

**INFLUENCE OF COMPETITIVE STRATEGIES ON PERFORMANCE OF  
COMMERCIAL BANKS**

**By**

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AND  
ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR  
THE AWARD OF THE DEGREE OF MASTER OF BUSINESS  
ADMINISTRATION OF JARAMOGI OGINGA ODINGA UNIVERSITY OF  
SCIENCE AND TECHNOLOGY**

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## **DEDICATION**

This scholarly work is dedicated to my family and friends for their tireless effort in encouraging me to pursue my studies.

## **ACKNOWLEDGEMENT**

It behoves me to thank my supervisors Dr. ArvinLucy Onditi and Dr. Michael Nyagol as well as the entire fraternity of Jaramogi Oginga Odinga University of Science and technology who gave me the golden opportunity to do this wonderful project on “Influence of Competitive Strategies on Performance of Commercial Banks in Lodwar, Kenya”. They sufficiently supported me in doing a lot of Research and advanced my knowledge about the commercial banks in Lodwar town and I am grateful to them. Also, I wish to thank the bank branch managers and other bank staff for availing time amidst their tight schedule to participate in filling of questionnaire.

To my daughter Lim, husband Ben, mother Jennifer and dad Kennedy thank you for the love and unconditional support during this academic journey. To all my other family members and friends who supported me, thank you very much.

## **OPERATIONAL DEFINITION OF TERMS**

Strategy:	A Plan or course of action for allocating scarce resources overtime to achieve organization's goals.
Commercial Banks:	A profit-seeking business firm, dealing in money and credit.
Competitive advantage:	According to Thompson et al (2007) competitive advantage is an advantage over rivals gained by offering customers greater value.
Performance:	Neely (2002) believes that performance should consider quantifying the efficiency and effectiveness of actions.
Differentiation strategy:	A business strategy intended to increase the perceived value of a firm products/services compared to competitors' products/services and create a customer preference for the firm's products/services or make it appear distinct.
Government policy:	A set of decisions or instructions by the governing body governments and other political actors to influence, change, or frame a problem or issue that has been recognized.
Cost Leadership	A strategy whereby the firms in this case commercial banks fight their rivals by offering product at lowest market prices.

## ABSTRACT

The volatility nature of the business environment mandates the use of competitive strategies in order to compete. This necessitates the adoption of competitive strategies by financial institutions in order to remain profitable. There are limited studies on the influence of competitive strategies on performance of commercial banks in Kenya. This, as well as other growing banking challenges, has an operational and management impact on the bank's performance. However, there has been limited study on the influence of commercial banks' competitive strategy performance of Banks in Kenya especially in arid and semi-arid areas and, adopting a complete strategic plan remains a pipe dream as long as the driver's strategies at the business level remain unknown to management. The general objective of the research was to establish the influence of competitive strategies on the performance of commercial banks in Lodwar Town. The study was guided by the following specific objectives: to assess the influence of differentiation strategy on performance of banks in Lodwar Town; to establish the influence of cost leadership strategy on banks performance in Lodwar Town and to determine the influence of diversification strategy on performance of commercial banks in Lodwar Town. The following three theories were used to elucidate the link between competitive strategies and performance: Resource-based theory, Porters generic model and Porter's five forces model. The study deployed cross sectional study design. The study was conducted in Lodwar Town, Kenya. The target population was the banking staff of commercial banks in Lodwar, Town. The study employed census method targeting all the 100bank employees comprising (96) operational staff and (4) managers from the four 4 banks for questionnaires and interview schedules respectively. The researcher collected primary data. The data was collected by use of questionnaires and interview schedule. Validity was ascertained with a content validity index of 0.8. The reliability statistics for the alpha coefficient was 0.84 rendering the tool reliable. From the findings, differentiation strategy,  $\beta = 0.457$  and  $p < .05$  has a statistically significant positive effect on the performance of the commercial banks in Lodwar. Cost leadership strategies were also found to have a statistically significant and positive effect,  $\beta = 0.385$ , the  $p < .05$  on the performance of the commercial banks in Lodwar. The study also established that diversification,  $\beta = 0.538$ , the  $p < .05$ , has a statistically significant and positive effect on the performance of the commercial banks in Lodwar. The study concluded that of the three competitive strategies, diversification strategy seems to have the greatest impact followed by differentiation strategy with the least being cost leadership strategy. While recommending for these competitive strategies to be adopted, the study also recommends varying resource allocation where more resources should be allocated to diversification with the least resources being allocated to cost leadership. The study upheld the sentiment of the theories advanced in addition, it will be critical in developing and improving policies for Commercial Banks. Furthermore, the study contributes to the body of knowledge by the supporting the need of adoption of competitive strategies by businesses to improve performance.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

CBK	-Central Bank of Kenya
C.Bs	-Commercial Banks
KCB	-Kenya Commercial Banks
MFIs	-Micro Finance Institutions
GDP	-Gross Domestic Product
JIT	-Just in Time
EU	-European Union
SPSS	-Statistical Package for Social Science
ATM	-Automated Teller Machine
RBV	-Resource Based View
CRBD	-Community Rural Development Bank
LPGC	-Liquefied Petroleum Gas Companies

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Competitive strategy is long term action plan that assists a corporation or a company to sustainably obtain competitive advantage in the industry over the rival firms (Madsen & Walker, 2015). Competitive strategy's purpose is to develop defensive position for a corporation while delivering more money to the organization. As Jayawardhana and Weerawardena (2014) assert, competitive strategy is crucial for aiding a business in predicting. Competitive strategies' framework is tied to the structure of an industry and not the firm's performance (Madsen & Walker, 2015). Banks employ competitive strategies to overcome the obstacles given by the industry's competitive environment. Banks strive for competitive advantage by capitalizing on existing market possibilities. Strategic decisions help institutions to discover market opportunities and seize them in order to achieve a competitive edge in the industry (Barney, 2011). According to Anna and Neil (2017), organizations have a competitive advantage when they have a leg up on their competitors in terms of securing and defending against all competitive pressures in the sector. A sustainable competitive advantage is derived from core capabilities that contribute to the creation of long-term value. Sustaining a competitive edge helps businesses to provide higher-value services and commodities. Competition enables companies to exert a favourable impact on management efforts by affecting the alignment of the manager's and the institution's interests. Kotler (2007) describes strategic management as a collection of managerial decisions that affect a corporation's long-term performance. Competition compels managers to act in the organization's best interests, resulting in enhanced managerial autonomy. The external environment of a business refers to the variables and situations that are beyond the direct control and influence of the firm. The external environment of a business is defined by its complexity and dynamism. Strategic reactions, according to Wheelen and Hunger (2010), are based on the decisions and actions taken by a corporation via the design and implementation of plans targeted at accomplishing the firm's objectives.

In UK, Bank managers in aiming at improving performance increase their market share bearing in mind that the needs of customers will be catered for effectively. When the knowledge on customers and a wide range of product offering are combined. With competitive strategies in place, it is believed that banks would be in the right position to remain competitive in spite of the economic ravages as a result of recession. This is also the reason why certain banks have opted for niche-strategy. It is also not mandatory for banks to fully rely on the existing channels of distribution or the established brand. Finally, alliances, acquisitions and mergers can also be adopted as part of competitive strategy during and after recession (Pablo & Javidan, 2004).

In Ghana, financial sector reforms within the banking industry are required to ensure continuous improvements, efficiency performance, and higher productivity of banks and the banking sector. According to Mathieson and Roldo 2001, and emirguc-Kunt 2004 the International Monetary Fund (IMF) and the World Bank led to the implementation of the Economic Recovery Programme (ERP) with the aim of liberalizing the economy from controls by banks in Ghana in order to increase productivity in the economy, among other measures. These programs and initiatives were designed to liberalize the banking industry and promote competition therein. The banking industry is facing more competition in the newly deregulated market, which is giving some companies a competitive edge.

According to a study by Adib and Habib (2016), bank managers in Uganda have tried to control competition by developing and putting into practice competitive strategies like cost leadership, diversification, and product differentiation. Ekeagbara, Ogunnaike, Olaleke, Ibidunni, and Kehinde (2019) contend that competitive strategies are crucial since they provide businesses an edge over rivals. A business that wants to outperform its rivals and obtain a competitive advantage must implement strong competitive strategies. One of the strategic goals and objectives of the majority of businesses, including commercial banks, is to maximize financial performance. This is largely due to the fact that optimizing financial success requires advancing the interests of all parties involved in the business, including shareholders, employees, suppliers, communities, and governments (Summer & Bayraktar, 2012).



In Tanzania, the banking industry has been identified as gainful on the model of financial intermediation which led to accumulative interest from commercially oriented providers of financial services (Hulme and Arun, 2009). Financial institutions thrive in an environment which powers its operations either positively or negatively subject on the natural surroundings of its business. The environment encompasses of a combination of both intrinsic and extrinsic influences of a company's functioning situation among them being competition being progression of progression of rivalry between firms motivated to gain sales and make profits; it is the energetic force behind markets

In Kenya, the banking business is undergoing dynamic developments, which have resulted in shifts in the competitive environment. Banks have chosen for internal organizational analysis above external environmental analysis in the modern era. While the banking business in Kenya continues to develop, fierce competition and changing customer requirements have necessitated the formulation and implementation of strategies by institutions. The tactics developed attempt to maximize the breakdown of customer service in order to attract and keep clients (Swayne & Duncan & Ginter, 2013). Financial institutions' competitive strategies are determined by management's game plan for competing in the industry and capturing the highest market niche. The strong rivalry in Kenya's banking business provides a sustainability problem, necessitating the adoption of the most competitive methods by financial institutions. Eichegreen and Arteta (2000) suggest that competitive strategies assist enterprises in defining their existing and future operations and identifying new markets to enter.

To be successful in Kenya's financial institutions, industry participants must be highly skilled in order to outperform their competitors in today's dynamic and sometimes risky business conditions (Christopher, 2011). All financial institutions should devise strategies for creating and adding value for their clients, backed up by an internal culture of collaboration and customer orientation, as well as a readiness to learn, adapt, and evolve as necessary. The overall success of the banking sector is a significant element in determining the performance of individual financial institutions. Competitive strategies encompass all actions and techniques used by businesses with the goal of gaining consumers, withstanding pressure, and improving their market position. Collaboration

and long-term partnerships with suppliers, distributors, and customers of essential products and services are regarded optimal for resilience and robustness. Financial institutions' primary competitive tactics are cost leadership, focus, and difference. Cost leadership strategies rely on the institutions' relatively unique skills to acquire and maintain a low-cost position in the sector. Differentiation tactics focuses on creating unique and products of high standard to differentiate them from those of their rivals, giving advance benefits to the customers, offering their products with premium price, and investing more in research and development activities. Also, it is the development of distinct items for certain client segments (Warucu,2004). As a result, differentiation techniques are designed to appeal to clients who have a specific affinity for a certain product trait. Focus strategies entail the use of marketing tactics that direct an institution's efforts toward venturing or developing in a certain market. Typically, focus strategies are used when an institution understands its sector and has items or services that can meet its demands competitively (Swayne & Duncan & Ginter, 2013).

With reference to a study by (Adib& Habib, 2016) which asserts that bank managers manage competition through formulating and implementing competitive strategies such as cost leadership, diversification and product differentiation, this study therefore looked at diversification as business level strategy for introducing a new product or service into supply chain due to its unique customer way of life (Nomadic Group) in order to increase profits. These products could be a new segment of the industry your company already occupies Diversification was therefore tested to check its influence on the performance of the Commercial Banks in Lodwar.

Also, institutions should employ a management strategy that entails factor identification and scanning of both the external and internal surroundings, long-range planning, and execution of strategies that impact a corporate entity's long-term sustainability. This may be accomplished, however, by conducting an effective assessment and management of business operations in light of a firm's strengths and shortcomings. Strategic management offers a future-oriented orientation for businesses, such as diversification of investments and worldwide expansion, as well as incremental modifications to specific goods and services to reach the desired future objectives. The process of arranging and

implementing existing operations in order to achieve stated objectives becomes a big roadblock for many banking executives. Thus, management must comprehend the goods and services offered by banks to their clients and their success in the market in order to determine whether adjustments are necessary to achieve positive improvements. The success of any business is contingent upon the management's ability to articulate its strategies in ways that are viable in terms of resources, skills, capabilities, and attractiveness to their internal and external stakeholders (Dixit and Nalebuff, 2010). However, if competing strategies do not align with stakeholder expectations, anticipated improvements will remain unsuccessful.

Porter (2004) asserts that competitive strategy is a business phenomenon that encompasses both demand and supply. The banking sector has undergone numerous changes over the years, most notably from being the most regulated, in order to protect customers from economic crises caused by inflation. The competitive strategy phenomena involve differentiation, cost leadership, and diversification strategy. Businesses should seek a competitive advantage in their sector. The banking industry's competitive climate is occasionally impacted by financial crises such as inflation, which can progressively result in an unstable banking business. According to Porter (2004), competition was widely regarded as detrimental to the stability of the banking industry, and competition policy was not implemented until recently. Porter (2004) has presented a logical framework for evaluating an industry's attractiveness as a source of competitiveness. There are five competitive forces that have a detrimental effect on a business's profitability: threat of new entrants, rivalry among rival firms, bargaining power of customers and the bargaining power of suppliers

Competitiveness enables institutions to provide good customer service, which results into corporate success as a consequence of a high level of responsiveness to consumer requirements (Alexander and Polland, 2000). Although Kenya is a developing nation, the banking sector is thriving, with various institutions, including Kenya Commercial Bank, Equity Bank, Cooperative Bank, and National Bank, having branches throughout the country. According to Kiptugen (2003), enterprises may be considered as a collection of resources that provide a competitive edge over competitors. The resource-based theory of

strategy delves further into the disparities in internal industry performance by examining business-specific resources, physical and intangible assets such as competencies and talents. Economic ties often have an effect on the strategies developed by a business, the structure of the firm, and the future success of the business. However, corporate authorities in the industry have favoured mild competitiveness in such a tight market. Competition's importance in effectively enhancing services and sector deregulation result in the introduction of revolutionary changes in all areas of activity, including productive, inventive, and resource-allocation activities.

According to Meyer (2009), international competition is beneficial because it stimulates rivalry in local banking markets, compelling domestic banks to enhance their operational efficiency. Banks may adapt to market dynamics by comprehending constantly changing client requirements while also evaluating the future of any other elements that may impact the future. To properly assess market potential in the banking sector, organizations need collect significant data and study the industry's external, internal, and other systems. The purpose of data collection and assessment is to enable businesses to make educated decisions that enable them to pursue the most competitive strategies possible (Porter, 1980). The business strategic management process is an ongoing process that advises management about the best decisions to make and their capacity to capitalize on any opportunity that arises in the industry. As a result, the bank's progressive measures should be aligned with its long-term objectives, informing management of the gaps, opportunities, weaknesses, strengths, and risks to the business's sustainability. The ability of a business to respond to market demands is contingent upon its resources and management's capacity to translate and modify them to suit current market demands.

According to Kiptugen (2003), business trends include privatization, regulation and supervision, demographic issues, and technology innovation. Privatization of firms is contingent upon the government's influence waning and competitive ties within the industry deteriorating (White, 1998). Regulation and supervision changes have a variety of effects on an industry. According to White (1998), technology advancements fundamentally affect a business's cost structure, output mix, and distribution channels. Additionally, the researcher thinks that advancements in information technology are the

primary drivers of change in the financial sector. Organizations periodically re-evaluate their tactics in order to remain competitive and accomplish corporate goals and objectives.

Significant changes that have come with the autonomy given to Central Bank of Kenya in management of the country's monetary policy include, a new political dispensation that has increased democratic space and investment, the introduction of the Microfinance and Finance Acts, the global recession, the introduction of agent banking and credit reference bureaus, changes in demographic and social patterns with more women participating in national development, changing attitudes toward regal and increased technological advancement. Additionally, the competitive environment has shifted with the entry of various new companies, including non-financial firms that have been delivering services previously supplied by banks, such as money transfer.

### **1.1.1 Performance of Commercial Banks in Kenya**

Commercial banks in Kenya are registered and regulated under the Banking Act, chapter 488. Kenya now has 42 commercial banks, 32 of which are locally held and 11 of which are internationally owned (Central Bank of Kenya, 2019). Three of the locally held financial institutions have a large government stake. The foreign-owned institutions include seven foreign banks with local incorporation and four branches of foreign banks with foreign incorporation.

The banking industry in Kenya has grown in terms of assets, deposits, profitability, and product offering during the last decade. According to the Central Bank of Kenya (2017), the banking sector's success may be ascribed to the industry-wide expansion of branch networks in Kenya and throughout East Africa. Additionally, the rise has been ascribed to financial service automation and a focus on complicated consumer demands. The banking business in Kenya has a vast history that spans traditional banking traditions, the pre-independence to reformation period, bank nationalization to privatization, and the present expansion of international banks. With the passage of time and growing competition, the banking business in Kenya has risen to new heights (Central Bank of Kenya, 2017).

Although confronted with new types of risk exposures, technological innovation has been at the forefront of these experience changes. With the development of services such as e-banking, mobile banking, e-statements, agency banking, and automated teller machines, technological innovation in the banking business in Kenya has changed banking in Kenya. New technical improvements have resulted in a shift away from banking halls and into rural unbanked or underbanked areas. Commercial banks in Kenya operate in a dynamic business climate as a result of new Central Bank of Kenya rules. In recent years, the banking industry has experienced several significant banks go insolvent due to complex conditions. As a result, this has created a barrier to the business's existence, expansion, and maintenance. Despite this upheaval, Kenya's financial sector has remained resilient. Over the last decade, the Kenyan banking industry has grown at a breakneck pace. As shown by a faster rate of loan development, increasing profitability and productivity comparable to banks in developed countries, a reduced incidence of non-performing assets, and an emphasis on financial inclusion, Kenyan banking has remained lively and robust. Kenyan banks have begun to rethink their expansion strategies and reassess the possibilities for keeping the economy afloat (Central Bank of Kenya, 2017).

The central bank's primary concern with commercial banks is how to effectively expand financial system access to a broader portion of the Kenyan public. Kenya has a well-developed financial industry, particularly for the area, according to the Commercial Banks Directory (2007). The financial sector, on the other hand, is susceptible to political influence and insufficient control. The industry's fight for survival and expansion is fierce, posing a significant challenge to the banking sector's operations.

The Kenyan banking business has become so competitive that even established banks like as Barclays and Eco-bank have been aggressively marketing their services (Gathoga, 2011). There has been an expansion in the number of financial service providers such as Micro Finance Institutions, Savings and Credit Cooperative societies, and other financial service schemes that offer comparable services and compete for the same clients. Banks must strategically position themselves in order to stay on track, accomplish their vision and goal, and maintain a reinforced competitive edge over competitors. According to Porter (2008), business strategists who grasp that rivalry goes beyond present competitors

would be more positioned to identify and resolve broader competitive challenges. The requirement to upgrade equipment, implement cutting-edge information technology, develop human capital, continually enhance management styles, and generate efficient and cost-effective new services.

Finneran (2006) contends that a significant problem for banks worldwide is the changing nature of business environmental variables and industry competitiveness. Commercial banks in Kenya did not do well in 2014. For example, the total profitability of KCB, Equity Bank, Co-operative Bank, and National Bank was Ksh 57.321 billion in that financial year. In 2015, the majority of banks developed flexible five-year strategy plans to steer their operations over the next five years. The researcher conducted this study to see whether the implemented tactics actually resulted in an improvement in the performance of commercial banks in Lodwar town during the following five years.

The sector's desire for future innovation is harmed by the current inability to objectively examine the elements influencing competitive strategies that match advancements while mitigating external challenges and hazards. As a result, little research has been conducted on the rising elements influencing commercial bank competitive strategies. This suggests the presence of non-empirical anecdotal observations. Thus, existing information gaps serve as the foundation for determining factors influencing competitive strategies in Kenya's banking market. (Oyiela,2011)

## **1.2 Statement of the Problem**

Commercial banks are critical in fostering economic development as they fund investment (Yakubu &Affoi,2014). However, they are no longer making enough profit to keep them afloat while meeting the needs of their shareholders in the current economic climate (McLeay & Thomas, 2014). Africa continues to be one of the most severely affected continents, with banks either burdened with outstanding loans or with a small customer base. Lack of effective strategies, inadequate management, high interest rates, and difficult economic conditions are among the underlying reasons cited (Oyiela,2011).

In Kenya, competitive strategies became a source of strife in the banking industry with the onset of financial liberalization, regulatory changes, and other key reforms in the

banking sector in the mid-1990s, (Arasa,2014). With 42 commercial banks, Kenya's banking sector has experienced fierce competition, which prompted the active development of strategies targeted at enhancing individual banks' performance (CBK Report, 2019). The Kenyan banking sector has performed poorly over the last two and half decades, (1990 to 2015) despite numerous reforms aimed at restructuring and rebuilding the sector (World Bank, 2015). The surge of commercial banks placed in receivership was a strong indication of an ailing industry (Abdulla, 2017).

Despite this, there exists limited studies on the impact of competitive strategies on commercial bank performance in Kenya. This, as well as other growing banking challenges, has an operational and management impact on the bank's performance. Furthermore, it is imperative to note that despite attempts by Kenyan commercial banks to adopt and implement strategies to improve performance, results have not been impressive. Therefore, this study sought to establish the influence of competitive strategies on performance of commercial banks in Lodwar, Kenya.

### **1.3 Research Objectives**

The general objective of the research was to establish the influence of competitive strategies on performance of commercial banks in Lodwar Town. The study was guided by the following specific objectives;

- i. To assess the influence of differentiation strategy on performance of banks in Lodwar Town, Kenya.
- ii. To establish the influence of cost leadership strategy on banks performance in Lodwar Town, Kenya.
- iii. To determine the influence of diversification strategy on performance of commercial banks in Lodwar Town, Kenya.

### **Research hypothesis**

H<sub>01</sub>: Differentiation strategy does not have significance influence on performance of commercial banks in Lodwar Town, Kenya.



H02: Cost leadership strategy does not have significance influence on performance of commercial banks in Lodwar Town, Kenya.

H03: There is no significance influence of diversification strategy on performance of commercial banks in Lodwar Town, Kenya.

### **1.5 Significance of the study**

The research findings will benefit financial institution executives by sharpening their grasp of sustainable competitive strategies within the sector. Further, the findings would serve as a guide for bank managers' planning and decision-making. Moreover, management would be able to commit sufficient resources to pursue initiatives aimed at retaining and growing the clientele in diverse institutions. The conclusions will also serve as a guide for conducting successful and strategic banking operations.

The findings of this study would also be essential for academics and scholars since they would serve as a foundation for future research in the banking sector and others studying the same subject.

