DECLARATION

This research project is my original work and has not been presented for a degree or other award in any other University. No part of this research project should be reproduced without the authority of the author and/ or Kenyatta University.

Signature...................................................... Date ……………………………...

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D53/MSA/PT/31300/2015

This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this project to my Dad Christopher and Mum Rose.
ACKNOWLEDGEMENT

I express my profound gratitude and deep regards to my family for their moral and financial support. I wish to thank my supervisor Mr James Maina Rugami for the exemplary guidance, monitoring and constant encouragement throughout my research assignment. I am obliged to other teaching staff members for their support, constructive criticism, valuable information and guidance. Finally, I would also like to acknowledge the Kenyatta University-Mombasa campus fraternity for their support and motivation in pursuing academic excellence.
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### OPERATIONAL DEFINITION OF TERMS

**Competitive Strategy:** Plan defined and created with the reason for helping a firm in performing different exercises uniquely in contrast to its adversaries.

**Cost leadership strategy:** Is an incorporated arrangement of the move made to deliver products or administrations with highlights that are satisfactory to clients at the most reduced cost, with respect to that of contenders.

**Differentiation strategy:** Is the capacity of a firm to accomplish upper hand over its opponents on account of the apparent uniqueness of their items and administrations.

**Focus strategy:** Implies seeking after explicit market sections through by and large cost authority and additionally differentiation rather than taking part in the entire market.

**Performance:** Is the aggregate of achievements accomplished by all organizations/divisions required with a hierarchical objective amid a given timeframe with the objective either implied for a particular use or on the general degree.
ABBREVIATIONS AND ACRONYMS

CBK: Central Bank of Kenya
DTMs: Deposit Taking Micro-finance Institutions
KBA: Kenya Bankers Association
RBV: Resource Based View
PwC: Price water house Coopers
ABSTRACT

Commercial banks in Kenya and especially Mombasa County are facing firm rivalry demanding the use of competitive strategies so as to pledge their performance. As such, most of the commercial banks are deliberating on ways, with competitive strategies being one of them to arrive a market and afterwards make sense of and ensure its aggressive position. Therefore, this study aimed at establishing the effect of competitive strategies on the performance of commercial banks in Mombasa County. The specific objectives were; to determine the effect of cost leadership strategy on the performance of commercial banks in Mombasa County; to examine the effect of differentiation strategy on the performance of commercial banks in Mombasa County; and to determine the effect of focus strategy on the performance of commercial banks in Mombasa County. The study was anchored on the theory of resource-based view, strategic balancing and game theory. A cross-sectional survey design was employed in this study. The target population of this study was 280 commercial banks staff in Mombasa County. The sample size was eighty-four after adopting a stratified random sampling technique to select 30% of the target population. The study made use of primary data collection. A structured questionnaire was used to collect data from the sampled respondents. Data was collected through use of drop and pick up later method. Quantitative and qualitative data was used in data analysis. The data was analyzed using the Statistical Package for Social Sciences (SPSS) Version 24.0 and presented in the form of tables, bar charts and graphs. The study established that despite the challenges in implementation, competitive strategies are very important for banks to remain competitive in the market. The study further concluded that understanding the market structure is a key determinant for the successful implementation of competitive strategies. Banks following a cost leadership strategy realize statistically significant superior performance compared to those that pursue broad differentiation and focus strategy which reports above-average returns. The differentiation strategy may be difficult to implant in a service industry since services are easily copied and fruitful options may be limited due to the simplicity and imitability of financial services unless the target market is highly sophisticated and knowledgeable. The researcher highly recommends that commercial banks consider shifting more of their focus on the cost leadership strategy in order to realize superior performance. This study recommends for further research to be conducted on other dimensions of competitive strategies, for instance, to determine how external and/or internal environmental factors have influenced the implementation of competitive strategies & thus the performance of commercial banks in Kenya.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Firms work inside a domain that impacts its tasks either emphatically or contrarily unfavourably depending upon the possibility of its business (Finneran, 2011). The earth involves a mix of inward and outside segments that sway an association's working condition among them being a rivalry. Competition is the system of a dispute between firms trying to get arrangements and make benefits; it is the fundamental stimulus behind business divisions. As shown by Lewis (2011), for financial development and improvement in any industry, effective and reasonable markets are fundamental. The of the forceful framework and firm execution associations can be connected with present-day affiliation arrangement of industry-direct, whereby firm efficiency is seen essentially as a component of industry structure.

The last two decades have seen liberalization which has prompted hardened rivalry in numerous divisions of the economy and has rolled out firm’s improvement by taking certain activities with a specific end goal to survive (Amit & Schoemaker, 2013). The competition has affected banks in Kenya and they have had to create strategies to react to rivalry, protect their niche and to enlarge their market share of the overall industry. To this end, they have been occupied with extension as a vital growth choice which is especially important in developing nations due to low product entrance and utilization levels. Cetorelli (2011) further recognizes that organizations that have legitimately arranged and connected applied competitive strategies tend to have higher performance.
This study was anchored on the theory of the resource-based view; this was enriched by the theory of strategic balancing and mathematical game theory. This applies in strategy choice whenever the actions of several strategies are interdependent. In the banking industry, the performance measures include profits, market share compared to other banks, increase in customer base, increase in network of branches, sales made by the banks, turnover, innovativeness, market standing, a strong market base, and return on investment (ROA) (Bahaee, 2010).

In a nation where the budgetary segment is overwhelmed by business banks, any disappointment in the area has massive ramifications on the financial development of the nation. This is because of the way that any liquidation that could occur in the segment has a severe impact that can prompt bank runs, emergencies and bring generally speaking money related emergency and financial tribulations. Regardless of the great generally speaking money related execution of banks in Kenya, there are two or three banks announcing misfortunes (Oloo, 2011).

