value of 0.775. This is consistent with Yaghoubi, Kord and Azadikhah (2011) who argued that competitive strategies positively affect performance of firms. The findings also presented an R-square value of 0.601 which revealed that competitive strategies, that is, differentiation, diversification, repositioning and focus strategy account for up to 60.1% of the variation in performance of commercial banks in Kenya. This percentage is high; however, the remaining percentage of 39.9% of the variation in performance of commercial banks can be attributed to other factors other than competitive strategies.

Table 7 Model Summary

<table>
<thead>
<tr>
<th>R</th>
<th>R-Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.775</td>
<td>0.601</td>
<td>0.584</td>
<td>0.672829</td>
</tr>
</tbody>
</table>

The study findings reveal that the overall model linking competitive strategies to performance of commercial banks in Kenya was significant. The F statistic for the model was 39.207 which was significant (Sig = 0.000, < 0.05), hence an indication that the model linking competitive strategies to performance was significant.

To corroborate the findings, the study also used the F-distribution table to obtain the F-critical value (F 0.05 (4, 47)) calculated at α = 5%, using denominator degrees of freedom of 47 and numerator degrees of freedom of 4 to obtain a value of 2.401 and compared against the F-calculated value of 39.307.
The rule of the thumb was that if F-calculated is greater than the F-critical, then the model is significant. Since the F-critical value from the F-distribution table was 2.401, which is less than 39.307, it hence confirms that the model was significant.

Table 8 Analysis of Variance (Model Significance)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>62.685</td>
<td>4</td>
<td>15.671</td>
<td>39.207</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>122.71</td>
<td>47</td>
<td>0.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>185.395</td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Dependent Variable: Performance of Commercial Banks
Predictors: (Constant), Differentiation Strategy, Diversification Strategy, Repositioning Strategy, Focus Strategy

The regression results revealed that differentiation strategy positively and significantly affect performance of commercial banks in Kenya ($B = 0.210$, $\text{Sig} = 0.000$, < 0.05). These results imply that a unit increase in differentiation strategy leads to a 0.210 units increase in performance of commercial banks in Kenya. The regression results also revealed that diversification strategy positively but insignificantly affect performance of commercial banks in Kenya ($B = 0.046$, $\text{Sig} = 0.601$, > 0.05). These results imply that a unit increase in diversification strategy leads to a 0.046 units increase in performance of commercial banks in Kenya although the increase is not significant.

The regression results further revealed that repositioning strategy positively and significantly affect performance of commercial banks in Kenya ($B = 0.412$, $\text{Sig} = 0.000$, < 0.05). These results imply that a unit increase in repositioning strategy leads to a 0.412 units increase in performance of commercial banks in Kenya. The regression results finally revealed that focus strategy positively and significantly affect performance of commercial banks in Kenya ($B = 0.380$, $\text{Sig} = 0.000$, < 0.05). These results imply that a unit increase in focus strategy leads to a 0.380 units increase in performance of commercial banks in Kenya.

Table 9 Regression coefficients

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>0.573</td>
<td>0.345</td>
<td></td>
<td>1.662</td>
<td>0.098</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
<td>0.210</td>
<td>0.049</td>
<td>0.209</td>
<td>4.307</td>
<td>0.000</td>
</tr>
<tr>
<td>Repositioning Strategy</td>
<td>0.412</td>
<td>0.057</td>
<td>0.354</td>
<td>7.260</td>
<td>0.000</td>
</tr>
<tr>
<td>Diversification Strategy</td>
<td>0.046</td>
<td>0.087</td>
<td>0.026</td>
<td>0.524</td>
<td>0.601</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>0.380</td>
<td>0.058</td>
<td>0.315</td>
<td>6.510</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Dependent Variable: Performance of commercial banks

The optimal regression model therefore becomes

\[
\text{Performance of commercial banks} = 0.573 + 0.412 \times \text{Repositioning Strategy} + 0.380 \times \text{Focus Strategy} + 0.210 \times \text{Differentiation Strategy}
\]

The model reveals that in order of significance based on the values of the t-statistic, the most significant competitive strategy that should be given priority by commercial banks in Kenya is repositioning strategy, followed by focus strategy then differentiation.
strategy. However, diversification strategy does not significantly affect performance of commercial banks in Kenya.

**Conclusion of the Study**

These findings of the study led to the conclusion that an improvement in differentiation strategy practices such as developing a unique brand image valued by customers, offering distinguished and attractive services than other competitors, providing a wide range of products than competitors and offering distinguished and attractive products leads to a significant improvement in performance of commercial banks in Kenya.

The study also concluded that an improvement in repositioning strategies such as demographic positioning based on occupation of consumers, positioning based on consumer convenience, consumer demand for the service as well as geographical positioning and also demographic positioning based on the population of the area leads to a significant improvement in performance of commercial bank in Kenya.

It was also concluded that an improvement in focus practices such as offering services to suite unique specific needs of customers more than competitors, developing unique low cost services for a particular segment, targeting a specific market segment, developing unique low cost products for a particular segment as well as offering products to suite unique specific needs of customers leads to a significant improvement in performance of commercial banks in Kenya.

The study lastly concluded that an improvement in diversification strategies such investing in product diversification practices such as banc assurance, asset diversification practices such as bonds, rebranding new products, investing service diversification practices such as agency banking as well as mobile and internet banking leads to positive but not significant effect on performance of commercial banks in Kenya.

**Recommendations of the Study**

The study recommends that in order for commercial banks to enhance their performance, there is a need to consider improving their differentiation strategy practices such as developing a unique brand image valued by customers, offering distinguished and attractive services than other competitors, providing a wide range of products than competitors and offering distinguished and attractive products.

The study also recommends that there is a need for financial institutions to focus on improving their repositioning strategies such as demographic positioning based on occupation of consumers, positioning based on consumer convenience, consumer demand for the service as well as geographical positioning and also demographic positioning based on the population of the area in order to improve their performance significantly.

Another recommendation by the study is that, for financial institutions to improve their performance, there is a need to focus more on enhancing their focus practices such as offering services to suite unique specific needs of customers more than competitors, developing unique low cost services for a particular segment, targeting a specific market segment, developing unique low cost products for a particular segment as well as offering products to suite unique specific needs of customers.

The study lastly recommends that there is a need to invest massively and change tact in diversification strategies adopted by the commercial banks and other financial institutions so as to improve their performance. Some of the diversification strategies that need a relook into include investment in product diversification practices such as banc assurance,
asset diversification practices such as bonds, rebranding new products, investing service diversification practices such as agency banking as well as mobile and internet banking.

Acknowledgement

Several people deserve my heartfelt thanks for being so helpful in this work. But foremost I wish to thank the almighty God for good health and the resources to carry out this research work. I also wish to thank the following for their contribution towards the completion of this thesis: My supervisor Dr. Allan Kihara, who was always available for me whenever I needed them. I particularly appreciate his concern and for keeping me on my toes lest I relax and fail to keep to the work plan.

References