With reference to Government, the research findings would aid in understanding the challenges faced in the banking industry and formulation of suitable regulations that protect the interests of Kenyan bankers.

### **1.6 Scope of the study**

The study focused on influence of competitive strategies on overall performance of all Commercial Banks in Lodwar Town within Turkana County i.e., Equity Bank, Kenya Commercial Bank, Cooperative Bank, and National Bank. On theoretical literature review, various theories that explain the influence of competitive strategies on organization performance were used. These theories are Porter's Generic Model, Resource Based theory and Porter's five forces model. On research methodology, the study adopted cross-sectional survey design. The quantitative and qualitative data was collected using questionnaire and interview schedules and analysed using statistical and content analyses respectively. Census techniques were used in the study. Research data was collected from July 2019 to September 2019.

### **1.7. Justification of the study.**

The study focussed on influence of competitive strategies on commercial banks in Lodwar town, a semi-arid area since previous studies have majorly been done on busy and commercial towns. Further, due to discovery of Oil in Turkana, the study sought to assess preparedness of financial institutions in the area to respond to increased financial activity occasioned by both oil extraction and introduction of County Governments (Devolution).

### **1.8 Limitations of the study**

The primary limitation of this study was that the majority of commercial bank personnel regarded some information as secret and hence withheld it, resulting in respondents submitting questionnaires late. To circumvent this constraint, the researcher informed respondents that the information gathered would be utilized only for scholarly purposes.

Additionally, data about the profitability of each branch was withheld since it was deemed to be private and confidential. However, the data gathered through interviews provided information that the researcher could not obtain from the private and secret reports.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Introduction**

The literature review chapter presents information on the competitive tactics employed by commercial banks in Kenya based on the study's core theme areas. The primary objective of this study is to promote knowledge of research by contextualizing the research questions. This chapter introduces the fundamental concepts of competitive strategy by discussing forces of competition, banking strategies, and empirical reviews of previous studies conducted throughout the world, followed by an objective-by-objective analysis of the subject and the development of a conceptual framework.

#### **2.2. The Concept of competitive strategies.**

Organizations should prioritize efforts such as product and service differentiation, cost leadership, diversification, market and product expansion, and channel and process optimization (World Bank, 2017). As a result, these firms will thrive in a competitive climate because they will match the wants of their consumers, resulting in a huge client base and improved market placement.

According to Kotler (2007), it is critical to build competitive strategies that differentiate organization from rivals within the industry, but the first step is to understand one's market position, objectives, capabilities, and resources. Kotler differentiates four distinct points of view: The industry's leader Is the firm with the biggest market share. The other business adjusts to its new items, pricing modifications, distribution channels, and customer assistance. Contender for the leader's position - your industry is ranked second only to the leaders, who are vying for a greater portion of the market by assaulting the leader: Follower - the corporation does not wish to alter the market's present state and will thus keep its current market share, fearful of losing more than gaining profit.

The niche filler Offers services to a narrow part of the market that go overlooked or unappreciated by other enterprises (Kotler, Armstrong, 2012).

According to Haubrich (2004), CEOs must collaborate with subordinate staff to identify an organization's internal and external stakeholders. An organization's success criteria should be developed collectively with the manager and workers. Executives must be educated about the products and services offered by their rivals in order to remain competitive in the business. Organizations must employ competitor knowledge in an organized, methodical, and formal manner in order to reach the required level of competitiveness. Businesses should focus on market concerns, adapting current products via research and development, addressing internal constraints, and satisfying consumer wants (Haubrich, 2004).

According to Cristobal (2018), organizations have a mission to investigate genuine consumer wants and satisfaction levels in order to design appropriate winning strategies to compete in their sector. Customer satisfaction indicates that the firm is competitive and has a sizable market share in the industry, implying that the business is lucrative.

### **2.2.1 Differentiation Strategy**

Bauer and Colgan (2001) assert that when a business pursues a differentiation strategy, it focuses on its capacity to provide a distinctive outcome. A distinctive product or service fosters strong client loyalty, establishing the firm as the market leader in its whole industry. Differentiation of products satisfies a consumer demand and entails adapting the product or service to the client's specifications. Organizations that employ differentiation strategies typically demand a premium price, which results in a substantial market share in the sector. Effective differentiation is done by providing unique or greater value to the client, which is accomplished through the provision of high-quality products with distinctive characteristics and after-sale assistance. According to Reilly (2002), businesses that employ a differentiation strategy might charge a premium for their products depending on its qualities, delivery method, service quality, or distribution networks. Differentiation strategies target an educated or aware consumer who is prepared to pay a premium for a distinctive or high-quality product. The critical first stage in developing a differentiation strategy is determining the distinctive characteristics of a business that set it apart from competitors in the same sector (Reilly, 2002). While firms employ differentiation strategies, this does not imply that expenses and prices are

ignored, as they are not the primary emphasis. Customers, on the other hand, regard the product or service as unique, resulting in increased customer loyalty and willingness to pay a premium for the unique offerings.

According to Johnson and Scholes (2009), the uniqueness of a product or service enables the business to demand a premium price for it. The unique characteristics of the product enable firms to boost their prices, which are then passed on to customers, as it is not easy to get alternative items in the market owing to the uniqueness (Johnson and Scholes, 2009). Businesses that successfully implement a differentiation strategy typically have internal advantages such as access to cutting-edge scientific knowledge and a highly experienced and creative product development team. Additionally, these firms have a strong sales force capable of effectively communicating the perceived qualities of the product, as well as a corporate reputation for quality and innovation. By implementing a differentiation strategy, a bank may establish uniqueness in its industry or product lines in areas where its clients place a premium. This may include identifying one or more traits that are critical to many buyers in the banking business and then positioning the company distinctively to suit those demands. This one-of-a-kindness is compensated for by demanding a premium price (Hamel, 2002).

### **2.2.2 Cost Leadership Strategy**

According to Porter's Generic Competitive Strategies, cost leadership refers to a firm's goal of being the industry's lowest-cost producer. Cost advantages come in a variety of forms and are dependent on the industry's structure. They may include scale economies, proprietary technology, privileged access to raw resources, and other considerations (Peteraf, 1993). A low-cost manufacturer must identify and capitalize on any cost advantages. If a business can attain and maintain total cost leadership, it will outperform the industry average, assuming it can maintain pricing at or near the industry average.

Cost Leadership Strategy's objective is to provide products or services at the lowest possible price in the industry. The issue with this approach is to produce a profit that is acceptable for the business, rather than running at a loss and sucking profits from all market participants. Walmart and other retailers prosper with this technique by offering

low prices on high-volume products for which buyers are price sensitive, while offering less aggressive discounts on other merchandise. Products must be manufactured at the lowest possible cost in the industry (Amit and Zott, 2001). Consider the following example: reserving space in stores for sales rather than holding extra inventory. This approach entails the corporation capturing market share by appealing to price-conscious or cost-conscious clients. This is accomplished by offering the most competitive prices in the target market sector, or at the very least the best price to value ratio (price compared to what customers receive). To compete on price while maintaining profitability and a good rate of return on investment, the business must be able to operate at a lower cost than its competitors. There are three primary methods for accomplishing this (Kotler and Armstrong 2012).

The first strategy is to maximize asset turnover. In the service industry, this may imply a restaurant that swiftly shifts tables or an airline that promptly turns around aircraft. In manufacturing, this will include producing large quantities of output. These techniques imply that fixed costs are distributed across a greater number of units of the product or service, resulting in a reduced unit cost; the business hopes to benefit from economies of scale and experience curve effects (Chesbrough, Rosenbloom, 2002). Mass manufacturing becomes a strategy and an objective in itself for industrial businesses. Increased output necessitates and results in a large market share, and creates an entrance barrier for potential competitors, who may be unable to scale up to meet the businesses' low costs and pricing.

The second factor is achieving minimal operational expenses, both direct and indirect. This is accomplished by the distribution of large numbers of standardized items, the provision of basic no-frills products, and the limitation of service customisation and personalisation. Costs are maintained low by the use of fewer components, standard components, and a limited number of models to assure greater manufacturing runs (Gregson, Andrew 2008). Overheads are maintained low through paying minimal workers, renting space in low-rent neighbourhoods, and cultivating a cost-conscious culture, among other strategies. Maintaining this strategy involves a constant hunt for cost savings across the organization. This will involve outsourcing, cost control,

enhancing asset utilization, and cost reductions in other areas such as distribution, research and development, and advertising. Achieving the broadest dissemination is the goal of the linked distribution strategy. Promotional strategies frequently aim to exaggerate the advantages of low-cost product features.

The third dimension is cost management across the supply/procurement chain. This can be accomplished by purchasing in bulk to take advantage of volume discounts, negotiating lower prices with suppliers, instituting competitive bidding for contracts, and collaborating with vendors to keep inventories low through methods such as Just-in-Time purchasing or Vendor-Managed Inventory. Wal-Mart is well-known for pressuring its suppliers in order to maintain cheap costs on its products (Kotler and Armstrong 2012).

A bank might choose to become the lowest-cost producer in its business by charging the lowest prices or rates for its services under a cost leadership strategy (Porter, 1985). Economies of scale, proprietary technology, preferential access to raw materials, and other variables may all contribute to a bank's cost advantage. A low-cost manufacturer must identify and use all cost advantages available to them, as well as be an above-average performance in their business to the point where they can charge pricing at or near the industry average.

### **2.2.3. Diversification Strategy**

Haug &Ultich, (2013) assert that diversification has become critical strategy by organizations in an effort to outdo competition. Whether in related form or not, diversification is a strategic option used by managers to improve performance (Castaldi &Giarratana, 2017; Makau &Ambrose, 2017). In addition, Rowe (2014) argues that organizations have opted from a variety of available strategic options to maximize the use of the resources at hand in order to achieve predefined performance goals.

Diversification strategy is another essential factor for assessing the banks' performance. According to Kim, Hoskisson and Wan (2004), diversification is a marketing strategy, developed in 1957 as part of the Igor Ansoff's product matrix. Moreover, diversification strategy has been used in the past as a tool for honing the various firms beyond banking sector in terms of meeting the desired objectives (Sanya & Wolfe, 2011).

There have been several proponents of diversification strategy towards improved in buffering the managerial skills as well as the abilities all through their range of geographical locations and products. Moreover, as highlighted by Sanya and Wolfe (2011), it is through diversification that banks effectively gain economies of scope by spreading their fixed costs over wide geographical range and product variety. In addition to this, Gamra and Plihon (2011) in their paper “Revenue Diversification in Emerging Market Banks: Implications for Financial Performance” also highlight that diversification helps in turning the banks into a supermarket-like financial retail outlet that offers multiple financial products to their customers.

However, there have been opponent arguments towards diversification strategy on the bank’s performance. According to Berger (2010), diversification in banks may lead to unforeseen dilutions of the comparative advantage; both to the management and the banks operational capacity.

### **2.3. Organization performance**

Armstrong (2010) avers that Performance is an ongoing, fluid process that entails managers and those they supervise working collaboratively within a framework that outlines how they can cooperate to achieve the desired objectives. Performance, which includes the actual outcomes of the strategic management process, is the outcome of operations. Strategic management is appropriate given its potential to elevate an organization's performance (Wheelen& Hunger, 2010).

Different metrics can be used to assess performance. Depending on the context the researcher is working from, it could stand for overall performance, market performance, customer performance, or financial performance. Financial metrics like profit margin and return on investment (ROI) are explicitly referred to as financial performance. How well the partnership uses public-private partnerships to provide social services to the general public is considered as market performance. Although the idea of organizational performance is often assumed to be clear-cut and straightforward, it is more complicated than simply observing and measuring. It is a relative concept that is defined in terms of a referent using a complicated array of time-based and causality-based indicators that have



an impact on realizations in the future. Performance is primarily about the capacity to produce future results (Lebas and Euske, 2002). Using organizational goals as a foundation, many organizations use different methodologies to gauge their performance. Both financial and nonfinancial metrics can be used to evaluate this performance indicator (Bagorogoza and Waal, 2010; Bakar and Ahmad, 2010). However, the majority of businesses prefer using financial metrics to measure their performance. In this study therefore, performance is conceptualised in terms of both financial and non-financials which include profit and customer share respectively.

## **2.4 Theoretical Literature Review**

There are different theories that attempt to explain the influence of competitive strategies on organization performance.

### **2.4.1 Porters Generic Model**

The Porters Generic Model was used as a theoretical foundation in this investigation. Porter (1980) asserts that commercial rivalry continues to be the primary predictor of a firm's success or failure. Competition establishes the appropriateness of a firm's performance-enhancing actions, such as innovation, a cohesive culture, or effective execution. According to Johnson et al. (2004), competitive rivals are firms that offer identical products and services to the same clients. Any corporate entity may attain superior performance in a competitive industry by pursuing a competitive strategy. As such, it is the formulation of a comprehensive cost leadership, differentiation, or focus strategy for industry rivalry. If an organization is unable to properly implement one of the strategies, it is unlikely to be competitive. Competition strategy employs a variety of tactics to entice buyers, endure competitive pressure, and strengthen its market position. When a business has an advantage over its competitors in gaining clients and protecting against competitive pressures, it has a competitive advantage (Thompson and Strickland, 2010).

According to Porter (1980), the cost leadership strategy is aimed at achieving a competitive edge by supplying products and services at the lowest possible price in the market. Abdulla (2017) believes that firms must be prepared to abandon operations that

provide no economic benefit. As a result, firms may consider outsourcing tasks to cost-effective third parties (Malburg, 2000).

#### **2.4.2. Resource Based Theory**

In reference to resource-based theory, a firm may be thought of as a group of physical, human, and organizational resources (Barney, 1991; Amit and Shoemaker, 1993). Barney, 1991, indicated that for organization's resource to be a primary source of sustained exceptional performance should be scarce, valuable, non-imitable and imperfectly substitutable. Initially, resource-based theory focused on identifying qualities of resources that were impervious to copying by competitors. (Barney, 1991) claimed that if an organization's resources can be easily copied, the competitive advantage they provide cannot be sustained. According to McWilliams, Van Fleet, and Cory (2002), resource-based theory contributes to efficiency by lowering costs and boosting customers' readiness to pay premium price for a firm's product. If a business passes part of its efficiency gains to its consumers by boosting customer surplus for the firm's product, it improves its competitive position in the product market relative to other firms. When a corporation enters a new area, it must assess not just the rate of return on the new investment, but also whether its resources will be adequate to sustain the pace of investment necessary to stay up with rivals' advances and development in both the existing and new industries. Even if a corporation enters a new market with a breakthrough discovery and is able to ward off competition through patent protection or other restrictive measures, it must anticipate that it will eventually lose its edge if it does not continue to improve it. Additionally, an organization's reputation is an intangible asset that must be acquired through time, as it is not easily available to new entrants.

Competitive corporate entities with significant financial resources can also utilize their own resources to influence market pricing. Such firms engage in predatory pricing practices with the intent of forcing a rival out of the market by reducing its profit margins. However, McWilliams, Van Fleet, and Cory (2002) argue that it is not in the business's interest to be hostile against rivals and that the firm may see chances for benefit realization through collaboration. Corporations may devote resources to maintaining premium pricing and tacit collaboration with certain of their product market

competitors. Thus, viability of a competitive advantage is highly dependent on the following critical factors: durability, transferability, replicability, and approachability. Durability refers to a business's capacity to sustain the quality of its resources and capabilities via investment, training, and constant learning and development. Transferability refers to the ease with which other businesses can acquire a firm's resources or capabilities, such as by 'poaching' key individuals or replicating critical procedures or systems. The ease with which rivals can create equivalent resources or capabilities from scratch is referred to as replicability. Appropriateness is concerned with who benefits from the essential resources or competencies. The resources analysis highlights how major strategic factors may be utilized to assess the performance and competitiveness of individual banking entities. As a result, it is assumed that changes in these factors are directly related to the entity's development and competitiveness.

#### **2.4.3. Porter's Five Forces Model**

The research used the Porter's Five Forces Model, which was established in 1979 by Michael Porter. The model offers a straightforward framework for assessing a company's competitive capabilities in a particular sector (Varelas & Georgopoulos, 2017). Porter's Model is primarily based on five fundamental forces that are considered to be significant predictors of how competitive a market is.

The supplier's power is the primary factor of competitiveness in a sector. According to Michael Porter (1979), the strength of suppliers in a sector is crucial in determining whether items are priced higher or lower. Similarly, it is critical to remember that the greater the number of providers, the more stable the market, and thus the possibility of healthy competition. Additionally, the originality of the providers' product influences the intensity of rivalry in a field. Within the banking business, the key suppliers are depositors (customers), who provide the principal capital and personnel makeup (Moreno-Izquierdo, 2016). A bank that is highly competitive is defined by its capacity to retain both clients and employees in order to balance their demand and supply. Recently, there has been a paradigm change in the banking business, characterized by a string gesture toward supply; electronic and mobile banking. With the advancement of technology, the majority of banks are relocating their operations to agents, mobile, and

online platforms. The technology revolution shaped the supplier's power in the banking industry, a necessary condition for establishing a strong competitive advantage (Mburu, 2016). The threat of new entrants is the second determinant.

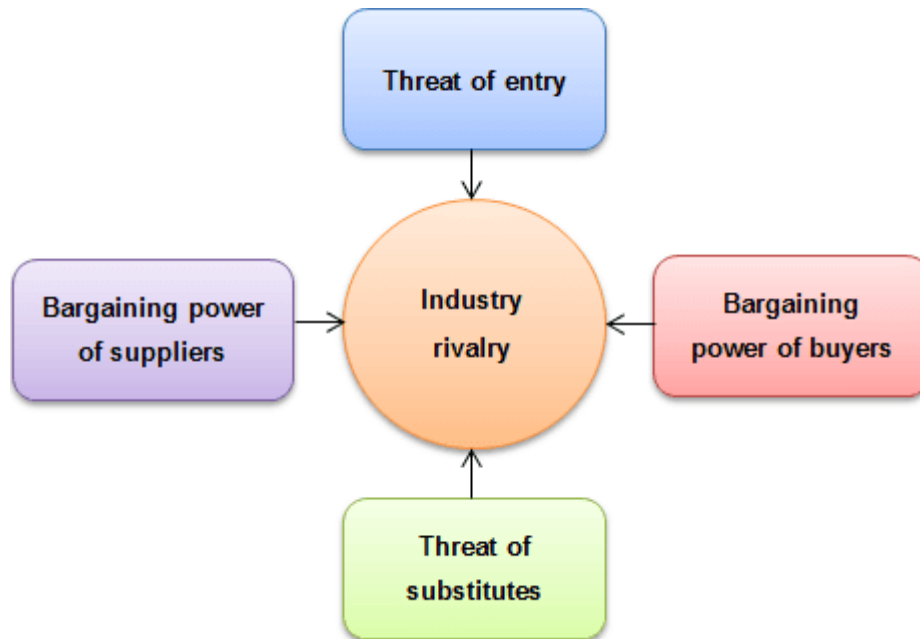


Figure 1: The porter's Five Forces Model (Porter, 1980)

Threats from alternative items are the third determinant. The banking sector is seeing an increase in the use of mobile-based apps such as Tala, Branch, and Okash. Customers with a registered sim card can expand their credit profile outside the bank areas up to KES 50,000 or more (Kawira,2017). These loan applications save time since they eliminate the need to travel to the bank for loan processing and approval. Simply put, the effect of mobile loan applications has sparked a new wave of competitiveness among banks, as seen by their pursuit of easy-to-access lending products through their online banking systems. Finally, as Porter's model highlights, the third variable that has an indirect or negligible effect on competition in the banking industry is the bargaining power of suppliers.

In a study titled "Entrepreneurship and strategy in China: why Porter's five forces may not be applicable," some authors dargue that the zero-sum game strategy is shortsighted and ignores the long-term advantages of a proactive win-win strategy based on

relationships with all or most of the stakeholders, such as strong reciprocal relationships with suppliers and buyers, which allows the firm to practice the Just in Time (JIT) philosophy and reduce storage costs. Additionally, it has been highlighted that occasionally power struggles with competitors backfire on the business, having a significant cost impact, and that by cooperating with stakeholders, banks in an industry may become the lowest-cost producers (Wang & Chang, 2009). The static nature of the model creates a barrier to innovation in an industrial structure that is undergoing rapid change as a result of environmental trends, shifts in the ethnic composition of a population, or technological advancements that may have a greater impact on some industries than others. By concentrating on group and industry structures rather than specific companies, the model ignores the crucial role of complements (Branden Burger, 1995). This is because innovation alters industry structures, which changes the competitive environment, because industry structure alone cannot fully explain performance differences between industry competitors (Moriarty, 1983).

It emphasizes external analysis, departing from the conventional SWOT analysis, allowing a firm's attention to shift to its response to a change in the external environment. Additionally, the five forces framework is highly interconnected with other models, such as PEST forces [Political, Economic, Social, and Technological], which aids in comprehending and capitalizing on dynamism. Additionally, it emphasized the significance of seeking out flawed markets that provide additional chances, as imperfect markets generate potential for supernormal earnings, which do not exist in perfect competition. Additionally, the five forces framework demonstrates how competitive rivalry is the fundamental concept and is heavily influenced by the other four forces, as the other four forces impact the industry and hence the competitors. (Grundy, 2006) According to Grundy (2006), the Porter's 5 forces model moved beyond a more straightforward focus on comparable market growth rates in evaluating sector attractiveness.

## **2.5 Empirical Literature Review**

### **2.5.1 Influence of differentiation strategy on performance**

Differentiation of product is one of the paramount strategies that was advocated for by Porter (1980) as an imperative tool for achieving competitive advantage and better performance by firms against its competitors. Many Researchers have for a long time engaged in a discussion on whether differentiating firms' product or service affects firm performance. The findings show mixed result, with some showing positive relation between differentiation and performance while others show no significant relationship between differentiation strategy in relation to firm performance. The current study sought to establish the kind of relationship that exist between product differentiation and organisation performance targeting commercial banks.

An empirical study by Hall and Saias (1980) on 64 American companies to ascertain the impact of a strategy in following a laid down structure. The study indicated that firms which had applied a differentiation strategy had better performance compared to those that were operating normally without inclusion of differentiation. It was notably critical for the researcher to understand that there are various ways in which a company can make use of differentiation. Differentiation can be achieved through a differentiated product, superior quality, and customer service etc. A key area of concern is whether the customers of the company perceive the product or service differentiated as one that is worth a price premium.