The need for study on competitive strategies and their effect on the performance of commercial banks in Mombasa County cannot be ignored. Though several articles relating to competitive strategies have been analysed, this study may give a viewpoint to the subject matter. It may add knowledge to the various players in the commercial banking services in terms of management of their competitive strategies to enhance performance and survival, especially during these turbulent times. The shareholders contributing the share capital may only provide this to the company as long as the shareholders are satisfied that the value they get is greater than the value for alternative investments options (Alchian & Demsetz, 2012).
According to Finneran, (2011), a bank is defined as an institution of financial nature that accepts deposits and provides loans and other banking services. The unparalleled growth in banks is as a result of changes from an environmental and regulatory perspective (Focarelli & Pozzolo, 2009). These changes forced foreign banks to incorporate in other countries (Ebimobowei, 2012) which included setting up branches or subsidiaries in Africa.

After Kenya gained independence, the government of Kenya realized the importance of establishing banks. They bought the majority of the shareholding in the foreign banks. Due to this reason, local banks were incorporated to give credit facilities to the Kenyan as well as ensuring that the government was in control of the economy after gaining independence.

### 1.1.1 Competitive Strategies

Porter’s generic competitive strategies expand the scope on competitive positioning by encouraging firms to maintain long-term success given its strengths and opportunities while on the other hand minimize the negative impact of weaknesses and threats (Chepngetich, 2012). These aggressive methodologies plan to set up a productive and manageable position against the powers that decide industry rivalry. There are distinctive sorts of techniques that organizations use include cost administration methodology, separation procedure and centre system (Porter, 1998).

Lester (2015) observed that competitive strategy allows an organization to outline the enterprise presently as well as in the future, and chose the markets to enter into. Ansoff (2010) observes that corporations that have advanced competitive strategies have a tendency to be nicely aligned and bring higher financial effects and performance than those which aren't. Companies require competitive strategies for
their survival. This is specially the case if the firm is contending in markets overflowing with alternatives for purchasers. In line with Thompson and Strickland (2014), a competitive strategy refers to an extended-time period plan of action that an organization devises toward accomplishing a competitive advantage over its competitors after establishing the strengths and weaknesses of the latter and comparing them to its own.

There are essential styles of competitive advantage an organization can employ to harvest: low-cost or differentiation. The two major sorts of competitive strategy blended with the extent of exercises for which a firm tries to accomplish them, prompt three well known generic strategies for achieving improved performance in a sector, and include: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus, and differentiation focus (Porter, 2005).

Cost leadership strategy includes a firm setting out to wrap up the insignificant effort maker in its industry (Porter, 2004). The wellsprings of cost great position are moved and rely on the structure of the business. They may merge the mission for economies of scale, restrictive progression, unprecedented access to unpleasant materials and particular sections. In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2014). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2014). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2017).
Differentiation strategy involves a firm's endeavours to be remarkable in its industry along with explicit estimations that are generally respected by purchasers. It picks something like one attributes that different purchasers in the industry see as essential, and strikingly positions itself to address those issues. The key step in devising a differentiation strategy is to determine what makes a company different from a competitor's (Reilly, 2012). When using differentiation, firms must be prepared to add a premium to the cost (Hyatt, 2013). This is not to suggest costs and prices are not considered; only it is not the main focus. However, since customers perceive the product or service as unique, they are loyal to the company and willing to pay the higher price for its products (Hlavacka et al., 2016).

Finally, focus strategy rests around the decision of a small power increase inside an industry. The focuser picks a piece or gathering of zones in the business and tailors its structure to serving them to the disavowal of others (Porter, 1985). The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation (Gathinji, 2014). The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly.

1.1.2 Firm Performance

Achieving better performance is the objective of any enterprise. High performance indicates that the enterprise has been successful. Success of a firm is measured in terms of business performance. Khan (2008) further indicated that profitability is the commonly used performance measure. Furthermore production of new products and services, lowering firm costs, increase in firm revenue, improvement in quality of
customer service and improvement of work productivity are some of the objective measures used in evaluating firm performance (Bagorogoza & Waal, 2010).

The concept of firm performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Barney, 2011). Those providing the assets only committed them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets continued to be made available to the organization and the organization continue to exist (Robert, 2014).

Firm performance encompasses three particular dimensions of firm outcomes namely shareholder return, financial performance and product market performance (Kumar et al., 2011). Firm performance is related to the ideas of effectiveness and efficiency are shown by a firm. Client-focused performance, including consumer loyalty, and item or service execution; human asset performance, including representative fulfilment; and organization adequacy, including the time to market, level of advancement, and creation and production network adaptability. Utilizing organizational objectives as a premise, distinctive strategies are received by various firms to quantify their performance (Khan, 2008).

This performance pointer can be measured in monetary and non-budgetary terms (Bagorogoza & Waal, 2010). Nevertheless, many organizations like to embrace monetary indicators to gauge their performance (Grant, 2013). Return on asset
(ROA) is the most utilized financial or bookkeeping indicators by firms in the banking industry. Some other regular measures are market share productivity, growth, profitability and competitive position and stakeholder satisfaction (Bagorogoza & Waal, 2010).

1.1.3 Commercial banks in Kenya

The Kenyan banking sector is managed by several acts of parliament. Among them are the Companies, the Banking and Central Bank of Kenya Acts respectively and the different prudential rules issued by the bank owned by the government of Kenya (CBK). The banking segment was changed in the year 1995 and trade controls lifted. The CBK, which falls under the Ministry of Finance docket, is in charge of planning and actualizing fiscal policies and enhancing the liquidity, dissolvability and appropriate working of the financial framework (PwC, 2012). As at 31st December 2016, there were 52 financial institutions, 43 of these are commercial banks, one mortgage institution and nine are Deposit Taking Micro Finance Institutions (DTMs). The banks have a common forum, Kenya Bankers Associations (KBA) which takes care of members interests and acts as a form of interaction (Central Bank of Kenya [CBK], 2011).