Ju, Tong, Hu, and Sun (2017) in a study sing Chinese indigenous exporters as their case study in their investigation of the causes and effects of product differentiation strategy. They were primarily interested in learning more about the factors that influence product differentiation strategy, how it affects export performance, and if export target markets are responsible for this impact. The data collected was analysed using structural equation modelling. The findings indicated that product differentiation strategy was significantly associated with export performance in a positive manner, and the effect was stronger for firms exporting to developed markets. The study reviewed was about product firms while the current study targeted service industry which was commercial banks. While the

current study sought to find out the influence of differentiation as a competitive strategy on performance the study under review sought to identify the predators and the impacts of the differentiation strategy on performance. The current study also sought to confirm or disapprove the positive correlation between differentiation strategy and performance as concluded by the study under review.

In Nigeria, Adegbite, Osinowo, Omisore, and Ayinde (2016) conducted a study to investigate whether differentiation of services was linked with competitive advantage. They specifically focused on the National Railway Corporation of the country. Primary data was collected from a sample of 100 commuters while secondary data was from internal performance reports. The study revealed that service differentiation impacted positively on creating competitive advantage for Nigerian Railway Corporation particularly. While the study under review targeted National corporations which operates under monopoly, the current study targeted firms (commercial banks) owned by both public and private individual and also operate under competitive environments.

A study conducted by Obado (2005) on Kenyan Sugar manufacturing firms, The firms achieved differentiation by branding their sugar, distribution networks and customer service. The finding indicated that the firms formalise vision and mission. Also, customer loyalty helped the company to charge premium prices for its products. The study concluded that to gain competitive advantage through differentiation, a firm must search out sources of uniqueness that are burdensome and time consuming for rival to match.

Rukia (2015) undertook to study the effect of differentiation strategy on the performance of manufacturing firms in Kenya. The study was based on Porter's competitive business strategy typology. To collect data for the study purposes a survey questionnaire and an interview guide was used. A sample of 131 firms out of the 170 targeted drawn from 12 key industrial subsectors located within Nairobi and its environs. Both descriptive and explanatory research design were used. Pearson's correlation was used to test whether their existed positive correlation between the input and the output variable. Further regression analysis was used to test the relationship between the constructs. The study concluded that manufacturing firms interested in enhancing their performance and staying ahead of competition should pursue differentiation strategy. While the studies

used a similar methodology to the current study the area of specialisation on targeted firms differed (manufacturing Vs service industry) hence need to pursue the current study to identify how product differentiation influences performance in Commercial Banks.

Githumbi (2017) carried a study to establish the effect of differentiation on performance of rice milling factories in Kirinyaga County, Kenya. It was revealed that product and service differentiation had a positive influence to the performance of large rice milling factories. The study concluded that only product and service differentiation strategies were affecting performance of large rice milling factories. While the study was carried out in an agricultural setup and focused on food production (Rice milling), the current study sought to fill the knowledge gap by focusing on financial institutions based in Semi-arid area (Lodwar Town) to confirm whether same relationship exists between product differentiation and performance.

Kireru, Ombui, and Omwenga (2016) conducted a study in Kenya with a focus on Equity Bank Limited to determine whether differentiation strategies had an impact on achieving competitive advantage. Their findings demonstrated that Equity Bank does, in fact, aggressively pursue product and service differentiation, which has enabled Equity Bank to gain a competitive advantage. However, the study's generalizability is limited because it was founded on data gathered from just one bank (Equity Bank Limited). The current study overcomes this limitation by taking into consideration data from 4 commercial banks.

### **2.5.2 Influence of Cost leadership on performance**

In Malaysia, Lidasan (2016) examined the relationship between social capital, Entrepreneurial Orientation, cost leadership strategy and cooperatives performance. This study also examined the mediating effect of Entrepreneurial Orientation on social capital and performance link and the moderating effect of cost leadership strategy on Entrepreneurial Orientation and performance relationship. Data was collected from 196 cooperatives Chairman through a mailed questionnaire. The Partial Least Square Structural Equation Modelling approach was used to analyse the data using Smart PLS version 3.0 software. The result of the study suggested that social capital dimensions and



Entrepreneurial Orientation were positively related with organizational performance. In addition, the analysis showed that structural and cognitive social capital predict. While the findings of this study indicate that cost leadership strategy does not moderate the relationship between Entrepreneurial Orientation and organizational performance, the current study sought to establish the how cost leadership strategy influences performance of the firm and to what level.

In Turkey, Kasman (2012) investigated the effect of cost-efficiency and economies of scale on technological growth among commercial banks. It was observed that the banks took specific strategic orientations to align with their objectives. While the study concluded that economies of scale positively influenced profitability the current study sought to confirm if the same relationships exist among the commercial banks in Kenya. A study by Richter (2014) on manufacturing firms in Germany argued that internal informational costs decline with economies of scale owing to a wider spread. The findings indicated that economies of scale significantly affected the performance of manufacturing firms. While this study was carried out among Commercial Banks in Turkey, the current study was carried out among Commercial Banks in Kenya to confirm the influence of cost leadership strategy on overall performance.

A model-based study by Alamdari and Fagan (2005) discussing how low-cost model affected the profitability of airlines showed that the airline with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Firms adopting this strategy place emphasis on cost cutting measures in every activity in the value chain. It was evident that at times the airline focused on cost reduction at the expense of other critical factors. This may cause the firm to lose vision of why it embarked on one such strategy in the first place. Analysis indicated that although an increasing number of 'hybrid' low-cost models were achieving low operating costs, offering low fares and returning attractive operating profit margins, there is a case for recommending adherence to the original model to ensure greater profitability.

In Nigeria, Gorondutsea (2016) examined cost leadership strategy on performance of hotels. The research used quantitative survey approach to analyse the hypothesized

relationships. The paper employed census sampling to collect data from the manager/owner of hotels in Kano State Nigeria. The data was analysed using partial least square (PLS) method one of the 2nd Generation statistical tools of analysis. While the results of this study portrayed that cost leadership strategy had significant positive correlation with hotels performance the current study sought to establish if the same relationship existed on a service industry in that case commercial banks. Also, the study under review used different methodology (quantitative survey approach) the current study sought to establish if the findings will remain the same if the study was conducted in a different geographical location (Kenya) and if different methodology was to be adopted.

In Ghana, Barbara (2016) did research on effect of low-cost strategy on performance and the purpose of this paper was to improve the appreciation of the moderating role of competitive intensity on the relationship between low-cost strategy and firm performance of restaurants. The study used empirical data collected from 118 restaurants operators, Ghana. The effects of relationships and the interaction of low-cost strategy and competitive intensity were tested using regression analysis. While the findings indicated the existence of a significant positive relationship between low-cost strategy and firm performance of the hospitality industry in Ghana the current study sought to establish if the same relationship existed in the commercial banks in Kenya and specifically in Lodwar Town. The effect of competitive strategy on firm performance was found to be partially significant. The findings revealed that competitive intensity does moderate the relationship between low-cost strategy and firm performance of restaurants. This study contributed to the existing literature on low-cost strategy, competitive intensity and firm performance.

Kuswatuka & Zimuto (2015) did a study in Zimbabwe which sought to establish the survival strategies employed by micro-finance institutions to enhance competitiveness. The key constructs of the study included: cost leadership strategy; differentiation strategy; and focus strategy. Data was collected from a sample size of 380 employees in the financial services industry. Descriptive and inferential analysis was used for data analysis and presentational data analysis was aided by utilizing (SPSS). The findings of the study revealed that differentiation of a financial services institution was observed as

having the most significant impact in gaining a competitive advantage over rivals. Managerial implications were also established from the study's findings.

A study by Chepchirchir, Alice, Omillo, Munyua, (2017) looked at the degree to which application of cost leadership strategies resulted to performance improvement. This research was guided by Porters five forces theory. The study was informed by explanatory research design. It targeted a population of 151 respondents and a sample size of 110 top and middle level management forming the study population. The study data came from 10 logistics firms with active websites operating at JKIA Nairobi. The respondents identified were selected using simple random sampling technique. A questionnaire was used to collect data. Analysis of data involved use of descriptive and inferential statistics. While it was found out that cost leadership had a significant positive effect on logistics of firms' performance the current study sought to confirm or disapprove if the same findings would exist in a different sector hence a basis of our current study.

Marangu,Mwiti,Thoronjo (2017) analysed influence of cost leadership strategy on organizations' competitiveness of sugar firms. The study was based on; competitive advantage, generic framework and resource based. Descriptive cross-sectional research design was used in this study. The target population included 20 managers from every sugar farm. Questionnaires were used as data collection tool. They were self-administered. Correlation analysis was done to show how cost leadership strategies related with the organisation competitiveness. The model summary or goodness of fit model results also demonstrated that cost leadership strategy had explanatory power. While the studies applied cost leadership strategy to confirm its effect on performance of sugar processing firms, current study applied cost leadership, differentiation and diversification to confirm or disapprove the findings of prior studies while focusing on Commercial Banks.

In Eldoret, Nyaunchoand, Nyamweya, (2015) investigated the effects of cost leadership strategy on performance of LPGC. The researcher considered Porter's Generic Competitive Strategies in literature review. With a target population of 175, the study adopted survey design. The researcher used stratified sampling to get a sample size of 64.

The study used questionnaires and interview schedule as data collection instruments. While the study concluded that, performance of LPGCs is influenced by cost leadership therefore enabling the company to be able to reduce price leading to increased volume of sales vis-a-viz profit margin, and increase in service delivery, this study intends to confirm or disapprove the findings of the prior studies by targeting commercial banks.

In Kenya, a study by Atikiya, Mukulu, Kihoro and Waiganjo (2015) on the relationship between cost leadership strategy and the performance of manufacturing firms. The results indicated that performance of manufacturing firms is significantly influenced by cost leadership strategy. While the study used explanatory research design, current study applied cross-sectional research design to fill in the knowledge gap. Further, the study targeted manufacturing firms in Nairobi while the current study targeted service industry (Commercial Banks) based in Lodwar town.

### **2.5.3 Influence of Diversification Strategy on performance**

In Denmark, Gul (2011) using 147 manufacturing firms investigated the correlation between integrated strategies and performance. Diversification was measured using Entropy and Herfindahl Indices. It was established that manufacturing industries had high average performance measure and unrelated diversified organizations were outperformed by firms that were related. It is in this regard that the current study was done and targeted commercial banks in Kenya. Research done in China by Berger, Hasan, and Zhou (2010) highlights that although a lot of studies have been done to assess diversification and bank's performance, there is no consensus and evidence to back up the postulation. This study intends to explore this area and confirm or disapprove the prior studies and also get more information.

In Bursa Malaysia, Doaei, Ahmad, & Ismail (2014) examined 102 manufacturing firms with a purpose to identify the relationship between product and international diversification with financial performance between 2006 and 2010. Regression models were run and it was established that related diversification and international diversification had negative impact on financial performance. In Vietnam, Santarelli & Tran (2016) carried out a study on firm's profitability against diversification activities.

Curvilinear effect on profitability was established though with an associated decrease in performance. While these studies were undertaken in different countries (Malaysia and Vietnam) and targeted manufacturing firms, this study was undertaken in Kenya and intends to confirm or disapprove the prior studies targeting commercial banks. Further, while the studies focused on effect of diversification on performance alone, current research concentrated on how the three competitive strategies; cost leadership, diversification and differentiation influence performance.

Also, in Nigeria Oladele (2012) examined the effect of product diversification strategy on the performance of listed manufacturing firms between 2006 – 2010. Firm's performance was measured using return on assets while Panel regression analysis was employed in data analysis. These studies are at variance with the current study since they covered manufacturing firms based in Nigeria while the current study targeted service industry (commercial banks). While the studies found that the relationship that exists between diversification strategy and performance was negatively related due to the influence of the stakeholders, this study intends to confirm or disapprove the prior studies and also get more information on how diversification influences performance hence filling the research gap.

In Ghana, Amediku (2012) carried out a study with view to establish how income source diversification impacted bank performance. Three banks which were universal were used as a case study. Linear regression was used for data analysis. It was established that bank income sources were diversified significantly and that both interest and non-interest activities highly impacted the performance of bank positively while increase in the number of branches impacted negatively on bank performance. Taylor and Francis (2010) conducted a study that examined various competitive strategies applied in the banking sector. The research findings indicated that majority of banking institutions were located in countries or geographical regions in which they related well culturally or economically. The findings further indicated that majority of these banks were international. While the studies exhibited a positive relationship between diversification and performance, current study intended to prove if the same kind of relationship existed in commercial banks

In Nigerian, Adamu and Zubaru (2016) examined the impact of diversification on the performance of construction firms. Secondary data was used in the study where financial statements from seventy sampled construction firms were analysed. Undiversified, moderately diversified and highly diversified firms, were categorised by the use of specialisation ration method. Also, group-wise performance of the firms was measured using profitability ratios. The findings revealed that undiversified firms performed much better as compared to firms that were highly diversified in terms of Return on Total Assets and Profit Margin. Moreover, it was observed that firms that were moderately diversified performed much better than those that were significantly diversified as far as Return on Equity, Total Assets and Profitability Margins are concerned. However, there was no effect noted regarding performance disparity between the firms that were undiversified and those that were diversified moderately. It was observed that diversification and performance depicted nonlinear relationship between them thus conclusion that diversification does not automatically result in improved profit margins. This implies that firms ought to remain focused if they are to improve financial performance. The researchers focused specifically on the influence of diversification on performance of construction firms in Nigeria while the current study was keen on identifying the influence of the three competitive strategies i.e., cost leadership, differentiation, and diversification on performance of the commercial banks in Kenya hence providing wider scope of study and comparable results from the three research concepts. Further, researchers used secondary data sources to collect data as they used financial statements while current study used primary sources of data collection hence arriving at a more authentic findings and conclusions.

In his study on the influence of differentiation strategy on financial performance of commercial banks in Uganda, Adegbuy (2015) employed a cross-sectional design which was characterized by a quantitative approach. The target population constituted of 210 Senior Managers and Chief Executives from 10 ugandan banks that were rated as best performing commercial banks in five consecutive years. Total sample size was 144 individuals which was calculated using Yamane's (1967) formula. Primary data was collected by use of questionnaire. Quantitative data was analysed descriptively using statistics such frequencies, percentages, means and standard deviation. A positive and

statistically significant relationship between product differentiation strategy and financial performance in terms of ROI was established. This study was conducted his study in Uganda which brings about contextual gap because of the differences in economic and geographical factors. The previous study is also focusing on ten best performing commercial banks while current study was carried out in Kenya focusing on four commercial banks existing in Lodwar town.

In their study, Mukeshimana and Irechukwu (2016) sought to establish influence of strategic placement on firms' performance of power producers in Rwanda. During their study descriptive research design was applied. A sample size of 30 power producers was used in the study where purposive sampling approach was used for the Board members, Executive directors, senior management staff and Project managers. Further, the study aimed at assessing impact of differentiation strategy, costing and promotion strategy, perceived quality of service as well as pricing strategy on the performance of selected power producers. Data collected using questionnaires and further analysed using both inferential and descriptive statistics techniques. SPSS version 21 was used to analyse data and reported using frequencies presented in tables, percentages, pie charts and standard deviation. This study therefore demonstrated that differentiation strategy, costing and promotion, perceived quality as well as pricing strategy had positive and direct impact on performance of Power Producers in Rwanda. Further, it was recommended that researchers need to carry out more studies in the management aspect of such entities. While the researcher concentrated on impact of strategic positioning on performance of Independent Power Producers in Rwanda, the current study focused on influence of competitive strategies on performance of Commercial Banks in Kenya. Further, researcher used only questionnaires to collect data and applied purposive sampling method while the current study used both Questionnaires and interview schedules to ensure in-depth data collection and used both census and purposive sampling methods.

While using balanced Balance scorecard model Wanjiru, (2016) did an analysis on how product diversification strategies determined performance of Real estate with Nairobi City as the case study. Explanatory research design was used. Result showed that some concentric and conglomerate diversifications were found to be significantly correlated

with firm performance. This study is at variance with the current study since it targeted the real estate while the current study targeted commercial banks. Also, while the study used explanatory research design, the current study used cross sectional research design. This study intends to explore this area and confirm or disapprove the prior studies and also get more information on whether competitive strategies have an influence on performance of commercial banks in Kenya and in particularly Lodwar town.

Rotich, Okaka, & Aywa (2011) conducted a study to establish the impact of income source diversification on financial performance of commercial banks in Kenya. This was a census study. All the registered commercial banks in Kenya during the year of study (44) were included in the study. On data collection the researcher relied heavily on documentary secondary data for 5-year study period (2005-2009). Primary data was validated through key-informant method. Herfindahl-Hirschman Index, Correlations and Regression analysis were mainly used and revealed on aggregate that all commercial banks in Kenya are diversified with large banks in lead while Islamic banks trail. The study concluded diversification level has a positive influence on financial performance of commercial banks in Kenya. This study is in agreement with the current study on issues to do with diversification but the data collected and analysed heavily relied on secondary data. This study sought to investigate if the same findings will stand if the data was collected by means of questionnaire and interview schedule while focusing on only four commercial banks in Lodwar.

Mathuva, 2015 examined the influence of revenue diversification on the financial performance of 212 deposit-taking savings and credit co-operatives (SACCOs) in Kenya over the period 2008–2013. The study found that SACCOs with more diversified revenues experience returns that are volatile. This study is in agreement with the current study on issues to do with diversification and performance but still there is a research gap being filled by current study since it targeted commercial banks located in marginalised areas hence, they have a totally different business environment they operate under. Also, the research under review took to investigate only one competitive strategy while the current study sought to identify the influence of the three competitive strategies (cost leadership, diversification and differentiation) hence a wider scope.



Ogada, Achoki & Njuguna (2016) assessed how diversification influenced financial performance of merged institutions. The researcher adopted a mixed methodology research design to carry out the study. The population included 51 merged financial service institutions in Kenya. Questionnaires were used to obtain primary data while a secondary data collection template was also used for secondary data. The data was analysed using quantitative techniques. Descriptive analysis for the study included the use of means, frequencies and percentages. Inferential statistics such as correlation analysis was also used. While the research identified that Diversification had no significant effect on financial performance of merged institutions, the current study sought to confirm if the same relationship exists on commercial banks based in Lodwar operating independently.

## **2.6 Research Gap**

From the above reviewed literature, most of the studies conducted on competitive strategies are in manufacturing industries and less in service industries. It is also evident that studies concerning competitive strategies have been conducted mainly in other countries and with few of these studies being conducted in Kenya Chan and Jamison (2001); Ju, Tong, Hu, and Sun (2017); Amar, (2015); Lidasan, (2016); Gorondutsea (2016).

Also, previous studies on competitive strategies have been patchy or inconsistent and researchers have not arrived at an effective blend of strategies that could improve organizational competitive advantage and performance (D'Souza and Lai 2009). Additionally, there were some methodological challenges with some of the previous researches. Kitetu (2015) noted that despite the advanced literature on competitive strategy which is aimed at determining factors that influence competitive strategies adopted by firms, much less is known about the influence of competitive strategies on performance. Taylor and Francis (2010) indicated that competitive strategy was a pertinent issue globally, but there was no consensus on which strategies are critical in influencing organizational performance.

Numerous studies on how various strategies influence organisation performance have been carried out both locally and internationally. Internationally Chan and Jamison

(2001) investigated the competitive strategies applied by banks between 1978 to 1998 in China; Osinowo, Omisore, and Ayinde (2016) undertook to establish relationship between service differentiation and competitive advantage on National Railway Corporation. Based on the evidence derived from the literature, the paper concluded that differentiation strategy is likely to influence organizational performance. Further, Barbara (2016) researched on how low-cost strategy related to performance of restaurants in Ghana. Empirical data from 118 restaurants operators was used in the research. The findings indicated a positive effect between low-cost strategy and performance of hospitality industry in Ghana. Further, a study done in China by Berger, Hasan, and Zhou (2010) highlights that although a lot of studies have been done to assess diversification and bank's performance, there is no consensus and evidence to back up the postulation.

Various studies on the adoption of competitive strategies in Kenya have been carried out on local firms. Using Porter's framework, Wanjiru (2016) researched on competitive strategies in real estates. Further, Nyauncho and Nyamweya (2015) scrutinised the impact of cost leadership strategy on performance of LPGC in Eldoret town. Both studies revealed that competitive strategies resulted in improved and better performance. Wanjiru (2016) established that the strategies that were pursued by Real Estates conformed to Porters Generic Strategy. Moreover, real estate's performance was directly proportional to the competitive strategies pursued.

Likewise, Kanana (2014) did a study on strategies that were adopted companies in Kenya and noted that majority of them lacked competitive strategies that were clearly defined.

Also, studies on financial institutions in Kenya including Commercial Banks established adoption of competitive strategies whereby they lend unsecured personal loans at attractively low interest rates. Mathuva (2015) investigated the extent to which revenue diversification influenced the financial performance of savings and credit co-operatives (SACCOs) between 2008–2013. The findings indicated that dependence on non-interest income had direct correlation with higher returns. However, none of the above studies concentrated on the influence on how competitive strategies (cost leadership, differentiation and diversification) influenced performance of commercial banks.

Therefore, this study sought to fill the mentioned gaps by investigating whether competitive strategies have an influence on organisation performance. Find below research gap analysis as shown in Figure 2.

<b>Objective</b>	<b>Authors Reviewed</b>	<b>Purpose of the Study</b>	<b>Methodology</b>	<b>Findings</b>	<b>Conclusion</b>	<b>Gap</b>
Differentiation strategy	Hall and Saias (1980)	To establish relationship between strategy and structure of an organization.	Mixed research methodology	Indicated that firms which had applied a differentiation strategy had better performance.	With inclusion of differentiation strategy firms are bound to perform well.	Contextual Gap: researcher sought to establish the relationship between strategy and structure of organisation.  Different methodology used.
	Ju, Tong, Hu, and Sun (2017)	Determinants and Consequences of Product Differentiation Strategy.	Structural equation modelling	Product Differentiation Strategy is difficult to implement for firms from emerging markets.	Positive correlation between differentiation and performance	Area of study; China  Methodology: structural equation modelling.
	Adegbite, Osinowo, Omisore, and	Investigate if service differentiation was related with competitive	Mixed research methodology	Results indicated that service differentiation had significant	The conclusion of the study was differentiation	Contextual:  The researchers investigated

	Ayinde (2016)	advantage		impact on creating competitive advantage.	influences competitive advantage.	relationship between differentiation and competitive advantage.  Different methodology: the study used both primary and secondary data.  Area of study: transport system in Nigeria.
	Obado(2005)	To determine the competitive strategies employed by the sugar manufacturing firms in Kenya	Descriptive research methodology.  Purposive sampling	Customer loyalty helped the company to charge premium prices for its products.	To gain competitive advantage through differentiation, a firm must search out sources of uniqueness that are burdensome and time consuming to competing	Area of study: Sugar manufacturing firms in Kenya.  Methodology: Sampled the managers only.

					firms.	
	Rukia (2015)	Effect of competitive strategies on performance of manufacturing firms in Kenya.	Descriptive and explanatory research design. Sample size was 131 out of total population of 170	Differentiation strategy has positive influence on firm performance.	Concluded that manufacturing firms interested in enhancing their performance should pursue differentiation strategy	Methodology: Explanatory and descriptive research design.  Location. Firms considered for study were located in Nairobi and its environs.
	Githumbi (2017)	The effect of differentiation on performance of rice milling firms.	Mixed research design  Stratified sampling	Results showed that product, physical and service differentiation had a positive influence to the performance	There is positive correlation between differentiation and performance.	Area of study: rice milling firms in Kirinyaga county.  Methodology: stratified sampling was used to get the sample size
	Kireru, Ombui, and Omwenga (2016)	How Differentiation strategy affects achievement of competitive	Descriptive research design	Differentiation significantly affects performance	Through Product and service differentiation,	Area of study: Equity bank Kenya.

		advantage		positivity.	Equity Bank achieved competitive advantage.	
Cost leadership strategy	Lidasan (2016)	Relationship between social capital, Entrepreneurial Orientation, cost leadership strategy and cooperatives performance	Questionnaires used for data collection.  Partial Least Square Structural Equation Modelling approach was used to analyse data.	Result of the study suggested positive correlation between the constructs under study.	Cost leadership strategy does not moderate the relationship between Entrepreneurial Orientation and organizational performance	Contextual Gap: The study further examined the mediating effect of Entrepreneurial Orientation.  Area of study. Done in Malaysia
	Kasman(2012)	Cost-efficiency and economies of scale effect on technological growth among commercial banks	Case study  Data period (2002-2012)	Positive correlation was realised.	Economies of scale positively influenced profitability.	Area of study: Turkey  Contextual gap: effect of cost efficiencies and economies of scale on technological growth.

	Alamdari and Fagan (2005)	Effectiveness of the low-cost model and the effect on the profitability.	Model-based study	Low-cost models were achieving low operating costs.	Cost reduction strategy had positive relationship with profitability	Area of study: airline industry  Methodology: Model based study.
	Gorondutsea (2016)	Examined cost leadership strategy on performance of hotels.	Quantitative survey approach  Census sampling.	Cost leadership strategy had direct significant positive relationship.	Firms should adopt cost leadership strategy to improve performance.	Area of study: hotel industry in kano Nigeria.
	Barbara (2016)	Effect of low-cost strategy on performance	Mixed methodology	Positive relationship between low-cost strategy and performance	Competitive intensity does moderate relationship between low-cost strategy and firm performance	Industry type: Restaurants in Ghana  Area of study and methodology.
	Kuswatuka&Zimu to (2015)	Survival strategies employed by micro-finance institutions.	Mixed methodology	Differentiation of a financial services institution had most significant impact in gaining a competitive advantage	Firms gain competitive advantage over their rivals by adopting cost leadership strategies	Area of study: Zimbabwe. Contextual gap: parameters included cost leadership, differentiation and focus



	Alice, Omillo and Munyua, (2017)	Analysis of how cost leadership strategies results to performance improvement	Explanatory research design	Cost leadership had a significant positive effect	It was established that cost leadership is critical in performance improvement.	Area of study Different methodology
	Marangu, Mwiti, Thoronjo (2017)	Influence of cost leadership strategy on organizations' competitiveness of sugar firms	Descriptive cross sectional research design	Cost leadership has statistical positive influence on performance.	Cost leadership had high explanatory power.	Area of study: Sugar manufacturing firms in Kenya.  Different methodology.  Contextual gap: influence of cost leadership strategy on organizations' competitiveness .
	Nyaunchoand, Nyamweya, (2015)	Effects of cost leadership strategy on performance of LPGC	Survey design  Stratified sampling.  Questionnaires and interview schedule.	The study found out that cost leadership had significant relationship with performance.	Concluded that cost leadership influences the performance.	Area of study: Eldoret town.  Industry (LPGC)

	Atikiya, Mukulu, Kihoro and Waiganjo (2015)	Relationship between cost leadership strategy and the performance of manufacturing firms	Descriptive and explanatory research design A survey questionnaire and an interview guide was used.	Performance of manufacturing firms is significantly influenced by cost leadership strategy	Firms should adopt cost leadership strategy to improve performance	Area of study: manufacturing firms in Nairobi  Different Methodology used.
Diversification	Gul (2011)	The Effects of Integration Strategies on Organization's Performance	Entropy and Herfindahl Indices	Diversified organizations were outperformed by firms that were related	Diversification has positive relationship with performance	Area of study: location of the study Denmark  Contextual gap: title of the study; the effect of integration strategies on performance  The firm under investigation is manufacturing firm.
	Doaei, Ahmad, &Ismail (2014)	The relationship between product and international diversification with financial	Explanatory research design.  Regression analysis	Diversification had negative impact on financial performance	Related diversification is not advocated for adoption to	Area of Study: Bursa Malaysia.  Content gap: the study focused on financial

		performance			increase performance.	performance only
	Oladele (2012)	Effect of product diversification strategy on the performance	Panel regression analysis	Diversification strategy and performance were negatively related.	Diversification should be implemented with caution as it does not automatically result in improved performance.	Contextual gap: performance was measured using return on assets
	Amediku(2012)	To establish how income source diversification impacted bank performance	Case study linear regression was used for data analysis	Diversification impacted the performance of bank positively	For improved performance against competitor's diversification should be considered as critical strategic positioning	Area of study: Nigeria Methodology; linear regression analysis.
	Adamu&Zubairu (2016)	To establish impact of diversification on the performance of construction firms.	Case study Relied on secondary data	The findings revealed that undiversified firms performed much better as compared to firms that were	Diversification does not automatically result in improved profit margins	Area of study. Construction firms in Nigeria. Methodology: secondary data was used

				highly diversified in terms of Return on Total Assets and Profit Margin.		
	Adegbuy (2015)	To establish influence of differentiation strategy on financial performance of commercial banks in Uganda,	Cross-sectional design	A positive and statistically significant relationship between product differentiation strategy and financial performance was established.	There was direct relationship between product differentiation strategy and performance.	Area of study: Uganda Industry: Financial Sector
	Mukeshimana and Irechukwu (2016)	To establish influence of strategic placement on firms' performance of power producers	Descriptive research design	Differentiation strategy as a way of strategic positioning has direct	Differentiation strategy, costing and promotion, perceived quality as well as pricing strategy had positive and direct impact on performance of Power	Area of study: Rwanda Industry: Power generating firm

					Producers in Rwanda.	
	Wanjiru, (2016)	How Product diversification strategies determine performance of real estate	Explanatory research design	The research identified that Diversification had no significant effect on financial performance of merged institutions.	No direct relationship between diversification and performance.	Area of study: Real estate industry in Kenya.  Different Methodology
	Rotich, Okaka, Aywa (2011)	The impact of income source diversification on financial performance of commercial banks in Kenya	Census study  Data collection: relied heavily on documentary secondary data for 5-year study period (2005-2009).	Positive relationship between diversification and performance established.	Diversification level has a positive influence on financial performance.	Area of study: case study of commercial banks in Kenya (44) between 2005-2009.  Methodology: relied heavily on secondary data.
	Mathuva, 2015	Influence of revenue diversification on the financial performance	Case study	SACCOs with less concentrated revenue streams are associated with higher	Diversification has great impact on performance and cannot be	Duration under consideration was a span of 5 years (2008–

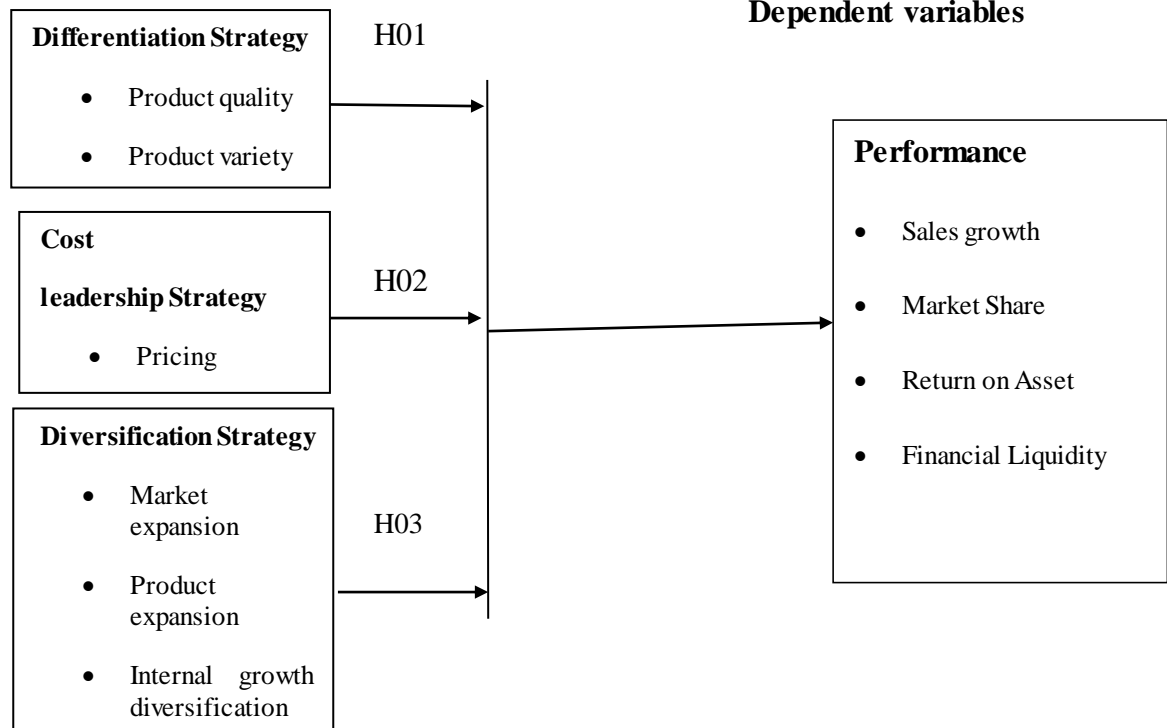
				volatility in returns.	ignored during strategy formulation and adoption	2013) Financial performance parameters include size, capital base, loan to assets, leverage and cost to income ratio.
	Ogada, Achoki & Njuguna (2016)	Influence of diversification on performance of merged institutions	Mixed research methodology.  Both primary and secondary data collected.	No significant effect of diversification on performance of merged institution.	Diversification had no significant correlation with firm performance.	Area of study: Merged financial institutions in Kenya.  Different methodology.

**Figure 2: Research Gap**

**Source: Researcher (2019)**

## 2.7 Conceptual Framework

### Independent variables



Source: Researcher (2019)

*Figure 3: Conceptual Framework*

The conceptual framework (Fig:3) shows the relationship between dependent and independent variables of this study. In this research, the dependent variable was the performance of the commercial banks in Kenya while independent variables were the competitive strategies which included product differentiation, cost leadership, and product diversification. The framework shows that performance is influenced by product differentiation, cost leadership and product diversification. The parameters used to measure product differentiation included product quality and product variety while cost leadership was measured in terms of the pricing. Parameters used in measuring product diversification included market expansion product expansion and internal growth. Performance which is the dependent variable of the study was measured by sales growth, the increase in market share, return on asset and financial liquidity.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter focused on the methodological procedures that were applied in conducting the study. The section identified data collection, processing and analysis procedures and techniques that were used. The sub-sections included research design, target population, sample size and sampling procedures, data collection instruments, validity of instruments, pilot study and data analysis techniques. Positivism philosophy was used as it assisted in analysing the quantitative data and also enhance the independence of the researcher.

#### **3.2 Research Design**

The study applied a cross-sectional survey design. According to Oso & Onen (2011), a research design is described as a specified plan on how the researcher intends to conduct, analyse and present the research outcomes within the set accuracy parameters to maximize the expected value for information. Cross-sectional research was used because the researcher wanted to gain information at that particular time. One of the advantages of cross-sectional studies is that since data is collected all at once, it's less likely that participants will quit the study before data is fully collected. Survey assisted in gathering data from a large sample; using many questions that touched on the constructs that were under investigation.

This design offers to the researcher a profile or describes relevant aspects of the phenomena of interest such as from an individual, organizational and industry-oriented perspective. Therefore, this design shall enable the researcher to gather data from a wide range of respondents on influence of competitive strategies on performance of commercial banks in Kenya.

#### **3.3 Area of study**

The research study was conducted in Lodwar Town. Lodwar is the headquarter of Turkana County Government in northwest Kenya, located west of Lake Turkana on the



A1 Road. The main economic activities in the region are: weaving, tourism, fishing and pastoral economy. It is poised to become the oil rich town in Kenya due to the recent discovery of commercially viable oil by the British firm, Tullow Oil. The oil discovery has attracted various investment opportunities in the County. The banking industry is among such investment opportunities and new financial institutions in the market would increase the competitiveness in the banking industry. Kenya Commercial Bank (KCB) has been the only banking institution in Lodwar with no branches in other sub-counties since 1984. However, other banks such as National Bank, Equity Bank and Cooperative Bank are the new entrants in the market. The new investments in the region can be attributed to formation of county governments which receives the second largest share of equitable share capital in the country, discovery of oil and increase in relative security in the region. Lodwar town was chosen for this study due to its socio-economic diversity and also is considered as the most populated arid county (Census, 2019). Map of area of study is shown in Appendix VII.

### **3.4 Target population**

The target population consisted of Banks managers, team leaders and operations staffs of Equity Bank, National Bank, Kenya Commercial Bank and Cooperative Bank of Kenya. The study was concerned with the influence of competitive strategies on performance of the commercial banks in Kenya. The target population was 100 bank staff from the four selected commercial banks in Lodwar town, which was made up of 4 branch managers, and 96 bank staff (Obtained from the human resource lists of all the four selected commercial banks in Lodwar town).

Table 3.1: Total population

Category	Managers	Banking Staff	Total no. of employees
Equity Bank	1	19	20
Kenya Commercial Bank	1	21	22
Cooperative Bank of Kenya	1	39	40
National Bank	1	17	18
<b>Total</b>	<b>4</b>	<b>96</b>	<b>100</b>

Source: Human Resource Data from the listed Commercial Banks (2019)

### 3.5 Sampling Design

Ngechu (2006) indicates that a sample size is the representative number of the entire population. In this respect, there is a need to identify a sample size that represents all the employees in the commercial banks operating in Lodwar. The idea of identifying a representative sample of the target population is known as sampling. Chisnall (2005) defines sampling as the process of selecting a representative number of subjects from a population for study. The study deployed census technique, targeting the 100 staff of the four commercial banks in Lodwar. According to Wong and Tatnall (2009) the census method is used in the research when all the subjects of the study population are equally important. Moreover, the census technique is also appropriate when the study population is small (Barichievy, 2018). The sample size in this study was therefore all the 100 staff members from the population of four selected Commercial Banks including 4 branch managers who were sampled for the interview schedule for additional information to augment the survey.

### 3.6 Data collection

The research collected primary data. Primary data in this case refers to first-hand information obtained from the representative sample of target population (Ellis & Levy,

2009). In this study, there was a need obtain first-hand information on the competitive strategies adopted by commercial banks in Lodwar and their influence on the performance. Primary data was preferred since it is real time (Barichievy, 2018). However, obtaining primary data is not only involving and relatively costly but also takes a relatively long time (Saunders, et al., 2009). Primary data is always specific to the needs of a study or researcher (Ellis & Levy, 2009). Having ensured that the instrument for gathering primary data is reliable and valid, the study obtained a relatively more accurate and reliable data.

### **3.6.1 Questionnaire**

The researcher used a questionnaire which was self-administered to team leaders and operational staff as the data collection tool for primary data. Questionnaire is commonly developed in line with set objectives and used to obtain valuable information about the population under study to which a respondent is expected to react, usually in writing (Ellis & Levy, 2009). The purpose of the tool was to collect a lot of information over a short period of time (Saunders, et al., 2009). Questionnaire was used because it allowed the researcher to gather information from a large audience objectively. The questionnaire had structured questions. The structured questions provided a set of answers from which the respondents chose the appropriate answers (Barichievy, 2018). Data from the questionnaire can easily be coded to establish the relationship between competitive strategies and performance.

### **3.6.2 Interview schedule**

Interview schedule was used to collect data from the managers in charge of the bank branches in Lodwar. The researcher administered the interviews. Mugenda and Mugenda (2003) observe that it is easier and faster for a researcher to get data from an interview. Interview schedule was used to enhance quality of data, confirm and/or solicit some of the uncovered information by use of questionnaires.

The researcher conducted interviews using a set of questions that were pre-prepared with the intention of obtaining knowledge, personal information, attitudes and opinions of each branch manager. This method was imperative since it allowed the interviewees to

respond to the queries and provide clarifications where necessary. The researcher also had the opportunity to probe for more detailed information to provide clarity rather than strictly following the interview guide. The researcher was also able to explain or rephrase the respondents' responses.

### **3.7 Reliability and validity**

#### **3.7.1 Validity of Instruments**

Ellis and Levy (2009) define validity in research as the extent to which a justifiable inference can be given about data ad sample drawn from the larger population. It is the degree to which the results obtained from the analysis of the data actually represent the phenomena under study. The questionnaires were used in the current study to measure the influence of competitive strategies on the performance of commercial banks in Lodwar. To ensure that it was valid, expert judgment was sought from the supervisors. The supervisors were asked to rate the relevant items/questions in connection to the research objectives, and the total number of relevant questions were divided by the total number of items. The following procedures were used to determine validity:  $\text{Relevant Items/Total Number of Items} = \text{Content Validity Index (CVI)}$ .

According to Polit and Beck (2006), the CVI of a research instrument should be greater than or equal to 0.78. The study's CVI was computed, and relevant adjustments were made, as well as the general suggestions of the experts on the instruments. Prior to data collection, improvements were made based on their recommendations. Questionnaire items were organized from easy to complex, and those that were difficult to understand were simplified. The CVI was 0.8.

#### **3.7.2 Reliability of Instruments**

Reliability on the other hand is the level of consistency upon which the study data collection tool can be relied on for credible results despite the change of the subject of study (Ellis & Levy, 2009). To test reliability of the data collection tools, a pilot study of 10% of study population as is stipulated in (Oso &Onen, (2005) was conducted in two main banks (Equity Bank and Kenya Commercial Bank) in Maralaltown. Since the target

population was 100, 10% was 10; hence, the rationale for selecting the 10. Maralal town is relatively similar in terms of socio-demographic characteristics of Lodwar Town. The questionnaires were distributed to the pilot sample and then collected. After 3 weeks, the questionnaires were redistributed again to the participants. The whole idea was to conduct a test-re-test approach to testing the reliability of the data collection instrument. Cronbach's alpha coefficient, which ranges from 0 to 1, was used to assess data reliability. This was correlated using the Statistical Programme for Social Sciences (SPSS) version 24. Higher alpha coefficient values indicate that the items used to measure the concept of interest are consistent. Generally, satisfactory alpha should be at least 0.70 or higher (Hair, Anderson, Tatham & Black, 2006). A correlation coefficient of 0.84 was obtained, which was deemed adequate for producing consistent study outcomes.

### **3.8 Data collection procedure**

Permission to carry out the research was sought from the Jaramogi Oginga Odinga University of Science and Technology through the School of Business and Economics. A Letter of introduction and information about the intended research was presented to management of these commercial banks and to the sampled staff members of the banks. The content of the letter was the scope, intention and confidentiality treatment of the data to be collected. Then researcher administered the questionnaire individually to team leaders and operational staff. Care and control by the researcher were exercised to ensure all questionnaires issued to the respondents were received. To achieve this, the researcher maintained a register of questionnaires, which was dropped and picked.

A face-to-face interview was conducted with four branch managers from KCB, Equity Bank, Co-operative Bank, and National Bank. Each interview schedule was labelled BM1, BM2, BM3 and BM4 for the purpose of gathering data from each bank branch Manager. The process was directed by questions that we set in line with the study objectives (Appendix III). These managers were chosen for the study since they have extensive knowledge of the competitive strategies of their banks and the impact of those strategies on the performance of the firms

### 3.9 Data analysis and presentation

Statistical and content analyses were adopted to analyse the quantitative data and qualitative information respectively. In a bid to elaborately and succinctly achieve the set objectives, the research considered the use of quantitative data to describe, explain and predict the relationship between variables by looking at the earlier strategies implementation procedures, individual bank's competitiveness and management skills and training by applying statistical measures such as frequencies, means and standard deviations (Ghauri and Gronhaug, 2005, 175). This was attained using statistical analyses. The statistical analyses involved the use of descriptive and inferential statistics. Descriptive statistics entailed the use of mean, media, percentages, and standard deviations while inferential statistics focused on correlational and inferential analyses. Qualitative data was analysed by applying comparisons, abstraction and categorization through the concept of content analysis (Saunders et al, 2003, 379). These two approaches provide an extensive analysis of the data obtained to draw clear inferences. Quantitative data analysis was aided by SPSS version 24 software programme which is the most current version in the market to generate quantitative reports.

For the inferential statistical analysis, the study determined the effects of the independent variables on the dependent variable. The study used the following models:

$$Perf_i = \beta_0 + \beta_1 IND_i + \varepsilon \dots \dots \dots \text{Model 1}$$

Where,  $Perf_i$  is the financial performance of the bank  $i$ ,  $IND$  is the independent variable (differentiation strategy, cost leadership strategy and diversification strategy) for the bank  $a$ , and  $\beta_0$  and  $\beta_1$  are the coefficients of independent variable and  $\varepsilon$  is the error term. Model 1 was used in answering each of the research question.

$$Perf_i = \beta_0 + \beta_1 DS_i + \beta_2 CLS_i + \beta_3 DIVS_i + \varepsilon \dots \dots \dots \text{Model 3}$$

Where,

$Perf_i$  is the financial performance of the bank  $i$ ,  $DS_i$  is the differentiation strategy adopted by bank  $i$ ,  $CLS_i$  is the cost leadership strategy used by bank  $i$ ,  $DIVS_i$  is the diversification strategy for bank  $i$ , and  $\beta_0$ ,  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  are the coefficients of independent variable and  $\varepsilon$  is the error term. Model 2 was used in finding how the competitive strategies can be used to predict the performance of the banks in general.

Qualitative data from the interviews was summarized by content analysis and sorted into themes, categories, and patterns. The data analysis results were presented in tables for the quantitative analysis and narration form for the qualitative data.