The banking sector has also gone under dynamic changes with the development of Agency banking in the local operations; a good number of Automated Teller Machines (ATM) located conveniently across the market clientele (Price Waters Coopers, 2012). The latest development in the banking sector is the newly created alliances with telecommunication firms, notable Mpesa and Mshwari affiliation to Kenya Commercial Bank (KCB) and Commercial Bank of Africa (CBA); Airtel
money with Airtel communications. Each of these Banks is struggling to reach the clientele conveniently and aggressively (CBK, 2015).

The banking sector in Kenyan has in the course of recent years appreciated exponential development in products offering, growth in deposits and asset profitability basically ascribed to the mechanization of services and branch organization both locally and regionally. Technological innovations are key drivers of growth in modern society. Some banks spend in research and development actions to develop new products and new strategies, while the majority attempt to procure the latest technology from the market (CBK, 2013). Kenya’s banking industry keeps on confronting challenges.

The banking framework is still divided, with numerous banks serving particular specialities, adding to rivalry in the sector. The effort of the banking system is still restricted with a wide population being either underbanked or unbanked, banks have continued to employ different competitive strategies (CBK, 2011).

1.2 Statement of the Problem

Generally, the financial part has worked in a nearly steady condition for quite a long time. As such, the industry to date is encrusted with threatening challenge in another deregulated condition (Reynolds, 2005). Commercial banks situated in Kenya are understanding that firm challenge inside the financial business requests the plan of aggressive techniques to ensure their execution. Also, Maxine (2012) observed commercial banks in Mombasa County though being major players in the Kenyan banking industry are facing many challenges from the environment and its competitors. These banks have faced challenges growing customer and overall business base while some of the banks want to offload their stakes.
Several studies have been done with respect to competitive strategies. Mohsen (2015) did a study on the mediating role of competitive strategies in affecting the aspects of firm competencies such as production capability, marketing and sales capability and information competency, and export performance amongst national top export companies in United Kingdom. The results of the data analysis showed that competitive strategies mediate the effect of production capability and export performance. Ashok and Kalinga (2017) conducted an investigation on the impact of competitive advantage on profitability among three major Indian Oil Marketing Companies. The study established that strategy formulation, more particularly differentiation was the key driver of firm performance in the Oil and Gas Industry. Waidi (2018) sought to explore the influence of competitive strategies embarked upon by selected telecommunication companies in Nigeria on their performance. The study concluded that there is a relationship between competitive strategies, its constituents and performance of telecommunication companies.

Locally, Karanja (2002) considered aggressive techniques by land firms and found that most firms utilized differentiation, cost initiative however to a lesser degree and thin focused differentiation. Obado (2005) took a gander at focused systems utilized by sugar producing firms in Kenya. He found that they utilized cost authority and differentiation as the principal procedures. Ngandu (2014) considered on the impact of focused techniques on the execution of Hotel industry in Thika Sub County the discoveries of his examination demonstrated that the methodology with the most grounded effect on the execution of lodgings is differentiation system. Further, Gathinjji (2014) examine the relationship between competitive strategies and organizational performance among firms in the mobile telecommunications industry in Kenya. The study revealed that competition is high in the industry and product
differentiation and low cost leadership are the most commonly used strategies. Guided by these actualities, there is a need, to plan an investigation on banking segment in Mombasa County, explicitly to comprehend the effects of combined strategies in commercial banks of Mombasa County. Also, data from the above studies show that there is a gap in the analysis of the effect on competitive strategy on performance in commercial banks in Mombasa County; therefore this study sought to establish the competitive strategies employed by commercial banks in Mombasa County and what effect they have on their performance.

1.3 Objective of the Study

1.3.1 General objective

The main objective of this study was to establish the effect of competitive strategies on the performance of commercial banks in Mombasa County.

1.3.2 Specific objectives

i. To establish the effect of cost leadership strategy on the performance of commercial banks in Mombasa County.

ii. To determine the effect of differentiation strategy on the performance of commercial banks in Mombasa County.

iii. To establish the effect of focus strategy on the performance of commercial banks in Mombasa County.
1.4 Research Questions

i. What is the effect of cost leadership strategy on the performance of commercial banks in Mombasa County?

ii. What is the effect of differentiation strategy on the performance of commercial banks in Mombasa County?

iii. What is the effect of focus strategy on the performance of commercial banks in Mombasa County?

1.5 Significance of the study

This study was significant to competition in the banking industry, as it shows how a company can earn a lot of profit by investing in the right strategy. As per Johnson and Devonish (2009) little firms regularly abstain from rivalling bigger firms by focusing on little markets of almost no enthusiasm for the bigger firm. Kotler (2009) additionally recommended that an option in contrast to being an adherent in a vast market is to be an innovator in the little market or speciality.

The findings was important to top management of commercial banks and the industry as it exposes the gaps in their strategy, which is addressed in time helped deter competition. They are also able to gauge the success of the company in employing specific competitive strategies. The study was also given an insight, which is helpful to management on the resource allocation to each strategy and emphasis to be placed to each applicable strategy.

This study provided a basis through which associated research was based upon. It acted as a point of reference for academicians, scholars and researchers. Scholars
who may be doing studies on competitive strategies in other areas may also benefit from the study as a point of reference. It may also contribute to the body of knowledge by filling the gap regarding the competitive strategies and their effect on the performance of commercial banks in Mombasa County, Kenya.

1.6 Scope of the study

This research focused on competitive strategies and how they affect the performance of banks. The study featured commercial banks based in Mombasa County, Kenya. The study variables that were covered in this study include; cost leadership strategy, differentiation strategy and focus strategy.

1.7 Limitations of the study

The limitation encountered during the study was respondents’ unwillingness to share practices that may be deemed to be proprietary to their organizations or otherwise flouting confidentiality rules. To mitigate this, respondents were assured of confidentiality and anonymity.

1.8 Organization of the study

Chapter one covered information on background of the study, statement of the problem, research objectives, research questions, significance of the study, scope of the study and definition of terms.