### **3.10 Ethical Consideration**

This is the application of moral rules and professional codes of conduct to the collection, analysis and publication of information about research subjects in particular acceptance of subjects right to honesty, confidentiality and intellectual property (Brooks and Marshal 1998; Orodho 2012). The researcher followed these ethical principles throughout the research process. Honesty as a principle was assured by presenting the consent letter and letter of postgraduate from the university to every respondent together with the questionnaire. Objectivity was ensured by not asking personal questions in the questionnaire but strictly focusing on the research objectives. Confidentiality was assured by presenting the data aggregates without sharing individual responses from the respondents and also the researcher informed the respondents that the results of this research were confidential and protective to each individual's anonymity. Intellectual property principle was upheld by acknowledging and citing the works of other researchers that was used in the study.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND DISCUSSION

#### 4.1 Introduction

Having conducted a survey and an interview, the present chapter offers the results of data analysis, interpretation, and discussion. The discussions are linked to findings from previous studies. Apart from accomplishing the three objectives, the chapter also explains the response rate as well as the composition of the participants.

#### 4.2 Response Rate

The research sought to establish the response rate of the respondents. The research targeted 100 respondents comprising all the employees in the major commercial banks in Lodwar together with the managers. While the employees assisted in the survey, the managers were used for conducting the interviews. At the end of the study, only 96 duly filled in questionnaires were obtained and 4 interviews were successfully conducted. Therefore, the study recorded 100% response rate in both the use of questionnaire and interviews. The rule of the thumb is that whenever the response rate is above 60% it is considered good enough and that the findings can be considered not only adequate but also reliable. Therefore, the response rate was good, representative, and conformed to the required standard of response rate which is 60% and above (Fincham, 2008). The high response rate was because the researcher constantly engaged research assistants. The findings are contained in the Table 4.1

Table 4.1: Response Rates from survey

Bank	Frequency	Percentage
Equity Bank	19	19.8%
Kenya Commercial Bank	21	21.9%
Cooperative Bank	39	40.6%
National Bank	17	17.7%
Totals	96	100%

Source: Researcher (2019)



From the interviews, all the 4 managers of the 4 banks agreed to take part in the study. Therefore, the study established a 100% response rate for the interviews.

### 4.3 Demographic Characteristics of the Respondents

#### 4.3.1 Gender of the Participants by Bank

The study asked participants about their gender so as to use the information to make an assumption and conclusion on the representative of the sample. For a sample to be representative of the target population, the assumption is that all genders should be represented. When only one gender is contained in the sample, the study would conclude that responses are biased. Motivated by such convictions, the study started by asking the participants their ages. The responses obtained are summarised below:

Table 4.2: Gender of the Participants by Bank

		Bank *Gender Cross-tabulation				Total	
		Gender					
		Male		Female		N	%
N	%	N	%				
Bank	Equity	12	21.8%	7	17.1%	19	19.8%
	KCB	12	21.8%	9	22.0%	21	21.9%
	Cooperative Bank	22	40.0%	17	41.5%	39	40.6%
	National Bank	9	16.4%	8	19.5%	17	17.7%
Total		55	100.0%	41	100.0%	96	100.0%

Source: Researcher (2019)

Out of the 96 respondents 55 (57.3%) of the employees in commercial banks in Lodwar were male whereas 41(42.7%) were female as shown in table 4.2. The implication is that majority of employees in commercial banks in Lodwar were male. In terms of the banks, Cooperative Bank had the highest number of both males and females with National Bank having the lowest number of males and Equity Bank having the lowest number of females among the four banks. The interpretation is that the banks are heterogeneous when it comes to the gender representation. The study findings are consistent with the fact that despite increased calls for gender equality, there are still gender differentials when it comes to employment. According to the findings, there seems to be disparity in

employment where male was more employed than female. Even though the study confirmed the gender differentials in employment, the fact that both genders were represented meant a representative sample.

#### 4.3.2 Composition of participants by Age

Other than using gender as a basis for making assumption and deduction on the representativeness of the sample, the study also asked participants about their ages. The idea was to understand whether the true picture of the population was represented in the sample. The study also examined composition of the sample based on age group. Apart from the assumption that a representative sample contains members from different ages in a target population, the study sought to confirm this assertion. The responses obtained are summarised in table 4.3:

Table 4.3: Age of the Participants by Bank

		Age *Bank Cross-tabulation									
		Bank								Total	
		Equity		KCB		Cooperative Bank		National Bank			
		N	%	N	%	N	%	N	%	N	%
Age	18 - 25	1	5.3%	0	0.0%	4	10.3%	3	17.6%	8	8.3%
	26 – 35	10	52.6%	9	42.9%	25	64.1%	6	35.3%	50	52.1%
	36 - 45	7	36.8%	4	19.0%	8	20.5%	4	23.5%	23	24.0%
	46+	1	5.3%	8	38.1%	2	5.1%	4	23.5%	15	15.6%
Total		19	100.0%	21	100.0%	39	100.0%	17	100.0%	96	100.0%

Source: Researcher (2019)

The age of the respondents shows that, majority of the participants, 52.1% were aged between 26 and 35 years followed by 24% of the participants being aged between 36 and 45 years. The least represented age, 8.3%, was between 18 and 25 years with 15.6% of the participants stating that they are above 46 years. The findings indicate that majority of the employees were aged 26 and 35 years considered as young adults. For the banks, all the banks had majority of their employees being between 26 and 35 years. There were a few elderlies who may be considered resourceful especially in issues to do with management. Jenster and Hussey (2011) in their study of Determining Strategic Capability in organizations associated age with employee efficiency in service delivery

where they indicated that there is a positive correlation between age and employee performance. He argued the older an employee was the higher the performance up to a certain age where performance would start declining.

### 4.3.3 Composition of participants by Level of Education

The study also needed to understand the types of employees in the Kenya's banking sector on the basis of education alongside using the information to establish whether the information obtained was from varied age groups. The level of education was also sought in the questionnaire. While understanding the level of education was important to get a picture of the employees in the banking industry in Lodwar, there was an assumption that when different levels of education are represented, the sample is representative. When asked to state their levels of education, the responses obtained were summarised in table 4.4.

Table 4.4: Level of Education by the Banks

		<b>Bank *Level of Education Cross-tabulation</b>						<b>Total</b>	
		<b>Level of Education</b>							
		Certificate or Diploma		University Graduate		University Postgraduate and above			
		N	%	N	%	N	%	N	%
Bank	Equity	5	45.5%	12	20.3%	2	7.7%	19	19.8%
	KCB	0	0.0%	10	16.9%	11	42.3%	21	21.9%
	Cooperative Bank	4	36.4%	27	45.8%	8	30.8%	39	40.6%
	National Bank	2	18.2%	10	16.9%	5	19.2%	17	17.7%
<b>Total</b>		<b>11</b>	<b>100.0%</b>	<b>59</b>	<b>100.0%</b>	<b>26</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

Source: Researcher (2019)

Based on the responses, 61.5% of the participants (59 out of the 96) were university graduates with 27.1% (26 out of the 96) being postgraduate and above and only 11.5% (11 out of the 96) having certificates and diploma. The interpretation is that commercial banks in Lodwar mainly employ graduates. For Equity, the majority had certificates and diplomas while for KCB, Cooperative, and National banks, the majority had post-

graduate and above, university graduate, and university postgraduate and above respectively. Nonetheless, since different levels of education were represented, which is typical of the target population, the study concluded that the sample was representative.

#### 4.3.4 Banks Represented

There are different commercial banks in Lodwar. However, the targeted ones included Equity, KCB, Cooperative Bank, and National Bank. The study was interested in finding out the completed questionnaires from the various banks. As a result, the study asked participants to indicate their banks. The responses obtained are summarised in Table 4.5

Table 4.5: Bank of the Participant

Bank	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Equity	19	19.8	19.8	19.8
KCB	21	21.9	21.9	41.7
Cooperative Bank	39	40.6	40.6	82.3
National Bank	17	17.7	17.7	100.0
Total	96	100.0	100.0	

Source: Researcher (2019)

According to the responses, 40.6% of the participants were from Cooperative Bank, 21.9% from KCB, 19.8% from Equity, and the remaining 17.7% from National Bank. The representation seems to auger well with the number of employees in each of the commercial banks. As per the data obtained from the commercial banks, in Lodwar Cooperative Bank is the largest by employee size followed by KCB, Equity, and National Bank in that order. The assumption based on these findings is that in Lodwar, Cooperative Bank is the biggest commercial bank in form of employees, which would trickle down to other aspects such as asset base and even performance. In addition, since different commercial banks were represented in the sample, the study further assumed that it (sample) was representative.

### 4.3.5 Banks versus the Bank Ownership

It was also important to know the bank ownership so as to understand the level of competition considering that private entities, unlike public entities, have enormous pressure when it comes to achieving their goals; hence, would worry about their competitive advantages more than the public entities. Unlike private ownership, public ownership seems to allow for more transparency when it comes to their performances; after all, they are owned by the public. When they were asked to state the bank ownership, the responses obtained are summarised in table 4.6

Table 4.6: Bank Ownership

		<b>Bank * Bank Ownership Cross-tabulation</b>				Total	
		Bank Ownership					
				Public	Public-Private		
		N	%	N	%	N	%
Bank	Equity	0	0.0%	19	32.8%	19	19.8%
	KCB	21	55.3%	0	0.0%	21	21.9%
	Cooperative Bank	0	0.0%	39	67.2%	39	40.6%
	National Bank	17	44.7%	0	0.0%	17	17.7%
<b>Total</b>		<b>38</b>	<b>100.0%</b>	<b>58</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

Source: Researcher (2019)

According to the responses, 60.4% of the participants (38 out of 96) indicated that their banks were public while the remaining 39.6% (58 out of 96) indicated that their banks are public-private. There were no employees from the privately-owned bank. This made it easier for the study to gather data and information needed. The study also focused on determining which of the banks were public and the ones that were public-private. Based on the summary, KCB and National Bank were found to be public entities while Cooperative Bank and Equity were found to be a combination of private and public. However, the dynamic is that even with the public banks, there are indications of allowing for investments from individuals and other institutions other than the government. Nonetheless, even with the public banks, the members of public have also been invited to own shares other than the government. This explains why the identified banks are listed in the Nairobi Stock Exchange

#### 4.3.6 Position at the Bank by the Banks

Since there are different positions held in the bank, there was a need to find out whether all the positions are represented in the sample. The study asked participants to indicate their positions and the responses obtained are summarised in table 4.7:

Table 4.7: Role in the Bank

		<b>Bank * Role in the Bank Cross-tabulation</b>						Total	
		Team Leaders		Operations Staff		Others			
Bank	Equity	N	%	N	%	N	%	N	%
	Equity	5	29.4%	8	14.5%	6	25.0%	19	19.8%
	KCB	4	23.5%	10	18.2%	7	29.2%	21	21.9%
	Cooperative Bank	5	29.4%	24	43.6%	10	41.7%	39	40.6%
	National Bank	3	17.6%	13	23.6%	1	4.2%	17	17.7%
<b>Total</b>		<b>17</b>	<b>100.0%</b>	<b>55</b>	<b>100.0%</b>	<b>24</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

Source: Researcher (2019)

According to the responses, 72.9% were operations staff, 22.9% were team leaders, and the remaining 4.2% were branch managers. This was a reflective of the number of employees and their positions in the four commercial banks identified. For instance, the four branch managers were also involved in the study, which means that apart from offering the administrative authority or permission for the study to be conducted, they also participated. Majority of the employees within the commercial banks in Lodwar are banking staff including the tellers, customer service officers, and back-office staff. The operations staff were assumed to have knowledge of the performance as well as the competitive strategies their banks adopt. In addition, the study assumed that since all the different positions were represented, the sample was representative.

#### 4.3.7 Length of Service by Bank

Length of service was also considered as an essential aspect especially in making assumption of the knowledge possessed by the employees towards competitive strategies and performances adopted by the banking industry. The length of service was for the period the participant had been working in Lodwar. The assumption is that when an

employee has been in the company for reasonably long enough, he or she is well conversant with the operations of the company. Therefore, the study asked participants to state their years of service and the responses obtained are summarised in table 4.8:

Table 4.8: Years of Service

<b>Bank * Years of Service Cross-tabulation</b>											
		Years of Service								Total	
		< 2 years		2 - 5		6 - 10s		> 10			
		N	%	N	%	N	%	N	%	N	%
Bank	Equity	1	12.5%	15	24.6%	3	16.7%	0	0.0%	19	19.8%
	KCB	0	0.0%	14	23.0%	3	16.7%	4	44.4%	21	21.9%
	Cooperative Bank	6	75.0%	25	41.0%	7	38.9%	1	11.1%	39	40.6%
	National Bank	1	12.5%	7	11.5%	5	27.8%	4	44.4%	17	17.7%
Total		8	100.0%	61	100.0%	18	100.0%	9	100.0%	96	100.0%

Source: Researcher (2019)

According to the responses, 63.5% (61 out of 96) of the employees have worked in their banks for between 2 and 5 years with 18.8% (18 out of 96) having worked for between 6 and 10 years. The study found out that 9.4% (9 out of 96) of the employees had served their respective banks for more than 10 years with only 8.3% (8 out of 96) having worked for less than 2 years. The interpretation here is that approximately 91.7% of the employees have served their respective banks for more than 2 years, which is considered reasonably enough for one to understand the operations of the bank. In this case, the study assumed that the employees had adequate knowledge of the performances and competitive strategies used by the banks and that the information provided was considered reliable.

#### 4.3.8 Existence of the Organisation

The study was interested in finding out the length of service as a measure of whether the company has been able to overcome competition, which would then be used to make inferences about the competitive strategies adopted. Moreover, the existence was also essential in understanding whether the bank has stayed long enough to have a better view of the Lodwar market; hence, the ability to come up with effective competitive strategies. When asked about the existence of the bank, all the participants indicated more than 10 years. A decade is long enough for a bank to understand the levels of competition and adopt effective competitive strategies. The study also assumed that a decade is enough period for companies with weak competitive strategies to exit the market. Therefore, for the four banks to be in operations for more than 10 years, the implication is that they have been able to sustain competition; hence, considered good cases for examining how competitive strategies can be used to influence the performances of the banks.

#### 4.4 Level of Competition and Performance in Banking Industry in Lodwar

##### 4.4.1 Competition in the Banking Industry in Lodwar

After examining the different demographic characteristics of the participants, the study needed to understand the level of competition in the banking industry in Lodwar. Different statements were developed, and participants asked to state their level of performance in comparison to the competitors in a scale of 1 to 6 (1 = worse than competitors and 6 = better than competitors).

Table 4.9: Level of Competition in the Banking Industry in Lodwar

	N	Mean	SD
Sales growth of bank	96	5.30	.634
Market share gained in the past 2 years	96	5.20	.829
Return on assets realized by the bank	96	5.04	.882
The financial liquidity of the bank	96	5.26	.932
Public image and customer loyalty	96	5.60	.640
Compliments from customers as received in the suggestion box	96	5.21	.845



Considering the means of the responses from the participants, they are all averaged at 5 with public image and customer loyalty having a mean of 6. This is after rounding off the means to whole numbers. The interpretation is that the participants indicated the banks performance had improve significantly. This further means that the commercial banks in Lodwar have in place sustainable competitive strategies; hence, form good cases for examining and evaluating how such strategies would be influential on the performances of the banks.

Apart from the quantitative data, the study also gathered qualitative information from the interviews on the levels of competition in banking industry in Lodwar. The study asked the branch managers who were involved in the interview *“In your years of service within the banking industry, how would you describe the general level of competition?”* The study received several responses from the different managers. Interviewee 1 noted that:

*The competition levels are very high here in Lodwar. Every commercial bank is competing for available market. Apart from the commercial banks, there are also other micro-finance institution that also contributes towards competition. Therefore, I would say the level of competition here is very high.*

Interviewee 1

According to Interviewee 2 *“there is a high level of competition from different banks around Lodwar especially given that the market is a bit small”*. Interviewee 3 also indicated that indeed there is stiff competition among commercial banks alongside the other micro-finance institutions. Interviewee 4 noted *“considering the low switching costs in the banking industry, there seems to be high level of competition since it is possible for one bank to steal the customers of another bank”*. These responses clearly indicate that there is still competition in the banking industry in Lodwar.

The level of competition alongside the sustainable competitive strategies adopted by the commercial banks in Lodwar are consistent with the provisions of resource-based theory. The findings validate the theory, which posits that an organization can be considered as a

collection of physical resources, human resources, and organizational resources (Barney, 1991; Amit and Shoemaker, 1993). Notably, for organisations to develop a sustainable competitive advantage, the resources should be valuable, rare, imperfectly imitable, and imperfectly substitutable (Barney, 1991). These would significantly contribute towards performance. In the early stage of the Resource based theory, the main concern was to identify the characteristics of resources that are not subject to imitation by competitors. However, Barney (1991) argues that even if the resources possessed by a firm can easily be replicated by competitors and even though the resources are the source of competitive advantage of the firm, then the advantage will not last long. Therefore, it is evident in the case of the commercial banks in Lodwar that banks have been able to adequately use their resources to achieve sustainable competitive advantage. This leads to the idea that they (banks) can perform on average of better than competitors.

The findings further validate the provisions of the Porters Generic Model. According to Porter (1980), business competition remains the major determinant of the success or failure of a business. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture or good implementation. Johnson et al (2004) argues that competitive rivals are organizations with similar products and services targeting the same customers. Superior performance of any business entity can be achieved in a competitive industry through the pursuit of a competitive strategy. In their analysis, Thompson and Strickland (2010), a company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces. Therefore, the banks, by performing on average or better than their competitors, have in place sustainable competitive advantage, which would then influence their performances. Based on these aspects, the study needs to also understand the levels of performance before establishing how they (levels of performance) related to competitive advantage.

#### **4.4.2 Overall Performance of the Commercial Banks in Lodwar**

The other focus was on the performance of the commercial banks in Lodwar. This was considered as the response or dependent variable in this case. Notably, despite stiff competition in the banking industry in Lodwar, commercial banks have put in place

sustainable competitive strategies to compete effectively with their peers. The study developed several statements relating to overall performance of commercial banks in Lodwar. Participants were asked to state, in scale of 1 to 6 (1 = strongly disagree and 6 = strongly agree), the extent to which they agreed with the statements. A descriptive statistical analysis of the responses yielded the following results

Table 4.10: Performance of the Commercial Banks in Lodwar

Performance of the Commercial Banks in Lodwar	Bank	N	Mean	SD
Our return on assets has been well above the industry average		96	5.29	.710
Our value added per employee has been well above the industry average		96	4.73	1.081
We have had excellent relationships with suppliers following genuine partnerships		96	5.59	.674
We have had long-term partnerships with the suppliers		96	5.69	.604
There has been minimal employee turnover		96	5.29	.664
Productivity of our employees has been higher than the industry average		96	5.44	.558
Overall growth and improved performances in different sectors/departments of the bank		96	5.41	.535
Performance of the Bank		96	5.35	.479

Source: Researcher (2019)

Notably, the performance of the bank index or construct was established by obtaining the average of the responses of participants for all the items that were used in the analysis. In this case, the performance of the bank was established as:

$$\text{Performance} = (\text{Item 1} + \text{Item 2} + \text{Item 3} + \text{Item 4} + \text{Item 5} + \text{Item 6} + \text{Item 7})/7$$

Where, the items are the statements provided to the participants of which there was a need to rate their level of agreement in a Likert scale of 1 to 5

From the descriptive statistics, the study confirmed that on average the participants agreed with the fact that their return on assets has been well above the industry average in the past two years ( $M = 5.29$ ,  $SD = .710$ ). In addition, the study confirmed that on

average the participants agreed with the fact that their value added per employee has been well above the industry average in the past two years ( $M = 4.73$ ,  $SD = 1.081$ ). Responses from the participants further show that on average there is a strong agreement to the effect that the banks had excellent relationships with suppliers following genuine partnerships ( $M = 5.59$ ,  $SD = .674$ ). Responses also indicated that on average, the participants strongly agreed with the fact that they have had long-term partnerships with the suppliers in the past two years ( $M = 5.69$ ,  $SD = .604$ ). Apart from agreeing with the fact that there has been minimal employee turnover in the past two years ( $M = 5.29$ ,  $SD = .664$ ), the study also established that on average participants agreed to the fact that productivity of employees has been higher than the industry average ( $M = 5.44$ ,  $SD = .558$ ), overall growth and improved performances in different sectors/departments of the bank ( $M = 5.41$ ,  $SD = .535$ ). The composite means of performance ( $M = 5.35$ ,  $SD = .479$ ) indicated that on average the participants agreed to the performances of the banks.

The significance of the above findings is that they offer basis for evaluating the overall performances of the banks in Lodwar. The findings corroborate the submissions by Armstrong (2010) indicating that performance is a continuous and flexible process that involves managers and those whom they manage acting as partners within a framework that sets out how they can best work together to achieve the required results. Consistent with the study by Wheelan and Hunger (2010), the present study findings confirm that performance results from several activities, which includes the actual outcomes of the strategic management process. Lebas and Euske (2002) also had consistent findings by stating that performance is about the capability to generate future results. Therefore, given the responses from the participants, it can be concluded that indeed performance is an essential component and commercial banks in Lodwar have continued to focus on performances. Performance of the commercial banks as per the study has been evaluated based on return on assets, value addition, excellent relationships with suppliers, long-term partnerships with suppliers, minimal employee turnover, productivity of the employees, and overall growth. It would be interesting to find out whether such performances can be linked to competitive strategies or not.

#### 4.5 Assumptions of Linear Regression

The study developed four main constructs, namely, performance, product differentiation, cost leadership, and diversification strategies. To determine how these variables related, the study preferred the use of regression analysis over correlational analysis. This is because regression analysis offered a model that allowed for predicting the dependent variable using the independent variable while correlation only offered the relationships. In the regression analysis, the ordinary least squares were used. The ordinary least squares were anchored on the following assumptions:

- i) Regression model can be expressed in a linear way
- ii) Expected mean error of the estimated regression model = 0
- iii) Error term has a constant variance (homoscedasticity).
- iv) Errors are independent, which means that there is no autocorrelation nor multicollinearity
- v) Errors should be approximately normally distributed

In a bid to have BLUE (Best Linear Unbiased Estimators), the study conducted tests to ascertain whether the assumptions highlighter was violated or not. The following sections offer the results of testing for the assumptions of the ordinary least squares used in the study:

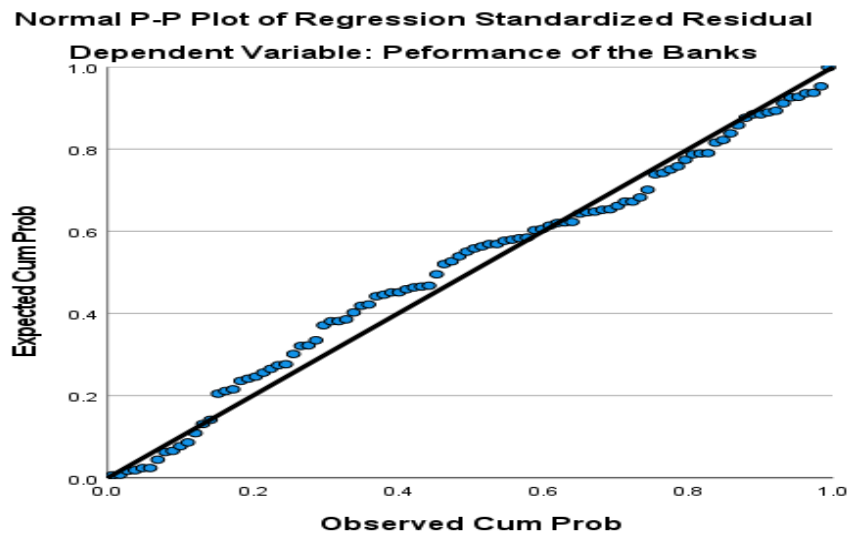
The study used a combination of normal P-P plot, scatterplot of the residuals, and the VIF values for purposes of establishing whether the assumptions of normality, linearity, and multicollinearity were violated or not. The first test was that of normality. The study used Shapiro-Wilk and KS Test for the residuals. The results are as follows:

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.078	96	.184	.974	96	.055

a. Lilliefors Significance Correction

Findings show that both the Shapiro-Wilk and KS Test have  $p$  values that are  $> .05$ . This means that the study failed to reject the  $H_0$  that the distribution of normal. To

further confirm the normality assumption, the study developed a normal P-P plot as follows:



**Figure 1: Normal P-P Plot**

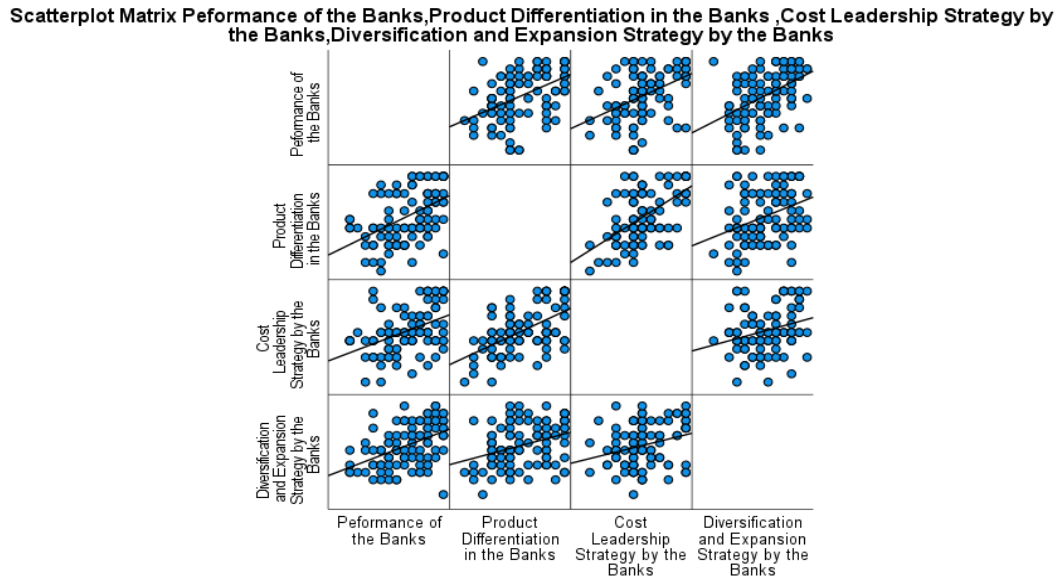
Based on the results, it can be established that the residuals tend to follow the normality line. The results indicate that, despite some residuals following out of the line, they follow the normality line, which therefore indicates that the residuals are normally distributed. The conclusion is that the assumption of normality is not violated. In addition, the study established the descriptive statistics of the residuals and predicted values in respect to the assumption that the expected mean of the error = 0. The results are summarised in the following figure:

**Descriptive Statistics**

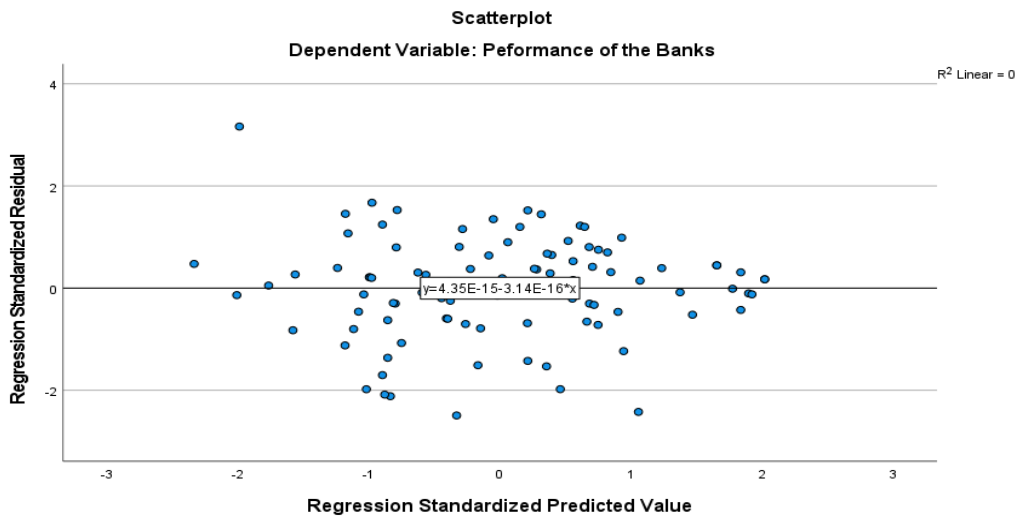
	N	Minimum	Maximum	Sum
Predicted Value	96	4.67296	5.93258	513.42857
Residual	96	-.96669	1.22704	.00000
Valid N (listwise)	96			

The results above show that the sum of the residuals = 0. This confirms the second assumption indicating that the expected mean error of the estimated regression model = 0. The conclusion from such findings is that the assumption is not violated.

In testing for linearity and homoscedasticity assumptions, scatter plot was used. The first scatterplot was for testing linearity assumption. The results are as follows:



Given the matrix scatter plot, the study concludes that the assumption of linearity was not violated. The study then developed the scatter plot for the residuals to test whether the assumption of homoscedasticity was violated or not. The results are as follows:



The results of the scatter plot show that there is equal distribution of the points below and above zero on the X-axis as well as to the right and left of the Y-axis. When the residuals

appear equally distributed above and below the X-axis and to the right and left of the Y-axis, the assumption of homoscedasticity is not violated. Therefore, the study, courtesy of the plot, concludes that the assumption of homoscedasticity in the dataset was not violated.

To further confirm the assumption of homoscedasticity, the study conducted a regression analysis with the squares of residuals as the dependent variable. The results are shown below:

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.416	3	.139	2.578	.058 <sup>b</sup>
	Residual	4.950	92	.054		
	Total	5.366	95			

a. Dependent Variable: Squares of residuals

b. Predictors: (Constant), Diversification and Expansion Strategy by the Banks, Cost Leadership Strategy by the Banks, Product Differentiation in the Banks

According to the F-statistic, the  $p$  value  $> .05$ ; hence, at 5% significance level, the study failed to reject the  $H_0$  that there is homoscedasticity in the dataset, which indicates no problems of heteroscedasticity. The results led to the conclusion that the assumption of homoscedasticity was not violated by the dataset.

The last assumption was that of autocorrelation or multicollinearity. The study used the VIF to test whether the assumption was violated or not. The results of the VIF tests conducted are summarised in the following table:

Model		Collinearity Statistics		Durbin-Watson
		Tolerance	VIF	
1	(Constant)			2.013
	Product Differentiation in the Banks	.634	1.578	
	Cost Leadership Strategy by the Banks	.665	1.503	
	Diversification and Expansion Strategy by the Banks	.871	1.148	



According to the findings, the Durbin-Watson test = 2.013. The rule of the thumb is that values between 1.5 and 2.5 are considered normal; hence, no multicollinearity. In this case, the Durbin-Watson test statistic, which is 2.013 falls within the range. The VIF values are also less than 10. Therefore, the study confirms that there is no multicollinearity.

Overall, the diagnostic tests conducted show that all the assumption of the linear regression or ordinary least squares were not violated. Since none of the assumptions was violated, there was no need for any transformation of the data. In this case, the study assumed that the estimates obtained were BLUE.

#### **4.6 Influence of Competitive Strategies on Performance of Commercial Banks in Lodwar**

##### **4.6.1 Differentiation Strategy and Performance of Commercial Banks in Lodwar**

In the first objective, the study aimed at assessing the influence of differentiation strategy on performance of banks in Lodwar Town. In a bid to achieve this objective, the study used a combination of the quantitative and qualitative research data. The first part includes quantitative research data and its analysis whereas the second part focuses on qualitative research data and analysis to augment the former.

The study started by finding out the level of differentiation in the bank. The participants were asked to rate (in a scale of 1 to 6 where 1 = very low and 6 = very high) the level of differentiation and the responses obtained are summarised as shown in table 4.12.

Table 4.11: Rate the level of differentiations in your bank

		<b>Bank * Rate the level of differentiations in your bank Cross-tabulation</b>							
		<u>Rate the level of differentiations in your bank</u>							
		Moderate		High		Very High		Total	
		N	%	N	%	N	%	N	%
Bank	Equity	0	0.0%	13	25.0%	6	14.6%	19	19.8%
	KCB	1	33.3%	13	25.0%	7	17.1%	21	21.9%
	Cooperative Bank	2	66.7%	18	34.6%	19	46.3%	39	40.6%
	National Bank	0	0.0%	8	15.4%	9	22.0%	17	17.7%
<b>Total</b>		<b>3</b>	<b>100.0%</b>	<b>52</b>	<b>100.0%</b>	<b>41</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

Source: Researcher (2019)

Given the responses, the study noted that 54.2% of the participants (52 out of 96) indicated that the commercial banks have a high level of differentiation while 42.7% (41 out of 96) indicated a very high. Only 3.1% (3 out of 96) indicated a moderate low of differentiations with none of the participants indicating low to very low levels of differentiation. The interpretation here is that more than 96.1% of the participants confirmed high to very high levels of differentiation. This further means that commercial banks in Lodwar are adequately involved in differentiation strategy as one of the competitive strategies. Nonetheless, the level of product differentiation differed from one bank to another. Having established that, the study went ahead to determine whether the levels of differentiation adopted by the commercial banks in Lodwar affect their performances. The study started by explaining the measurement of the constructs using different statements or items as illustrated in the following descriptive statistics:

Table 4.13: Differentiation Strategy in Commercial Banks in Lodwar

Parameters	N	Mean	SD
Our bank has been involved in widening its branch network	96	5.40	.624
There has been improvement of grace payment period for customers	96	5.32	.673
There has been introduction and enhancement of mobile phone services	96	5.25	.740
Our bank has increased the innovation and invention in the products and service it offers	96	5.35	.598
Our bank has focused on making its products unique in terms of quality and presentation	96	4.92	.879
Our bank has been able to develop a strong value proposition in the banking industry	96	5.15	.711
Differentiation Strategy	96	5.2309	.50977

Source: Researcher (2019)

Generally, the overall mean of differentiation strategy ( $M = 5.23$ ,  $SD = .510$ ) shows that on average the participants agreed with the aspects of differentiation in their commercial banks. All the other statements also had means = 5 when rounded off to the nearest whole number, which further imply that the participants agreed with the statements regarding differentiation strategy in the commercial banks in Lodwar. Looking at each of the statement, all of them apart from “Our bank has focused on making its products unique in terms of quality and presentation” ( $M = 4.92$ ,  $SD = .879$ ) and “Our bank has been able to develop a strong value proposition in the banking industry” ( $M = 5.15$ ,  $SD = .711$ ) had higher means than the overall mean. The interpretation is that they had a weak impact in measuring the differentiation strategy. Nonetheless, the study included them towards understanding the differentiation in commercial banks in Lodwar.

Therefore, given the fact that commercial banks in Lodwar engage in diversification strategy, a regression analysis was conducted to test the hypothesis that “*differentiation strategy has a positive influence on performance of commercial banks in Lodwar Town*”. The results of the regression analysis are summarised in the following tables:

VARIABLES	Equity Performance	KCB Performance	Coop Performance	National Bank Performance	Overall Performance
Product Differentiation Strategy	0.399** (0.254)	0.590*** (0.200)	0.385*** (0.103)	0.588** (0.255)	0.457*** (0.0847)
Constant	3.271** (1.286)	2.084* (1.055)	3.422*** (0.545)	2.267 (1.361)	2.958*** (0.445)
Observations	19	21	39	17	96
F-statistics	6.78**	8.70**	13.96**	5.32**	29.13**
R-squared	0.127	0.314	0.274	0.262	0.237

Standard errors in parentheses  
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

In light of Model 1 and the results of the coefficients, the regression equation is written as follows:

1. Equity: Performance = 3.271 + 0.399\*Differentiation Strategy
2. KCB: Performance = 2.084 + 0.590\*Differentiation Strategy
3. Cooperative Bank: Performance = 3.422 + 0.385\*Differentiation Strategy
4. National Bank: Performance = 2.267 + 0.588\*Differentiation Strategy
5. Overall: Performance = 2.958 + 0.457\*Differentiation Strategy

From the model summary, the developed model indicates that 23.7% of the variations in performances in commercial banks in Lodwar (r-squared = 0.237) can be explained by changes in differentiation strategy of the banks. The low explanation power of 23.7% could be explained on the basis of having only one predictor variable. In other words, the model used only differentiation strategy as the predictor variable. This means that there are many other factors accounting for the remaining 76.3% variations in the performance of the commercial banks in Lodwar. Generally, the explanatory power of a model is influenced by the number of predictor variables; few predictor variables would result into low explanation power while numerous predictor variables would result into high explanation power. The F-statistic = 29.13 has a *p* value < .05, which shows that at 5% significance level, the beta to the predictor variable is not equal to zero. A combination of the r-square and F-statistic show that the model was a good fit for the data.

Looking at the coefficients to differentiation strategy in all the models, the  $p < .05$ , which means that the study rejected the null hypothesis and accepted the alternative hypothesis indicating that at 5% significance level, differentiation has a positive influence on the performance of the commercial banks in Lodwar Ceteris paribus, increasing the differentiation by 1 unit will cause the performance of the commercial banks in Lodwar to increase by 0.457 units (overall). Therefore, the study, courtesy of the quantitative results, indicate that differentiation strategy has a statistically significant positive effect on the performance of commercial banks. In terms of the specific banks, the effect of product differentiation is highest in the case of KCB (beta = 0.590) followed by National Bank (beta = 0.588) with Cooperative Bank having the lowest effect of product differentiation on the performance (beta = 0.385).

The study augmented the quantitative findings with qualitative information by asking the interviewees “*How does differentiation strategy influence performance of your bank?*” The responses obtained confirmed that indeed differentiation strategy influences performance of the commercial banks in Lodwar. According to Interviewee 1:

*I believe that differentiation strategy influences performances of our bank positively. When there is differentiation, the bank taps on different customers. The idea behind product differentiation is to create various products meeting the varied needs of the customers. Therefore, our bank can tap more revenues; hence, affecting the performance positively.*

Interviewee 1

Interviewee 2 further noted that

*Differentiation strategy affects the performance of our banks positively. From the strategy, our banks influence customers to pick our products over the other available financial products. Therefore, it is possible that differentiation strategy would influence the performance of our banks positively.*

Interviewee 2

Based on the responses from Interviewees 3 and 4, it is evident that differentiation strategy positively affects the performance of commercial banks in Lodwar. When there is enhanced product differentiation, consumers are influenced to pick or prefer a product to those of the competitors; hence, increasing the revenues. Increase in revenues is one of the ways of positively influencing performance of the commercial bank in Lodwar.

#### 4.6.2 Cost Leadership Strategy and Performance of Commercial Banks in Lodwar

The second objective of the study was to establish the influence of cost leadership strategy on banks performance in Lodwar Town. This objective was attained through a combination of the quantitative and qualitative research data. The first part of the analysis looks at the quantitative research data and its analysis whereas the second part using qualitative research data and analysis to augment the former.

The study started by finding out the level of differentiation in the bank. The participants were asked to rate (in a scale of 1 to 6 where 1 = very low and 6 = very high) the level of differentiation and the responses obtained are summarised as follows:

Table 4.14: Rate the level of cost reduction strategies in your bank

		Rate the level of cost reduction strategies in your bank * Bank Cross-tabulation									
		Bank									
		Equity		KCB		Cooperative Bank		National Bank		Total	
		N	%	N	%	N	%	N	%	N	%
Rate the level of cost reduction strategies in your bank	Low	0	0.0%	0	0.0%	1	2.6%	0	0.0%	1	1.0%
	Fairly Low	1	5.3%	0	0.0%	0	0.0%	0	0.0%	1	1.0%
	Moderate	1	5.3%	4	19.0%	4	10.3%	1	5.9%	10	10.4%
	High	13	68.4%	14	66.7%	23	59.0%	13	76.5%	63	65.6%
	Very High	4	21.1%	3	14.3%	11	28.2%	3	17.6%	21	21.9%
Total		19	100.0%	21	100.0%	39	100.0%	17	100.0%	96	100.0%

Source: Researcher (2019)

Given the responses, the study noted that 65.6% of the participants indicated that the commercial banks have a high level of cost reduction strategies while 21.9% indicated a

very high. Only 10.4% indicated a moderate level of cost reduction strategies with 1% of the participants indicating low to very low levels of cost reduction strategies respectively. The interpretation here is that more than 87.5% of the participants confirmed high to very high levels of cost reductions in their banks. This further means that commercial banks in Lodwar are adequately involved in cost reductions strategy as one of the competitive strategies. Having established that, the study went ahead to determine whether the levels of cost reduction strategies adopted by the commercial banks in Lodwar affect their performances. The study started by explaining the measurement of the constructs using different statements or items as illustrated in the following descriptive statistics:

Table 4.15: Cost Leadership Strategy in Commercial Banks in Lodwar

	N	Mean	SD
Our bank has been able to review its costs downwards to attract and retain more customers	96	4.98	.858
Our bank has continuously endeavoured to offer the best quality products and services are considerably lower costs than competitors	96	5.02	.754
Our bank has been able to minimize on some expenses especially energy, which is then transferred to the reduction of costs to customers	96	4.99	.718
Our bank has been able to improve on the efficiency of its employees	96	5.40	.607
Our bank has reduced wastage of resources, which culminates into efficiency and cost reduction	96	4.83	.902
Cost Leadership Strategy	96	5.0437	.54692

Source: Researcher (2019)

Generally, the overall mean of cost reduction strategy ( $M = 5.04$ ,  $SD = .547$ ) shows that on average the participants agreed with the aspects of cost reductions strategies in their commercial banks in Lodwar. All the other statements also had means = 5 when rounded off to the nearest whole number, which further imply that the participants agreed with the statements regarding product differentiation strategy in the commercial banks in Lodwar. Looking at each of the statement, all of them apart from “Our bank has been able to

improve on the efficiency of its employees” (M = 5.40, SD = .607) had lower means than the overall mean. The interpretation is that they had a weak impact in measuring the cost reduction strategy. Nonetheless, the study included them towards understanding the cost reduction strategies that are being adopted by commercial banks in Lodwar.

Therefore, given the fact that commercial banks in Lodwar engage in diversification strategy, a regression analysis was conducted to test the hypothesis that “*cost leadership strategy has a positive influence on performance of commercial banks in Lodwar Town*”.

The results of the regression analysis are summarised in the following tables:

VARIABLES	Equity Performance	KCB Performance	Coop Performance	National Performance	Overall Performance
Cost leadership Strategy	0.189** (0.247)	0.313 (0.214)	0.372*** (0.0955)	0.566** (0.218)	0.385*** (0.0811)
Constant	4.354*** (1.220)	3.627*** (1.067)	3.543*** (0.492)	2.505** (1.118)	3.407*** (0.412)
Observations	19	21	39	17	96
F-statistics	6.59**	7.56**	15.20**	6.76**	22.51**
R-squared	0.033	0.102	0.291	0.311	0.193

Standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

In light of Model 1 and the results of the coefficients, the regression equation is written as follows:

1. Equity: Performance = 4.354 + 0.189\*Cost Leadership Strategy
2. KCB: Performance = 2.528 + 0.538\*Cost Leadership Strategy
3. Cooperative Bank: Performance = 2.528 + 0.538\*Cost Leadership Strategy
4. National Bank: Performance = 2.528 + 0.538\*Cost Leadership Strategy
5. Overall: Performance = 2.528 + 0.538\*Cost Leadership Strategy

From the model summary, the developed model indicates that 19.3% of the variations in performances in commercial banks in Lodwar (r-squared = 0.193) can be explained by changes in cost reduction strategies of the banks. The low explanation power of 19.3% could be explained on the basis of having only one predictor variable. In other words, the model used only cost leadership strategy as the predictor variable. This means that there



are many other factors accounting for the remaining 80.7% variations in the performance of the commercial banks in Lodwar. Generally, the explanatory power of a model is influenced by the number of predictor variables; few predictor variables would result into low explanation power while numerous predictor variables would result into high explanation power. The F-statistic = 22.51 has a  $p$  value  $< .05$ , which shows that at 5% significance level, the beta to the predictor variable is not equal to zero. A combination of the r-square and F-statistic show that the model was a good fit for the data.

Looking at the coefficients to cost leadership strategy for all the models, the  $p < .05$ , the study rejected the null hypothesis and accepted the alternative hypothesis indicating that at 5% significance level, cost leadership strategy has a positive influence on the performance of the commercial banks in Lodwar. Ceteris paribus, increasing the cost leadership strategy by 1 unit will cause the performance of the commercial banks in Lodwar to increase by 0.385 units (overall model). Therefore, the study, courtesy of the quantitative results, indicate that cost leadership strategy has a statistically significant positive effect on the performance of commercial banks. In terms of the specific banks, the effect of cost leadership strategy is highest in the case of National Bank (beta = 0.566) followed by Cooperative Bank (beta = 0.372) with Equity Bank having the lowest effect of cost leadership strategy on the performance (beta = 0.189).