Chapter two presented already available literature on competitive strategies. The chapter further covered the theoretical framework and conceptual framework.
Chapter three presented an outline of the research methodology that were used in this study and they include; research design, target population and sampling design, data collection methods, research procedures, data analysis methods.

Chapter four presents data analysis, results and discussion in line with the purpose. The findings were presented in form figures, frequency distribution tables with percentages, means and standard deviations.

Chapter five presented the summary of findings presented in chapter four according to the study objective, discussions of the findings, conclusions drawn from the study and the recommendations made based on the results of the study.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the literature on the competitive strategies and performance of commercial banks in Mombasa County, Kenya. It begins with a theoretical orientation, empirical review, conceptual framework, operational framework, a summary of the literature review and research gaps. The chapter specifically focuses on past studies related to service delivery and its impact on the performance of commercial Banks.

2.2 Theoretical Review

The study was anchored on the theory of resource-based view, strategic balancing and game theory. These theories are relevant whenever the actions of several strategies are interdependent and they create synergy. The different opinions held by the proponents of the theories enriched the study by giving it a more integrated approach in evaluating the strategies in the study.

2.2.1 Resource-Based Theory

Resource-based view theory was used to set the basis of this study and it involves a rising and overwhelming zone of the strategy literature which tends to the subject of an association character and it is basically stressed with the source and nature of essential limits. Michael Porter’s non-explicit systems improve centred edge to firms through execution (Raynor, 2007). The asset-based point of view has an intra-authoritative fixation and battles that execution is an outcome of firm-specific
resources and capacities. The reason of the advantage based view is that powerful firms found their future forcefulness on the improvement of unquestionable and fascinating capacities, which may every now and again be sure or intangible in nature (McGahan, 2007).

A way to deal with methodology with this view then tries to discover or create unmistakable abilities and assets, applying them to deliver predominant esteem. To the degree that these abilities can be kept special to the firm, they can be utilized to build up an upper hand. The resource-based view (RBV) dissect and decipher assets of the organizations to see how organizations accomplish maintainable competitive advantage (Barney, 1991).

This theory was significant to the examination since it tends to the critical request of why firms are extraordinary and how firms achieve and proceed with the high ground by sending their advantages. As indicated by Madhani (2009), performance vacillation between firms depends on upon its responsibility for thoughtful information sources and capacities. The theory, therefore, supports the cost leadership strategy by indicating how assets are the firm-explicit resources valuable for making a cost favourable position and that couple of contenders can procure effectively.

### 2.2.2 Theory of Strategic Balancing

Imperative altering is built upon the reason that the technique of an association is for the most part essentially indistinguishable to the system of an individual. Emphatically, the execution of association is impacted by the performing specialists direct, for instance, the course of action of pioneers’ characteristics (Collins et al., 2009). An association vacillates between various contradicting shafts that suggest
cooperation and contention. This considers nearness of various setups of associations that disappear just if the association together swings toward a standard of posts of experience. Key changing is contained three models which include: social, amicable and association models. Rivalry bears witness to be a bit of the social model and the model of sending. It tends to be in danger to undulation between the two mighty frameworks, one being in a general sense pleasant as depicted by the social model and the other being predominantly battling as exemplified by the model of sending.

The association would then be able to substitute in grasping the two frameworks so as to keep their relationship balanced. This conflict is close to that of Belsley et al, (1980). As demonstrated by Belsley et al, (1980), there are three sorts of focused associations: contention directed, investment controlled, and approach associations. The latter is in a like manner proportionate to the change between the social model and the model of association as delineated by Barney (2002).

The Theory of Strategic Balancing was relevant to this study since it provides a basis on which the study of the effect of differentiation strategy on the banking industry in Mombasa County was understood. The different opinions held by the proponents of the theory enriched the study by giving it a more integrated approach in evaluating the differentiation strategy.

2.2.3 Game Theory

The scientific game theory was developed by Deschamps and Nayak (2008). Game theory is the investigation of the routes in which vital collaborations among judicious players create results as for the inclinations (or utilities) of those players, none of which may have been proposed by any of them. Game theorists, similar to
financial specialists and logicians contemplating level headed basic leadership, depict these by method for a conceptual idea called utility.

This alludes to the measure of welfare an agent gets from an objector or an event. Welfare alludes to some regulating list of relative prosperity, legitimized by reference to some foundation structure. On account of individuals, it is most average in financial aspects and uses of game theory to assess their relative welfare by reference to their own particular understood (Mintzberg, 1973).

Game theory was relevant to the study since it attempts to coordinate the focused procedures as vital connections and how this prompted to definitive consequences for the execution of the business saves money with particular enthusiasm on a piece of the overall industry, benefit and development. Therefore the theory supported the use of third objective, ‘focus strategy and its effect on the performance of commercial banks.’

2.3 Empirical Literature Review

The administration writing soothes how it has been perceived, that the execution of commercial banks requires very much formalized aggressive procedures. In setting their strategy and marketing policy, commercial banks in Mombasa County should adjust organization benefits, buyer needs fulfilment and open intrigue. In addition, they ought to accomplish their targets in participation with partners.

2.3.1 Cost leadership strategy and Firm Performance

Datta (2009) did a study on generic strategies applied by American firms. The examination found that Generic procedures all the more so cost authority can effectively be connected to hierarchical execution using key practices. Additionally,
from the information investigation and elucidation, a positive connection between conventional methodologies and execution was found. The examiner reasoned that nonexclusive methodologies have a solid prescient impact on the execution of business keeps money with cost initiative having the best impact. In this manner, the cost initiative system can assist keep money with realizing the most factually critical better execution when analyzed than banks seeking after differentiation or focus techniques.

Hashem Valipour, Hamid Birjandi and Samira Honarbakhsh (2012) conducted a study on the effects of cost leadership strategy and product differentiation strategy on the performance of firms listed at the Tehran Security Exchange (TSE). The sample was chosen from the firms listed on the Tehran stock exchange (TSE), for the period 2003 to 2010. The correlation research method was used to determine the relationship between financial leverage, business strategies, firm’s size and dividend pay-out with performance. Multiple regressions were applied to test the relationship between these variables. The results indicated that in the firms with cost leadership strategy, there were positive relationships between leverage; cost leadership strategy and dividend payout with performance.

Munyiri (2014) examined focused methodologies and client maintenance among business banks in Kenya. The investigation was led on all enlisted business banks in Kenya with cost administration, differentiation and focus being utilized as the factors. Information was gathered through the poll and later broke down utilizing content examination and distinct insights. The examination was directed in the midst of the solid challenge banks face among each other because of innovation development and framework that has prompted the development of general banks.
The investigation found a critical connection between cost administration procedures and client maintenance. The discoveries demonstrated that cost authority system encourages the bank to increase the upper hand by lessening financial expenses underneath contenders. The examination additionally demonstrated that cost initiative offers a wide market for different administrations.

Gathinji (2014) conducted a study on the relationship between competitive strategies and organizational performance among firms in the mobile telecommunications industry in Kenya. The study identified the competitive strategies adopted by firms in the industry in Kenya, assessed the different levels of implementation of competitive strategies within the firms and examined the relationship between these strategies and firm performance. This study employed a descriptive survey design and collected data from 63 respondents out of the sample size of 72 respondents selected purposively. The study revealed that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies.

Nyauncho and Nyamweya (2015) did an investigation on the effects of cost leadership strategy on performance of Liquefied Petroleum Gas Companies (LPGC) in Eldoret town. The study used a survey design and targets a population of 175 which comprise of 10 station managers, 40 departmental heads, 20 supervisor and 105 employees. A sample size of 64 was selected using stratified sampling. The study used questionnaires and interview schedule as data collection instruments. Data analysis was carried out using descriptive statistics such as Spearman rank coloration, means. Pearson’s product moment correlation coefficients were used to assess the degree of linear relationship among competitive strategies and between
competitive strategies and performance of the liquefied petroleum gas companies. The study concluded that, cost leadership influences the performance of LPGCs performance enabling the company to reduce price leading to high volume of sales visa a-visa profit margin, increase in service delivery, less return inwards, reduced operational costs and reduced wastages.

### 2.3.2 Differentiation Strategy and Firm Performance

Kampkötter and Sliwka (2011) carried out a study on the effect of differentiation on Performance. They studied the impact of differentiation empirically with a large panel data set spanning many firms in one industry. On average, stronger differentiation had a substantial positive effect on performance. This effect was larger on higher hierarchical levels. But differentiation may become harmful at the lowest levels.

Aliqah (2012) examined the empirical evidence between differentiation strategy and organization firm performance among Jordanian manufacturing firms. The study used primary data which was collected using a closed-ended questionnaire. The study adopted measures of product differentiation strategy using Chenhall and Langfield-Smith (1998) five product differentiation tool, "providing high-quality products, fast deliveries, making changes in design and introducing new products and providing unique product features". Factor analysis was used to consolidate the parameters and form a single index. Firm performance was operationalized as return on assets, sales growth rate, cash flow from operations, customer satisfaction, product quality and market development, all of which were measured using a five-point Likert scale whereby the respondents were requested to indicate the effect of each in relation to differentiation. The results of the study revealed that there was a
positive and significant relationship between differentiation strategy and organizational performance.

Manjeet, Patle and Gaurav (2016) investigated the impact of competitive differentiation strategy on firm's performance and the mediating role of quality management (QM) amongst Indian firms. A field study using questionnaire method was conducted on micro, small and medium enterprises (MSMEs) operating in various sectors namely mechanical, automobile component, electrical and electronics, and textile. The primary data were collected from the MSMEs situated in the State of Himachal Pradesh India. Study results found no direct relationship between differentiation strategy and firm performances, but, QM entirely mediated their relationship. Empirical results concluded that design and development and information and analysis are the two components of QM which are successful in mediating the relationship between differentiation competitive strategy and firm performance.

Nolega, Oloko, Sakataka, Oteki, (2015) carried out a study on the effects of product differentiation strategies on firm product performance at Kenya Seed Company (KSC), Kitale. The findings indicated that the customer's trend has grown tremendously over the last 15 years which is reflected by the growth in agent's base too due to their differentiation strategy. ASK shows provide the most important marketing strategy for KSC. The research recommends that KSC to increase market penetration by increasing agents and enhancing field days in the remote ASAL and highland areas which still plant indigenous maize seeds.

Kungu (2014) did an examination on an evaluation of the viability of the aggressive systems by business banks: An instance of Equity Bank”. In view of the discoveries
of his investigation, business banks in Kenya apply distinctive procedures to be aggressive. These incorporate giving items and administrations at a most reduced cost, differentiation of items and concentrating on the certain market fragment. Also, the investigation confirmed that there are two wellsprings of aggressive powers which were predominantly outer and included battles for a piece of the overall industry and quality client administrations.

Further, Tuva (2015) evaluated the influence of differentiation strategy on performance of water bottling companies in Mombasa County, Kenya. A cross-sectional explanatory design will be used. The target population in this study was the registered water bottling companies in Mombasa County, Kenya. Both primary and secondary data was used. Primary data was collected using semi-structured questionnaires and an interview guide. Secondary data was collected through records and documents review. Descriptive statistics was used to summarize the properties of the mass data. Inferential statistics was derived using Pearson’s correlation and logistic regression analysis. Content analysis was carried out for qualitative data. The research results were presented in percentages, tables and graphs. The findings of the study show that there is a positive relationship between differentiation strategy and firm performance.