The study augmented the quantitative findings with qualitative information by asking the interviewees “Which aspect of cost leadership influence performance of your bank?” The responses obtained confirmed that indeed product differentiation strategy influences performance of the commercial banks in Lodwar. According to Interviewee 1:

*I believe that cost leadership in general would influence the performance of my banks. The idea of reviewing costs downwards for our products and services has a significant effect on the revenues. Most of our clients are price sensitive, which would mean a slight decrease in price will attract many of them. So, I believe that downward review of the prices or costs would positively impact on the performance of our banks.*

Interviewee 1

Interviewee 2 also indicated that

*There are various cost leadership strategies that our bank employ, which then would be influential in its performance. Of the many cost leadership strategies, our bank is involved in offering best quality products and services are considerably lower costs than competitors. As a result, it would improve on the performance of the firm.*

Interviewee 2

The Interviewee 3 noted that “*minimising of expenses is our main cost leadership strategy, which ensures that with high revenues we are able to record high profits*”. On a different perspective, Interviewee 4 indicated that

*For our bank, the focus is on improving efficiency of the employees by engaging in several activities. With improved efficiency we are able to reduce wastages especially when it comes to serving customers. In addition, our bank is able to reduce wastage of resources culminating into overall efficiency and reduction of costs, which leads to improved performances.*

Interviewee 4

Generally, the study findings from the interviewees augment the quantitative findings that cost leadership has a positive effect on the performance of the commercial banks in Lodwar.

#### **4.6.3 Diversification Strategy and Performance of Commercial Banks in Lodwar**

The third objective was to determine the influence of diversification strategy on performance of commercial banks in Lodwar Town. This was attained through a combination of the quantitative and qualitative research data. The first part includes the quantitative research data and its analysis whereas the second part is qualitative research data and analysis to augment the former.

The study started by finding out the level of diversification in the bank. The participants were asked to rate (in a scale of 1 to 6 where 1 = very low and 6 = very high) the level of diversification and the responses obtained are summarised as shown in table 4.16.

Table 4.16: Extent to which one would consider diversification activities in your bank

<b>Extent to which one would consider diversification activities in your bank * Bank</b>										
<b>Cross-tabulation</b>										
	<b>Bank</b>									
	<b>Equity</b>		<b>KCB</b>		<b>Cooperative Bank</b>		<b>National Bank</b>		<b>Total</b>	
	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>	<b>N</b>	<b>%</b>
Very Low Extent	0	0.0%	0	0.0%	0	0.0%	1	5.9%	1	1.0%
Fairly Low Extent	2	10.5%	1	4.8%	0	0.0%	1	5.9%	4	4.2%
Moderate Extent	8	42.1%	8	38.1%	11	28.2%	4	23.5%	31	32.3%
High Extent	9	47.4%	7	33.3%	18	46.2%	6	35.3%	40	41.7%
Very High Extent	0	0.0%	5	23.8%	10	25.6%	5	29.4%	20	20.8%
<b>Total</b>	<b>19</b>	<b>100.0%</b>	<b>21</b>	<b>100.0%</b>	<b>39</b>	<b>100.0%</b>	<b>17</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

Source: Researcher (2019)

Given the responses, the study noted that 41.7% of the participants indicated that the commercial banks have a high extent of diversification while 32.3% indicated moderate extent with 20.8% indicating high extent. Only 4.2% indicated fairly low extent of diversification with only 1% indicating very low extent of diversification within their banks. The interpretation here is that more than 94.8% of the participants confirmed moderate to very high extent of diversification as a competitive strategy. This further means that commercial banks in Lodwar are adequately involved in diversification strategy as one of the competitive strategies.

The study started by finding out the level of market expansion in the bank. The participants were asked to rate (in a scale of 1 to 6 where 1 = very low and 6 = very high) the level of differentiation and the responses obtained are summarised as follows:

Table 4.17: Market expansion activities in your bank

Market expansion activities in your bank * Bank Cross-tabulation										
	Equity		Bank				National Bank		Total	
	N	%	KC B	N	%	Cooperative Bank	N	%	N	%
Very Low	1	5.3%	1	4.8%	0	0.0%	0	0.0%	2	2.1%
Low	2	10.5%	2	9.5%	3	7.7%	1	5.9%	8	8.3%
Fairly Low	2	10.5%	3	14.3%	0	0.0%	1	5.9%	6	6.3%
Moderate	3	15.8%	6	28.6%	8	20.5%	4	23.5%	21	21.9%
High	10	52.6%	4	19.0%	14	35.9%	5	29.4%	33	34.4%
Very High	1	5.3%	5	23.8%	14	35.9%	6	35.3%	26	27.1%
		100.0		100.0						100.0
Total	19	%	21	%	39	100.0%	17	100.0%	96	%

Source Researcher (2019)

Given the responses, the study noted that 34.4% of the participants indicated that the commercial banks have a high level of market expansion while 27.1% indicated a very high. In addition, while 21.9% indicate moderate level of market expansion, 8.3%, 6.3%, and 2.1% indicating low, fairly low, and very low extent of market expansion respectively. The interpretation here is that more than 83.3% of the participants confirmed moderate to very high extent of market expansion.

Having established that, the study further sought to determine whether the diversification strategies adopted by the commercial banks in Lodwar affect their performances. The study started by explaining the measurement of the constructs using different statements or items as illustrated in the following descriptive statistics:

Table 4.18: Diversification Strategies among Commercial Banks in Lodwar

Parameters	N	Mean	SD
Our bank has developed new product lines that are complementary and related to existing products	96	5.30	.634
Our bank, through existing banking system, has introduced new products	96	5.26	.771
Our bank has used the existing relationship managers to come up with and market new products	96	5.08	.829
Our bank has engaged in partnerships and links with other retailers especially supermarkets to offer additional products	96	5.23	.888
Our bank has come up with additional subsidiary (subsidiaries) to help in promoting its products	96	5.35	.754
Our bank has engaged in horizontal mergers and acquisitions to aid in offering additional products	96	5.26	.669
Our bank has penetrated new markets across the region	96	5.21	.807
Diversification Strategy	96	5.2426	.41565

Source: Researcher (2019)

Generally, the overall mean of diversification strategy ( $M = 5.24$ ,  $SD = .416$ ) shows that on average the participants agreed with the aspects of product differentiation in their commercial banks in Lodwar. All the other statements also had means = 5 when rounded off to the nearest whole number, which further imply that the participants agreed with the statements regarding diversification strategy in the commercial banks in Lodwar. Looking at each of the statement, all of them apart from “Our bank has used the existing relationship managers to come up with and market new products” ( $M = 5.08$ ,  $SD = .829$ ), “Our bank has engaged in partnerships and links with other retailers especially supermarkets to offer additional products” ( $M = 5.23$ ,  $SD = .888$ ), and “Our bank has penetrated new markets across the region” ( $M = 5.21$ ,  $SD = .807$ ) had lower means than the overall mean. The interpretation is that they had a weak impact in measuring the diversification strategy. The study included them towards understanding the diversification strategy in commercial banks in Lodwar.

Therefore, given the fact that commercial banks in Lodwar engage in diversification strategy, a regression analysis was conducted to test the hypothesis that “*diversification strategy has a positive influence on performance of commercial banks in Lodwar Town*”. The results of the regression analysis are summarised in the following tables:

VARIABLES	Equity Performance	KCB Performance	Coop Performance	National Performance	Overall Performance
Diversification Expansion Strategy	0.220**	0.853***	0.490***	0.533*	0.538***
	(0.322)	(0.262)	(0.138)	(0.268)	(0.105)
Constant	4.117**	0.867	2.843***	2.616*	2.528***
	(1.717)	(1.329)	(0.734)	(1.403)	(0.553)
Observations	19	21	39	17	96
F-statistic	9.86**	10.60**	12.65**	5.96**	26.21**
R-squared	0.027	0.358	0.255	0.209	0.218

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

In light of Model 1 and the results of the coefficients, the regression equation is written as follows:

1. Equity: Performance = 4.117 + 0.22\*Diversification Strategy
2. KCB: Performance = 0.867 + 0.853\*Diversification Strategy
3. Cooperative Bank: Performance = 2.843 + 0.49\*Diversification Strategy
4. National Bank: Performance = 2.616 + 0.533\*Diversification Strategy
5. Overall: Performance = 2.528 + 0.538\*Diversification Strategy

From the model summary, the developed model indicates that 21.8% of the variations in performances in commercial banks in Lodwar (r-squared = 0.218) can be explained by changes in diversification strategy of the banks. The low explanation power of 21.8% could be explained on the basis of having only one predictor variable. In other words, the model used only diversification strategy as the predictor variable. This means that there are many other factors accounting for the remaining 78.2% variations in the performance of the commercial banks in Lodwar. Generally, the explanatory power of a model is

influenced by the number of predictor variables; few predictor variables would result into low explanation power while numerous predictor variables would result into high explanation power. The F-statistic = 26.21 has a  $p$  value  $< .05$ , which shows that at 5% significance level, the beta to the predictor variable is not equal to zero. A combination of the r-square and F-statistic show that the model was a good fit for the data.

Looking at the coefficient to diversification strategy,  $\beta = 0.538$ , the  $p < .05$ , the study rejected the null hypothesis and accepted the alternative hypothesis indicating that at 5% significance level, diversification strategy has a positive influence on the performance of the commercial banks in Lodwar. Ceteris paribus, increasing the diversification strategy by 1 unit will cause the performance of the commercial banks in Lodwar to increase by 0.538 units. Therefore, the study, courtesy of the quantitative results, indicate that diversification strategy has a statistically significant positive effect on the performance of commercial banks. In terms of the specific banks, the effect of diversification strategy is highest in the case of KCB (beta = 0.853) followed by National Bank (beta = 0.533) with Equity Bank having the lowest effect of diversification strategy on the performance (beta = 0.220).

The study augmented the quantitative findings with qualitative information by asking the interviewees “*How do you carry out product diversification in your bank?*” The responses obtained confirmed that indeed diversification strategy influences performance of the commercial banks in Lodwar. According to Interviewee 1:

*In the last five years or so, our bank has come up with new product lines that are considered complimentary to the existing ones. The implication has been increased consumption of the new product lines. You know the trick is to have complimentary products so that customers consumer them alongside the existing products, which would then influence the overall performances.*

Interviewee 1

Interviewee 2 also indicated that

*Apart from introducing new products through the existing banking system, our bank is also involved in partnerships and additional links that has seen as have more customer base. The end result has been increased revenue from the customers; hence, improved performances. The whole idea is to open up more revenue streams for our bank.*

Interviewee 2

The Interviewee 3 noted that

*There has been horizontal and vertical mergers between our bank and other finance and non-financial institutions. The mergers and acquisitions have increased our synergies. In addition, we have also developed a few subsidiaries in the name of having stalls around the village, which ensure that the unbanked can now access financial services.*

Interviewee 3

On a different perspective, Interviewee 4 indicated that

*Our bank has been able to spread its wings to the village areas of the town. We are able to tap on the many customers. We have also penetrated new markets across the county and the many partnerships and relationships we have had remain influential especially with respect to the revenues we derive from customers.*

Interviewee 4

Generally, the study findings from the interviewees augment the quantitative findings that diversification strategy has a positive effect on the performance of the commercial banks in Lodwar. In other words, the study has indicated that when a firm is involved in diversification strategy, there is improved performances.

#### **4.6.4 Competitive Strategies and Performance of Commercial Banks in Lodwar**

The study also wanted to find out whether a general model can be used to predict performance of commercial banks in Lodwar using the competitive strategies of differentiation, cost leadership and diversification. The results of examining how the



different aspects can be used to predict performances of the commercial banks in Lodwar are summarised in the following tables:

Therefore, given the fact that commercial banks in Lodwar engage in diversification strategy, a regression analysis was conducted to find out how diversification strategy affects the performance of the banks. The results of the regression analysis are summarised in the following tables:

VARIABLES	Equity Performance	KCB Performance	Coop Performance	National Performance	Overall Performance
Product Differentiation Strategy	0.378** (0.272)	0.430** (0.265)	0.0645** (0.146)	0.375** (0.274)	0.243** (0.0980)
Cost leadership Strategy	0.164** (0.250)	0.0512** (0.241)	0.256** (0.121)	0.278** (0.276)	0.178** (0.0892)
Diversification Expansion Strategy	0.0730** (0.334)	0.725** (0.251)	0.327** (0.150)	0.287** (0.285)	0.370*** (0.103)
Constant	2.183*** (2.153)	1.000** (1.455)	2.061*** (0.715)	0.486** (1.640)	1.240** (0.576)
Observations	19	21	39	17	96
F-statistic	5.98**	6.92**	8.32**	7.98**	17.63**
R-squared	0.158	0.550	0.416	0.432	0.365

Standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

In light of Model 1 and the results of the coefficients, the regression equation is written as follows:

1. Equity: Performance = 2.183 + 0.378\*PDS + 0.164\*CLS + 0.073\*DVS
2. KCB: Performance = 1.00 + 0.43\*PDS + 0.0512\*CLS + 0.725\*DVS
3. Cooperative Bank: Performance = 2.061 + 0.0645\*PDS + 0.256\*CLS + 0.327\*DVS
4. National Bank: Performance = 0.486 + 0.375\*PDS + 0.278\*CLS + 0.287\*DVS
5. Overall: Performance = 1.24 + 0.243\*PDS + 0.178\*CLS + 0.370\*DVS

From the results, the model summary indicates that 36.5% of the variations in performances in commercial banks in Lodwar ( $r\text{-squared} = 0.365$ ) can be explained by changes in competitive strategies of the banks. The low explanation power of 36.5% could be explained on the basis of having only few predictor variables. In other words, the model used only differentiation strategy, cost leadership strategy, and diversification strategy as the predictor variables. This means that there are many other factors accounting for the remaining 64.5% variations in the performance of the commercial banks in Lodwar. Generally, the explanatory power of a model is influenced by the number of predictor variables; few predictor variables would result into low explanation power while numerous predictor variables would result into high explanation power. Compared to the previous models where only one variable was used, the model with three variables seems to have the highest explanation power. The F-statistic = 17.64 has a  $p$  value  $< .05$ , which shows that at 5% significance level, the beta to the predictor variable is not equal to zero. A combination of the r-square and F-statistic show that the model was a good fit for the data.

Looking at the coefficients to the competitive strategies, the study noted that they are all statistically significant and positive. According to the findings, differentiation strategy,  $\beta = 0.243$  has a  $p < .05$  indicating that at 5% significance level, differentiation has a positive influence on the performance of the commercial banks in Lodwar. Ceteris paribus, increasing the product differentiation by 1 unit will cause the performance of the commercial banks in Lodwar to increase by 0.243 units. The findings also noted that the coefficient to cost leadership strategy  $\beta = 0.178$  has a  $p < .05$  indicating that at 5% significance level, cost leadership strategy has a positive influence on the performance of the commercial banks in Lodwar. Ceteris paribus, increasing the product differentiation by 1 unit will cause the performance of the commercial banks in Lodwar to increase by 0.178 units.

The findings further indicate that the coefficient to diversification strategy  $\beta = 0.370$  has a  $p < .05$  indicating that at 5% significance level, diversification strategy has a positive influence on the performance of the commercial banks in Lodwar. Ceteris paribus, increasing the differentiation by 1 unit will cause the performance of the commercial

banks in Lodwar to increase by 0.370 units. From the findings, diversification strategy has the greatest impact followed by differentiation strategy with cost leadership strategy having the least impact on the performances of the commercial banks in Lodwar.

The study augmented the quantitative findings with qualitative information by asking the interviewees “*Which strategies does your bank use to enhance performance of the bank?*” The responses obtained confirmed that indeed differentiation strategy influences performance of the commercial banks in Lodwar. All the interviewees indicated that competitive strategies are the most adopted in influencing the performance of the commercial banks. While Interviewee 1 and 2 highlighted the use of differentiation strategy and cost leadership strategies, Interviewees 3 and 4 had the same feeling of using diversification as the main strategies for enhancing competitiveness of the commercial banks.

#### 4.7 Summary of Hypothesis Testing

In respect to the findings, the following table offers a summary of the hypothesis testing conducted.

Hypothesis	Decision	Conclusion
Differentiation strategy has a positive influence on performance of commercial banks in Lodwar Town	Reject the $H_0$ ; hence, the hypothesis is supported	Product differentiation strategy can be used to positive influence the performance of banks in Lodwar Town
Cost leadership strategy has a positive influence on performance of commercial banks in Lodwar Town	Reject the $H_0$ ; hence, the hypothesis is supported	Cost leadership strategy can be used to positive influence the performance of banks in Lodwar Town
Diversification strategy has a positive influence on performance of commercial banks in Lodwar Town	Reject the $H_0$ ; hence, the hypothesis is supported	Diversification and market expansion strategy can be used to positive influence the performance of banks in Lodwar Town

Source: Author (2019)

#### **4.8 Discussion of the Findings**

In this study, the aim was to establish the influence of competitive strategies on performance of commercial banks in Lodwar Town. In the first objective, the study aimed at assessing the influence of differentiation strategy on performance of banks in Lodwar Town. From the descriptive statistic, the study established the increased use of product differentiation strategies among the commercial banks in Lodwar Town. Consistent with the present study findings, Ju, Tong, Hu, and Sun (2017) established that when organization is using differentiation strategy, it focuses its ability to offer unique product or service. In another study, Rukia (2015) had similar findings to the present study by establishing that unique product or service provides high customer loyalty and I return makes the organization the market leader of the entire industry. With respect to differentiation strategy, Githumbi (2017) also had similar findings to those of the present study by indicating that differentiation fulfils a customer need and involves tailoring the product or service to meet customer needs. This means that differentiation remains an essential strategy towards enhancing the competitive advantage of an entity. In other study, Johnson and Scholes (2009) also had similar findings by alluding to the fact that the uniqueness of a product or service allows the firm to charge a premium price for the product or service.

In addition, the study, courtesy of the inferential statistical analysis, found out that product differentiation strategy has a positive effect on the performance of the banks in Lodwar Town. This means that when the banks engage in more product, they will experience an increase in performances. The present study findings are consistent to those of Adegbite, Osinowo, Omisore, and Ayinde (2016) that undertook to find out whether service differentiation was related with competitive advantage by specifically focusing on the country's National Railway Corporation in Nigeria. Their results indicated that service differentiation had significant impact on creating competitive advantage for Nigerian Railway Corporation particularly in a standardized business environment. Consistent with the present study findings, Ju, et al. (2017) undertook to study the determinants and consequences of product differentiation strategy using Chinese indigenous exporters as their case study. They found that product differentiation

strategy was significantly associated with export performance in a positive manner, and the effect was stronger for firms exporting to developed markets. Adegbite, et. al. (2019) and Kireru, Ombui, and Omwenga (2016) also found out that there is a positive relationship between product differentiation strategy and performances of entities. Even though the contexts in which the reviewed studies were conducted differ from that of the present study, the conclusion is that differentiation strategy has a positive impact on the performances of entities.

The second objective of the study was to establish the influence of cost leadership strategy on banks performance in Lodwar Town. The descriptive statistical analysis established the fact that the banks have in place cost leadership strategy as one of the pillars of enhancing their competitive advantage. The findings validate the provisions of the Porter's Generic Competitive Strategies, which posit that in cost leadership, a firm sets out to become the low-cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry (Peteraf, 1993). The study findings also validate the provisions of Porter's generic competitive strategies indicating that a low-cost producer must find and exploit all sources of cost advantage. Consistent with the submissions of Amit and Zott (2001), the study has found from the responses that products are to be created at the lowest cost in the industry. Moreover, as stated by Kotler and Armstrong (2012), the study also established from the responses that to succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals. The interpretation in these responses is that commercial banks in Lodwar have continue to engage in cost reduction strategies as a way of attaining sustainable competitive advantage. It would be imperative to figure out whether the extensive involvement in the cost reduction strategies has any effect on the performance of the commercial banks.

The inferential statistical analysis on the other hand pointed out that despite the variations in the impacts of cost leadership strategy on the performances of the commercial banks in Lodwar Town, the strategy had a general positive impact on the performances. Consistent with the present study findings, Alamdari and Fagan (2005) discussed the effectiveness of the low-cost model and the effect on the profitability of airlines showing that the

airline with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated and selling at a standard market price. In another study with similar findings, Adegbite, et. al. (2019) found out that banks adopting this strategy place emphasis on cost reduction in every activity in the value chain. A study by Atikiya, Mukulu, Kihoro and Waiganjo (2015), which examined the relationship between cost leadership strategy and the performance of manufacturing firms in Kenya also had similar findings to the present study. The study found out that performance of manufacturing firms is significantly influenced by cost leadership strategy. However, the study used explanatory research design which uses small sample sizes and thus findings cannot be generalized to a larger population. Given these findings, the present study, alongside previous studies confirm the fact that cost leadership strategies have a statistically significant and positive effect on the performance of commercial banks in Lodwar.

The third objective was to determine the influence of diversification strategy on performance of commercial banks in Lodwar Town. The descriptive statistical results indicated that the banks are involved in diversification and expansions. The responses from the participants are consistent with several other studies especially with respect to diversification. Consistent with the responses, Haug and Ultich (2013) indicated that diversification has become a popular survival strategy among organizations to outpace competitors. From other studies, Castaldi and Giarratana (2017) and Makau and Ambrose (2017) established that whether in related form or not, diversification is a strategic option used by more and more managers to improve performance. Rowe (2014) also had consistent findings with the responses of this study by indicating that organizations have chosen from among several available strategic alternatives to make the best use of the available resources to reach predetermined goal regarding increased performance. It should also be noted that consistent with the responses, Rowe (2014) indicated that diversification strategy is another essential factor for assessing the banks' performance. According to Kim, Hoskisson and Wan (2004), diversification is a marketing strategy, developed in 1957 as part of the Igor Ansoff's product matrix. Moreover, diversification strategy has been used in the past as a tool for honing the various firms beyond banking sector in terms of meeting the desired objectives (Sanya& Wolfe, 2011). Therefore, the

study concludes that diversification is one of the strategies adopted by organisations to achieve sustainable competitive advantage.

Inferential statistical analysis on the other hand noted that, even though the effects differ from one bank to another, diversification and market expansion strategy positively affects the performance of the commercial banks in Lodwar Town. The present study findings are consistent with those of Gul (2011), which examined the effect of integrated strategies on performance, using 147 manufacturing organizations in Denmark. According to the findings, Gul (2011) noted that manufacturing industries have the highest average performance measure and related integrated companies outperform unrelated diversified organization. Martinez-Campilo (2016) also had consistent findings with the present study by building on agency-stewardship approach to examine the benefits of related and unrelated diversification strategies on leadership style, using 183 firms in Spain. The result highlighted that the relevance of leadership style has a positive impact on the profitability and growth of diversified firms. Consistent with the present study findings, Berger, Hasan and Zhou (2010) highlighted that although a lot of studies have been done to assess diversification and bank's performance, there is no consensus and evidence to back up the postulation. Moreover, Turkmen and Yigit (2012) argue that diversification within the banking sector also leads to increase in the agency cost that may lead to value-depreciating activities, majorly by the managers when they lower their personal risk.