2.3.3 Focus Strategy and Firm Performance

Olson and Slater (2015) studied the balanced scorecard, competitive strategy, and performance. It is noted that different product-market strategies have different requirements for success. Just as organizational structures and processes are tailored to assist in implementing a chosen strategy, so too should the performance emphases adopted by a firm. The logic of this approach underlies the reason why many
managers have adopted a balanced scorecard approach to measuring performance. But balance implies that all measures are equally important in all settings. The researchers endorse the multi-measure approach to understanding company performance, but challenge the idea that all measures are equally important irrespective of the product-market strategy adopted.

Shaohan (2015) carried out a study on the importance of customer focus for organizational performance among Chinese companies. The findings of the study indicate that organizational customer orientation affects customer relationship practices, which subsequently influence production performance and customer satisfaction. Production performance and customer satisfaction lead to financial performance.

Nwokah and Maclayton (2016) carried out a study on the effect of customer-focus and business performance: the study of food and beverages organizations in Nigeria. The findings of the study did not find any strong association between customer-focus and business performance in the Nigerian context using the food and beverages organizations for the study. The reasons underlying the weak relationship between customer-focus and business performance of the food and beverages organizations are government policies, new product development, diversification, innovation and devaluation of the Nigerian currency. One important finding of this paper is that customer-focus leads to business performance through some moderating variables.

Odunayo (2018) investigated the relationship between market focus strategy and organizational performance of telecommunication companies in Port Harcourt. The study used a cross sectional design involving management staff of 4
telecommunication companies in Port Harcourt. The population was 134 and a sample size of 100 was obtained through the Taro Yamane formula for sample size determination with the simple random technique used. After data cleaning, only data of 93 respondents were finally used for data analysis. The internal reliability of the instrument was ascertained through the Cronbach Alpha coefficient with all the items scoring above .70 bench mark set by Nunnally (1978). Descriptive statistics and Spearman’s rank correlation were used for data analysis and hypothesis testing. Empirical results confirm that there is a very positive significant relationship between market focus strategy and organizational performance in telecommunication companies in Port Harcourt. The study concluded that market focus strategy bears a positive and significant influence on firm competiveness.

Ndungu (2013) did an examination of the viability of aggressive systems embraced by business banks in Kenya. The investigation focused on 44 staff from Equity Bank Head Office staff chosen utilizing stratified inspecting procedure with client-focused arranging, contender benchmarking, imaginativeness and separation methodologies being utilized as factors. The examination discovered that attention on focus business exercises added to development in execution. This was demonstrated by an 83% reaction contrasted with different variables. It additionally discovered that focus procedure empowers the organizations to have a closer relationship with their clients.

Mutunga and Minja (2014) concentrated on focused procedures that organizations embrace in the Kenyan drink industry. The outcomes demonstrated that 56.2 percent of the organizations grasped couple techniques of cost administration and
concentrate at the same time while 25 percent were only on cost initiative and 18.8 percent were solely utilizing separation.

2.4 Summary of Literature and Research Gaps

Several studies have been completed on the impact of competition strategies on the execution of associations. For example, Datta (2009) did a study on generic strategies applied by American firms. The study found that nonexclusive methodologies have a solid prescient impact on the execution of business keeps money with cost initiative having the best impact. The study was carried out in America. However, this study was carried out in Kenya and specifically Mombasa County. Kampkötter and Sliwka (2011) carried out a study on the effect of differentiation on Performance. The study concluded that differentiation may become harmful at the lowest levels. The study was carried out in Iranian banks. However, this study was carried out in Kenya and specifically Mombasa County. Alamdari and Fagan (2010) conveyed a model-based investigation, by examining the viability of the minimal effort display and the impact on the benefit of banks and found that the keeping money with the most reduced expenses would gain the most astounding benefits in the occasion when the contending items are basically undifferentiated, and selling at a standard market cost.

Aliqah (2012) examined the empirical evidence between differentiation strategy and organization firm performance among Jordanian manufacturing firms. The results of the study revealed that there was a positive and significant relationship between differentiation strategy and organizational performance. Munyiri (2014) examined focused methodologies and client maintenance among business banks in Kenya. The discoveries demonstrated that cost authority system encourages the bank to increase
the upper hand by lessening financial expenses underneath contenders. Gathinji (2014) conducted a study on the relationship between competitive strategies and organizational performance among firms in the mobile telecommunications industry in Kenya. The study revealed that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies. Nolega, Oloko, Sakataka, Oteki, (2015) carried out a study on the effects of product differentiation strategies on firm product performance at Kenya Seed Company (KSC), Kitale. The findings indicated that the customer's trend has grown tremendously over the last 15 years which is reflected by the growth in agent's base too due to their differentiation strategy. Ndungu (2013) led an investigation on the viability of aggressive methodologies received by business banks in Kenya. The examination discovered that emphasis on centre business exercises added to development in execution.

The greater part of these examinations were done in developed nations. Also, unmistakably nothing, unless there are other options contemplates, has concentrated on deciding the connection between aggressive systems and execution of commercial banks in Mombasa County, Kenya. It is clear that the above studies only concentrated on competitive strategies adopted by the banks. The current study filled the gap by studying competitive strategies which include cost leadership strategy, differentiation and focus strategy. The target of the current study is to fill the gap by studying the relationship on a local contest.

2.5 Conceptual framework

The conceptual framework in figure 2.1 provides in this study indicate competitive strategies as the independent variables while organizational performance is the
dependent variable for the study. Indicators for cost leadership strategy include; low cost, size and efficiency; differentiation strategy indicators include; unique products, product variety and innovation while the indicators for focus strategy comprise product niche, market niche and specialty.

Independent Variables

Dependent Variable

Competitive strategies

Cost leadership strategy
- Low prices
- Sale promotions
- Labour

Differentiation strategy
- Unique products
- Product design
- Innovation (new products)

Focus strategy
- Market segment
- Geographical market
- Specialty

Organizational performance
- Profitability
- Return on Investment
- Customer satisfaction
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents the research methodology that was used in the collection of data required to meet the research objectives. It outlines the research design, the population of the study, sampling method, data collection procedure, validity and reliability of the research instruments, methods of data analysis and ethical consideration.