The present study findings are also consistent with those of Santarelli and Tran (2016) who conducted a study in Vietnam on firm's profitability and diversification activities. The study showed that diversification has a curvilinear effect on profitability but with an associated decline in performance. Oyedijo (2012), from a sample of 48 companies made up of 15 specialized, 11 related, 14 unrelated and 8 mixed diversified organizations, noted that diversification has a positive effect on the performance of companies. In another study, Oladele (2012) revealed that an inverse relationship exists between diversification strategy and performance due to shareholders' influence. Taylor and Francis (2010) conducted a study that examined various competitive strategies applied in the banking sector establishing that most banks concentrated on countries or geographical



regions in which they have affinity in terms of culture or economic. In these perspectives, the present study, alongside the previous studies, confirm that diversification strategy has a statistically significant positive effect on the performance of commercial banks.

The study also wanted to find out whether a general model can be used to predict performance of commercial banks in Lodwar using the competitive strategies of differentiation, cost leadership and diversification. The study findings established that competitive strategies in general have a positive effect on the performance of the commercial banks. The findings are consistent with several other studies conducted in the past on the effect of competitive strategies on performance. According to the study by Madsen and Walker (2015), competitive strategy is long term action plan that helps a firm or a company to sustainably gain competitive advantage in the industry over the rival firms. In addition, Madsen and Walker (2015) also found out that competitive strategy's aim is to create defensive position for a firm while generating more revenue to the company. The study by Jayawardhana and Weerawardena (2014) also noted that competitive strategy is key for helping a firm in forecasting. Study by Swayne, Duncan and Ginter (2013) also had similar findings to the present study by indicating that the strategies formulated aims at maximizing customer service breakdown to attract and retain customers. Based on the findings by Eichegreen and Arteta (2000), competitive strategies help organizations to describe their current and future businesses as well as determining the marketplaces to venture into.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The present study aimed at assessing the influence of competitive strategies on performance of commercial banks in Lodwar Town. In a bid to achieve this aim, the study focused on assessing the influence of product differentiation strategy on performance of banks in Lodwar Town. In addition, the study established the influence of cost leadership strategy on banks performance in Lodwar Town. The last objective of the study was to determine the influence of diversification strategy on performance of commercial banks in Lodwar Town. The present chapter offers a summary of the findings, conclusions, recommendations, and areas for further research.

#### 5.2 Summary of Finding

##### 5.2.1 To assess the influence of differentiation strategy on performance of banks in Lodwar Town.

In the first objective, the study aimed at assessing the influence of differentiation strategy on performance of banks in Lodwar Town. In a bid to achieve this objective, the study tested the hypothesis “*differentiation strategy has a positive influence on performance of commercial banks in Lodwar Town*”. This was attained through a combination of the quantitative and qualitative research data. The study found out that commercial banks in Lodwar are adequately involved in differentiation strategy as one of the competitive strategies. In addition, the study, courtesy of the quantitative results, indicate that differentiation strategy has a statistically significant positive effect on the performance of commercial banks ( $r = .486, p = .000$ ). In addition, the regression analysis shows that differentiation strategy positively predicts performance of commercial banks in Lodwar ( $\beta = .457, p = .000$ ). Even though the contexts in which the reviewed studies were conducted differ from that of the present study, the conclusion is that differentiation strategy has a positive impact on the performances of entities.

### **5.2.2 To establish the influence of cost leadership strategy on banks performance in Lodwar Town**

The second objective of the study was to establish the influence of cost leadership strategy on banks performance in Lodwar Town. In a bid to achieve this objective, the study tested the hypothesis that “*cost leadership strategy has a positive influence on performance of commercial banks in Lodwar Town*”. This was attained through a combination of the quantitative and qualitative research data. Based on the responses, the study noted that commercial banks in Lodwar are adequately involved in cost reductions strategy as one of the competitive strategies. In addition, it was established from the responses that commercial banks in Lodwar have continue to engage in cost reduction strategies as a way of attaining sustainable competitive advantage. From the quantitative findings, the study indicate that cost leadership strategy has a statistically significant positive correlation with the performance of commercial banks in Lodwar ( $r = .440, p = .000$ ). The regression results further show that cost leadership strategy positively predicts the performance of commercial banks in Lodwar ( $\beta = .385, p = .000$ ). Given the quantitative and qualitative findings, the present study, alongside previous studies confirm the fact that cost leadership strategies have a statistically significant and positive effect on the performance of commercial banks in Lodwar.

### **5.2.3 To determine the influence of diversification strategy on performance of commercial banks in Lodwar Town**

The third objective was to determine the influence of diversification strategy on performance of commercial banks in Lodwar Town. In a bid to achieve this objective, the study to test the hypothesis that “*diversification strategy has a positive influence on performance of commercial banks in Lodwar Town*”. Responses from the participant indicates that commercial banks in Lodwar are adequately involved in diversification strategy as one of the competitive strategies. The conclusion from the responses is that diversification is one of the strategies adopted by organisations to achieve sustainable competitive advantage. The study also established, courtesy of the quantitative results, that diversification strategies have a statistically significant positive correlation with the performance of commercial banks ( $r = .467, p = .000$ ). The regression results further

show that diversification strategy positively predict the performance of commercial banks in Lodwar ( $\beta = .538, p = .000$ ). From the combination of the quantitative and qualitative findings, the present study, alongside the previous studies, confirm that diversification strategies have a statistically significant positive effect on the performance of commercial banks in Lodwar.

### **5.3 Conclusion**

#### **5.3.1 To assess the influence of differentiation strategy on performance of banks in Lodwar Town**

Given the findings related to the first objective, the study concludes that differentiation strategies have a statistically significant positive correlation ( $r = .486, p = .000$ ) with the performance of commercial banks in Lodwar. The study also concludes that differentiation strategy positively predicts performance of commercial banks in Lodwar ( $\beta = .457, p = .000$ ). This means that differentiation strategies in a commercial bank would cause the performance of the bank to also increase. Therefore, the study concludes that banks with enhanced differentiation strategies are likely to perform better than banks with low or inadequate level of differentiation strategies.

#### **5.3.2 To establish the influence of cost leadership strategy on banks performance in Lodwar Town**

In line with the findings of the second objective, the study concludes that there is a positive and statistically significant relationship with the performance of commercial banks in Lodwar ( $r = .440, p = .000$ ). In addition, the study concludes that cost leadership strategy positively predicts the performance of commercial banks in Lodwar ( $\beta = .385, p = .000$ ). In this case, when cost leadership strategies are introduced and enhanced in a commercial bank, there is likely to be improved performance. Therefore, the study concludes that commercial banks can engage cost leadership strategy as a way of influencing their financial performances.

### **5.3.3 To determine the influence of diversification strategy on performance of commercial banks in Lodwar Town**

From the findings of the third objective, the study concludes that diversification strategy has a positive correlation with the performance of commercial banks ( $r = .467, p = .000$ ). The study also concludes that diversification strategy positively predicts the performance of commercial banks in Lodwar ( $\beta = .538, p = .000$ ). In this respect, when there are diversification activities, which were used to measure diversification strategy, there is likely to be enhanced performance. Therefore, that commercial banks can engage diversification strategy as a way of influencing their financial performances.

## **5.4 Recommendations of the study**

### **5.4.1 To assess the influence of differentiation strategy on performance of banks in Lodwar Town**

With reference to the first objective findings and conclusion, the study recommends that commercial banks should increase the frequency of developing differentiation strategies. These should include: widening of branch network, improving of grace payment period for customers, introducing and enhancing of mobile phone services, increasing the innovation and invention in the products and service it offers, making its products unique in terms of quality and presentation, and developing a strong value proposition in the banking industry. These aspects were identified as essential measures of product differentiation within commercial banks in Lodwar; hence, recommended as the main ways through which banks can enhance their differentiation strategy, which will then result into improved performances.

### **5.4.2 To establish the influence of cost leadership strategy on banks performance in Lodwar Town**

In regards to the second objective, commercial banks should widen the scope of cost leadership strategy to include: reviewing costs downwards to attract and retain more customers, continuously offering the best quality products and services are considerably lower costs than competitors, minimizing on some expenses especially energy, which is

then transferred to the reduction of costs to customers, improving on the efficiency of its employees, and reducing wastage of resources, which culminates into efficiency and cost reduction. These recommended approaches would result into enhanced cost leadership. The enhanced cost leadership will in-turn influence the performances of the commercial banks positively.

#### **5.4.3 To determine the influence of diversification strategy on performance of commercial banks in Lodwar Town**

For the third objective, the study recommends that commercial banks should incorporate diversification in their policies. These strategies should include: developing new product lines that are complementary and related to existing products, introducing new products through existing banking system, using the existing relationship managers to come up with and market new products, engaging in partnerships and links with other retailers especially supermarkets to offer additional products, coming up with additional subsidiary (subsidiaries) to help in promoting its products, engaging in horizontal mergers and acquisitions to aid in offering additional products, and penetrating new markets across the region. The recommended ways will go a long way in allowing the commercial banks to diversify and expand; hence, experiencing positive performances.

### **5.5 Contributions of the Study**

#### **5.5.1 Contribution on Policy**

One of the contributions of this study is on economies to enhance the concept of resources in improving the overall competitiveness of the commercial banks and other financial institutions. Generally, the study sustained the argument of the resource-based theory that resources are imperative in achieving the competitive advantage of a firm. In order for competitive strategies adopted by a firm to yield positive results, it is paramount that the firm possesses resources that are rare, valuable, imperfectly imitable and imperfectly substitutable. This study further agrees with the theory that resources are critical in improving efficiency and decreasing cost, and that these competitive strategies must be executed to ensure that the resources are used effectively to outdo the

competitors. Therefore, the economies and commercial banks should come up with policies that would ensure adequate resources are available.

### **5.5.2 Contribution to body of knowledge**

This study is critical in the field of strategic management as it further highlights the importance of adopting competitive strategies by businesses. Although businesses have consistently viewed cost leadership strategy as source of competitive advantage, this study reveals that cost leadership strategy has low power and must therefore be applied with other two competitive strategies of differentiation and diversification to gain business competitive advantage. This study therefore adds to new area of knowledge for business Management.

### **5.5.3 Contribution to theory**

The study has advanced the Porters Generic Model that states that the firms should apply one strategy at a time. The study confirms that in the banking sector, more than one strategy can be applied at a time for improved performance.

This study further confirms that Porter's Five Forces Model is crucial in determining success of a firm in dynamic business environment. The model's five forces of threat of entry, bargaining power of suppliers, industry rivalry, bargaining power of buyers and threat of substitutes influence a firm's competitive edge in an industry. Therefore, commercial banks should also enhance their strategic plans to ensure that competitive strategies are continually updated to ensure sustainable profitability. Commercial banks should always employ product differentiation, cost leadership and diversification to enhance their performance in the dynamic business environment.

### **5.6 Areas for Further Studies**

Even though the study was able to achieve its objectives, it was limited to commercial banks. Even at that, the study focused on the branches and not the parent banks. Using the findings to inform the operations of other institutions outside the financial industry as well as the parent companies may be unreliable. In this case, it would be imperative to

conduct additional studies. A similar study could be carried out in other institutions within the industry to determine whether similar findings would be established.



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## APPENDICES

### Appendix I: Letter of introduction

Dear Respondent,

RE: Questionnaire on influence of competitive strategies on performance commercial banks in Kenya: A Case Study of Commercial Banks in Lodwar.

I am a post graduate student at the Jaramogi Oginga Odinga University of Science and Technology (JOUST). In partial fulfillment of the requirements of Master of Business Administration (MBA), I am conducting a study on “Influence of Competitive Strategies on Performance of Commercial Banks in Lodwar.”

I have selected your bank as part of the sample that I would like to use for data collection. In view of this, I kindly request you to assist me in the data collection by filling in the attached questionnaire. The information and data is required for academic purposes only and would be treated with utmost confidence, privacy, and anonymity and on voluntary basis.

Your assistance is highly valued. Thank you in advance

Yours faithfully,

Murerwa Fridah Kagwiria

MBA Student

Jaramogi Oginga Odinga University of Science and Technology,

School of Business and Economics

## Appendix II: Questionnaire

Questionnaire for the Study entitled “influence of Competitive Strategies on the performance of commercial banks in Kenya” Please provide information frankly and honestly. All information received will be treated confidentially and used for academic purposes only.

### Section one: General information

1. Gender (Tick where appropriate)

Male	<input type="checkbox"/>
Female	<input type="checkbox"/>

2. Age (Tick where appropriate)

Between 18 to 25 years	<input type="checkbox"/>
26 to 35 years	<input type="checkbox"/>
36 to 45 years	<input type="checkbox"/>
Above 46 years	<input type="checkbox"/>

3. Level of education (Tick where appropriate)

Certificate or diploma	<input type="checkbox"/>
University graduate	<input type="checkbox"/>
University post graduate and above	<input type="checkbox"/>

4. Which of the following bank do you work for?

Equity       KCB     Cooperative Bank       National Bank

5. Using the categories below, please indicate the nature of your Bank ownership (please tick one)

Public     Private       Public-Private

6. Which position best describes your roles at the bank?

Branch Manager     Team Leaders     Operations Staff     Other-----

7. For how long have you worked with this bank?

<2yrs      2-rs.      6-1ears      >10year

8. For how long has your organization been in existence?

2yrs      2-rs.       years      >years

**Section Two: Performance of Commercial Banks**

9. In a scale of 1 to 6 (1 = worse than competitors and 6 = better than competitors), kindly state, in your best estimate, how your bank has been performing in respect to closest competitors in the industry.

Aspect	1	2	3	4	5	6
Sales growth of bank						
Market share gained in the past 2 years						
Return on assets realized by the bank						
The financial liquidity of the bank						
Public image and customer loyalty						
Compliments from customers as received in the suggestion box						

10. In a scale of 1 to 6 (1 = strongly disagree and 6 = strongly agree), kindly rate how much you agree with the following statements in respect to the performance of your bank

Statement	1	2	3	4	5	6
In the last 2 years,						
Our return on assets has been positive over the years						
The value we add as employee has been increasing over the years						
We have had excellent relationships with suppliers following genuine partnerships						
We have had long-term partnerships with the suppliers						
There has been minimal employee turnover						
Productivity of our employees has been higher than the industry average						
Overall growth and improved performances in different sectors/departments of the bank						

### Section Three: Competitive Strategies

#### Differentiation Strategy

11. How would you rate the level of differentiations in your bank?
  - a. Very low
  - b. Low
  - c. Fairly low
  - d. Moderate
  - e. High
  - f. Very high
12. In the following statements, state your level of agreement (scale of 1 to 6 where 1 = strongly disagree and 6 = strongly agree) in as far as the aspect of differentiation is concerned within your bank

Statement	1	2	3	4	5	6
In the last 2 years,						
Our bank has been involved in widening its branch network						
There has been improvement of grace payment period for customers						
There has been introduction and enhancement of mobile phone						

services						
Our bank has increased the innovation and invention in the products and service it offers						
Our bank has focused on making its products unique in terms of quality and presentation						
Our bank has been able to develop a strong value proposition in the banking industry						

### Cost Leadership Strategy

13. How would you rate the level of cost reduction strategies in your bank?

- a. Very low
- b. Low
- c. Fairly low
- d. Moderate
- e. High
- f. Very high

14. In the following statements, state your level of agreement (scale of 1 to 6 where 1 = strongly disagree and 6 = strongly agree) in as far as the aspect of cost differentiation is concerned within your bank

Statement	1	2	3	4	5	6
In the last 2 years,						
Our bank has been able to review its costs downwards to attract and retain more customers						
Our bank has continuously endeavored to offer the best quality products and services are considerably lower costs than competitors						
Our bank has been able to minimize on some expenses especially energy, which is then transferred to the reduction of costs to customers						
Our bank has been able to improve on the efficiency of its						

employees						
Our bank has reduced wastage of resources, which culminates into efficiency and cost reduction						

Diversification strategy.

15. To what extent would you consider diversification activities in your bank?

- a. Very low extent
- b. Low extent
- c. Fairly low extent
- d. Moderate extent
- e. High extent
- f. Very high extent

16. How would you describe market expansion activities in your bank?

- a. Very low
- b. Low
- c. Fairly low
- d. Moderate
- e. High
- f. Very high

17. In the following statements, state your level of agreement regarding diversification within your bank

Statement	1	2	3	4	5	6
In the last 2 years,						
Our bank has developed new product lines that are complementary and related to existing products						
Our bank, through existing banking system, has introduced new products						
Our bank has used the existing relationship managers to come up with and market new products						
Our bank has engaged in partnerships and links with other retailers especially supermarkets to offer additional products						

Our bank has come up with additional subsidiary (subsidiaries) to help in promoting its products						
Our bank has engaged in horizontal mergers and acquisitions to aid in offering additional products						
Our bank has penetrated new markets across the region						

### **Appendix III: Interview Schedule for Bank Managers**

1. In your years of service within the banking industry, how would you describe the general level of competition?
2. How does differentiation strategy influence performance of your bank?
3. Which aspect of cost leadership influence performance of your bank?
4. How do you carry out product diversification in your bank?
5. Which strategies does your bank use to enhance performance of the bank?
6. How has been the performance of your bank for the last 5 years?



## Appendix IV: Data Collection Authorization Letter



**JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE & TECHNOLOGY**  
BOARD OF POSTGRADUATE STUDIES  
*Office of the Director*

Tel. 057-2501804  
Email: [bps@jooust.ac.ke](mailto:bps@jooust.ac.ke)

P.O. BOX 210 - 40601  
**BONDO**

Our Ref: **B152/4279/2013**

**Date:** Thursday, April 3, 2019

**TO WHOM IT MAY CONCERN**

**RE: MURERWA FRIDAH KAGWIRIA - B152/4279/2013**

The above person is a bonafide postgraduate student of Jaramogi Oginga Odinga University of Science and Technology in the School of Business of Economics pursuing Master of Business Administration (Strategic Management). She has been authorized by the University to undertake research on the topic: "**Influence of Competitive Strategies on Performance of Commercial Banks.**"

Any assistance accorded to her shall be appreciated.

Thank you.

  
Prof. Dennis Ochuodho  
**DIRECTOR, BOARD OF POSTGRADUATE STUDIES**



## Appendix V: Approval for conducting research.



**JARAMOGI OGINGA ODINGA  
UNIVERSITY OF SCIENCE AND TECHNOLOGY  
DIVISION OF RESEARCH, INNOVATION AND OUTREACH**

**JOOUST-ETHICS REVIEW OFFICE**

Tel. 057-2501804  
Email: [erc@jooust.ac.ke](mailto:erc@jooust.ac.ke)  
Website: [www.jooust.ac.ke](http://www.jooust.ac.ke)

P.O. BOX 210 – 40601  
BONDO

**OUR REF:** JOOUST/DVC-RIO/ERC/E2

**30<sup>th</sup> May, 2019**

Fridah Kagwiria Murerwa  
SBE  
**JOOUST**

Dear Ms. Murerwa,

**RE: APPROVAL TO CONDUCT RESEARCH TITLED “INFLUENCE OF  
COMPETITIVE STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS:  
CASE STUDY OF LODWAR TOWN”**

This is to inform you that JOOUST ERC has reviewed and approved your above research proposal. Your application approval number is **7/5/19-009** The approval period is from 30<sup>th</sup> May, 2019 – 29<sup>th</sup> May, 2020. This approval is subject to compliance with the following requirements:

- i. Only approved documents including (informed consents, study instruments, MTA) will be used.
- ii. All changes including (amendments, deviations and violations) are submitted for review and approval by JOOUST IERC.
- iii. Death and life threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to NACOSTI IERC within 72 hours of notification.
- iv. Any changes, anticipated or otherwise that may increase the risks of affected safety or welfare of study participants and others or affect the integrity of the research must be reported to NACOSTI IERC within 72 hours.
- v. Clearance for export of biological specimens must be obtained from relevant institutions.
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
- vii. Submission of an executive summary report within 90 days upon completion of the study to JOOUST IERC.

Prior to commencing your study, you will be expected to obtain a research permit from National Commission for Science, Technology and Innovation (NACOSTI) <https://oris.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

Prof. Francis Anga'wa  
**Chairman, JOOUST ERC**

Copy to: Deputy Vice-Chancellor, RIO    Director, BPS    Dean, SBE

Appendix VI:Nacosti certification



REPUBLIC OF KENYA



NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 410652

Date of Issue: 29/May/ 2019

RESEARCH LICENSE



This is to Certify that Ms.. FRIDAH MURERWA of Jaramogi Oginga Odinga University of Science and Technology, has been licensed to conduct research in Turkana on the topic: INFLUENCE OF COMPETITIVE STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS: CASE STUDY OF LODWAR TOWN. for the period ending : 29/May/2020.

License No: NACOSTI/P/22/16370

410652

Applicant Identification Number

Director General  
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code



NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

## THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013

The Grant of Research Licenses is Guided by the Science, Technology and Innovation (Research Licensing) Regulations, 2014

### CONDITIONS

1. The License is valid for the proposed research, location and specified period
2. The License any rights thereunder are non-transferable
3. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research
4. Excavation, filming and collection of specimens are subject to further necessary clearance from relevant Government Agencies
5. The License does not give authority to transfer research materials
6. NACOSTI may monitor and evaluate the licensed research project
7. The Licensee shall submit one hard copy and upload a soft copy of their final report (thesis) within one year of completion of the research
8. NACOSTI reserves the right to modify the conditions of the License including cancellation without prior notice

National Commission for Science, Technology and Innovation off Waiyaki Way, Upper Kabete,

P. O. Box 30623, 00100 Nairobi, KENYA  
Land line: 020 4007000, 020 2241349, 020 3310571, 020 8001077  
Mobile: 0713 788 787 / 0735 404 245  
E-mail: dg@nacosti.go.ke / registry@nacosti.go.ke  
Website: www.nacosti.go.ke

Appendix VII: Map of Turkana County

# Turkana County



## **Appendix VIII: Letter of Informed Consent**

**Dear Participant**

### **Section A: Introduction**

My name is Fridah Kagwiria Murerwa. I am a student of Jaramogi Oginga Odinga University of Science and Technology (JOUST) where I am studying for Master in Business Administration degree-strategic management option. Presently, am carrying out research whose topic is “INFLUENCE OF COMPETITIVE STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS” I will be coming to your Bank to collect data through questionnaire and interview schedule.

Consequently, I wish to seek for your consent to take part in this study because it will involve filling of questionnaire and conducting of interview schedule about bank performance.

I assure you that you will be safe during the research and information obtained from you will be treated with utmost confidence and will be used strictly and only for the purposes of this study. I wish also to assure you that even the bank authorities will not have access to this information and your name will be falsified to keep your identity.

Thank you

Most sincerely for agreeing to take part in this research