3.2 Research design

This study used descriptive survey design since the researcher was exploring the competitive strategies and their influence on performance of commercial banks in Mombasa county, Kenya. The basic idea behind survey design is to measure variables by asking people questions and then examines relationships among the variables (Babbie, 2004). Also, Ngechu (2004) argues that surveys are relatively inexpensive (especially self-administered surveys). Surveys are useful in describing the characteristics of a large population.
3.3 Population

A population is a set of people, segments and events, social occasion of things or nuclear families that are being examined (Ngechu, 2004). Babbie (2004) argues that a populace involves the question of a study. It involves people, organizations, events and products. The target population of this study was 280 commercial banks staff in Mombasa County. Mombasa County was chosen for this study due to the fact that very few studies have been carried out it the county thus creating a research gap.

3.4 Sampling design

Stratified random sampling was used by the researcher to select 30% of the target population. The goal of stratified random sampling is to achieve the desired representation from various sub-groups in the population. A sample size of 30% is a good representation of the target population (Mugenda & Mugenda, 2009). The sample size of this study was therefore, be 84 respondents. The sample was chosen because it had a representation of the target population, and may have had knowledge on matters of competitive strategies and its effect on organizational performance. Therefore data were collected from these employees.

Table 3.1: Sampling frame

<table>
<thead>
<tr>
<th>Organization</th>
<th>Level of management</th>
<th>Target population</th>
<th>Sample size @ 30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Banks</td>
<td>Top level management</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Middle-level management</td>
<td>70</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Low-level management</td>
<td>200</td>
<td>60</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>280</strong></td>
<td><strong>84</strong></td>
</tr>
</tbody>
</table>

Source: Commercial banks HR records (2018)
3.5 Data Collection Procedures

Primary sources of data were used in data collection. The scientist gathered information through self-managed polls. The primary data was collected from the banking staff utilizing an organized shut finished and open finished survey. Questionnaires are suitable due to the fact that they allow a more noteworthy profundity of reaction particularly as the study is distinct in nature and along these lines this sort of inquiries permits the respondents to give their emotions, foundation, shrouded inspiration, interests and choices (Mugenda & Mugenda, 2008). The researcher directed a pilot test to test the dependability and the legitimacy of the instrument. While disseminating the surveys, the analyst advised the respondents that the information was for scholastic purposes only.

In order to test for validity, the questionnaires were subjected to face validity test to pre-test its content, wording, sequence, form and layout, ease of questions and instructions. The respondent's remarks were noted and respective adjustments effected. These questionnaires that were subjected to validity were not considered in the final analysis.

The reliability of the research instrument for this study was achieved by subjecting questionnaires to pre-testing. Mugenda and Mugenda (2008) advocates that 1% to 10% of the questionnaires are adequate for pre-testing and yield reliable data for assessing the reliability. In this study, five per cent of the instruments were used for pre-testing using split half method.
3.6 Data Analysis and presentation

Prior to the investigation, the data was checked for completeness, accuracy, errors in responses, omissions and other inconsistencies. The data was then coded using numerals in order to put them in relevant number of categories. The data was analyzed using the Statistical Package for Social Sciences (SPSS) Version 22.0 and presented in the report in the form of tables, bar charts and graphs. Multiple regression analysis was done to establish the relationship between the variable in the study. The model was as follows;

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Where:

- \( Y \) = Performance of commercial banks in Mombasa County
- \( X_1 \) = Cost leadership strategy
- \( X_2 \) = Differentiation strategy
- \( X_3 \) = Focus strategy
- \( \epsilon \) = Error term
- \( \alpha \) = Constant Term
- \( \beta_1, \beta_2 \) and \( \beta_3 \) = Coefficients of determination of the independent variables

3.7 Ethical Considerations

Mugenda and Mugenda (2009) state that, morals include the examination and utilization of ideas, for example, good and bad, great and abhorrence, straightforwardness, responsibility and duty. She further expresses that moral guidelines in research ought to be seen in the arranging of the investigation,
information gathering, examination, dispersal and utilization of results. Permission from the postgraduate coordination office was acquired before proceeding to the field to gather information. Also, a letter was also acquired from NACOSTI before proceeding to the field to gather information. A formal letter was likewise kept in touch with the respondents clarifying the idea of the exploration and privacy of any data to be gotten. Information was gathered and looked into for irregularities and appropriate techniques for coding and investigation was connected as per the acknowledged principles of research and the report additionally pursues standards of scholarly examinations.
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The objective of this research was to establish the competitive strategies and performance of commercial banks in Kenya. The chapter covers the data analysis, results and discussion. The findings are presented in percentages and frequency distributions, mean and standard deviation and regression analysis.

4.2 Response Rate

The following is a summary of questionnaire return rate as show in figure 4.1 bellow.

![Figure 4.1: Response Rate](image)

Source: Author (2019)

For the purpose of this study, 84 questionnaires were distributed to the respondents and out of the 84, 75 were returned presenting a response rate of 91.46%. This
response rate was considered sufficient for data analysis since it follows. Mugenda (2003) stipulation that for a census, 70% or more response rate is adequate. In addition, considering the period that the researcher took on follow up with the respondents, the chances of more questionnaires being received declined with time and therefore, this was considered adequate for the research analysis.

4.3 General Information

The general information that was considered in this study included; gender, age, education level, position, experience and type of ownership of commercial bank as summarized below.

Figure 4.1: Gender

Source: Author (2019)

The above findings indicate that (78.6%) of the respondents were female while 21.4% were male. The result implies that the majority of the staff holding the management positions that were targeted in the research were female. This shows
that in the Kenyan commercial banks, the management position is no longer the preserve of only the male gender as earlier perceived.

**Figure 4.2: Level of Education**

**Source: Author (2019)**

On the question of the level of education, the results show that most of the respondents had at least university degree with the post-graduate level of education with the majority (54%) of the respondents having post-graduate qualifications. Education is very important as it results in knowledge. Competencies that are based on knowledge are deemed to be crucial as they result in the creation and sustainability of competitiveness in an organization and (Denisi *et al.*, 2003). For higher performance companies, superior talent is considered resulting in sustained competitiveness (Hiltrop, 1999).
With regard to respondents' position in the banks, the results show that the majority (64.3%) of the respondents were managers in their respective banks while 21.4% of the respondents were heads of departments. These are employees are involved in the implementation of competitive strategies and therefore data were collected from these employees.

**Figure 4.4: Professional experience**

*Source: Author (2019)*
From the above findings, (80%) of the respondents had more than 6 years of work experience. Experience is important as it results in knowledge. Employees who are educated apply academic and logical knowledge to come up with new products resulting in performance. The findings also indicate that some of the respondents (20%) in management positions had less than 1-4 years of experience. This indicates a paradigm shift where educated, qualified employees are rising fast due to excellent performance.

![Figure 4.5: Ownership of the Commercial Banks](Image)

**Source:** Author (2019)

The findings on type of ownership of commercial bank indicate that majority of the respondents 50.0% suggested that their banks had local ownership while 28.6% of the respondent said that their banks had partial local and foreign ownership. The respondent further indicated that 21.4% of the respondent said their banks were in the class of foreign ownership. This indicates that most of the commercial banks are
in the local ownership and they are valuable to the realization of the research objective.

4.4 Competitive Strategies and Performance of Commercial Banks

In this section, the researcher requested the respondents to identify the areas that the competitive strategies applied by commercial bank influence most in terms of performance. The results on the areas that the strategies applied influenced most are presented in Table 4.1 to Table 4.5.

### Table 4.1: Cost leadership strategy

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>We always charge a lower price than our competitors</td>
<td>3.44</td>
<td>0.592</td>
</tr>
<tr>
<td>We heavily invest in sales promotion</td>
<td>3.24</td>
<td>0.538</td>
</tr>
<tr>
<td>We constantly reduce labour input through automation</td>
<td>3.41</td>
<td>0.547</td>
</tr>
<tr>
<td>We normally charge lower than our competitors</td>
<td>3.12</td>
<td>0.510</td>
</tr>
<tr>
<td>We frequently source supplies from those suppliers who provide discount</td>
<td>3.24</td>
<td>0.538</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>3.29</strong></td>
<td><strong>0.545</strong></td>
</tr>
</tbody>
</table>

*Source: Author (2019)*

For Cost leadership strategy, the responses indicated that majority of the banks have adopted charge lower price than our competitors as a competitive strategy, having the highest mean of 3.44 with a standard deviation of 0.592, followed by reducing labour input through automation with a mean of 3.41 and a standard deviation of 0.547. Avoiding loss-making areas came third with a mean of 3.12 and a standard deviation of 0.510. Finally, under this category source supplies from hose suppliers came last with a mean of 3.24 and a standard deviation of 0.538. The findings are in agreement with a study by Datta (2009) whose study concluded that cost leadership strategies have a solid prescient impact on the execution of business keeps money with cost initiative having the best impact. Also, the findings concur with the study
by Munyiri (2014) which found a critical connection between cost administration procedures and client maintenance. Finally, the study agrees with Gathinji’s (2014) findings which indicated that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies.

### Table 4.2: Differentiation Strategy

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>We always offer a broad range of product</td>
<td>3.44</td>
<td>0.592</td>
</tr>
<tr>
<td>We focus on product design technique that economizes on the cost of materials</td>
<td>3.24</td>
<td>0.538</td>
</tr>
<tr>
<td>We make a conscious effort to differentiate our product from those of competitors</td>
<td>3.41</td>
<td>0.547</td>
</tr>
<tr>
<td>We offer a narrower range of product than our competitors</td>
<td>3.12</td>
<td>0.510</td>
</tr>
<tr>
<td>We continuously develop new products</td>
<td>3.24</td>
<td>0.538</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>3.29</strong></td>
<td><strong>0.545</strong></td>
</tr>
</tbody>
</table>

**Source: Author (2019)**

Assessing the differentiation strategy, the responses indicated that a majority of the banks have introduced unique features to existing products and services as a competitive strategy, having the highest mean of 3.05 with a standard deviation of 0.669, followed by the introduction of unique products at a mean of 2.85 and a standard deviation of 0.573. Product differentiation through service network that supports these products and services came third with a mean of 2.76 and a standard deviation of 0.663. Marketing channels through which these products and services are delivered came last under this category with a mean of 2.73 and a standard deviation of 0.742. The findings are in agreement with a study by Aliqah (2012) which revealed that there was a positive and significant relationship between differentiation strategy and organizational performance. The study also agrees with findings by Nolega, Oloko, Sakataka, and Oteki (2015) which indicated that differentiation strategies have been found to be effective on firm product...
performance at Kenya Seed Company (KSC), Kitale. Further, the findings concur with the study by Kungu (2014) which posited that differentiation of items was predominantly outer and included battles for a piece of the overall industry and quality client administrations.

### Table 4.3: Focus Strategy

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>We serve diverse market segment</td>
<td>2.95</td>
<td>0.669</td>
</tr>
<tr>
<td>We serve a specific geographical market</td>
<td>3.02</td>
<td>0.524</td>
</tr>
<tr>
<td>We emphasize on marketing speciality product</td>
<td>2.54</td>
<td>0.711</td>
</tr>
<tr>
<td>We deal with broad product serving a wider market</td>
<td>2.54</td>
<td>0.636</td>
</tr>
<tr>
<td>We constantly target a specific market</td>
<td>3.02</td>
<td>0.698</td>
</tr>
<tr>
<td>Aggregate</td>
<td>2.814</td>
<td>0.6476</td>
</tr>
</tbody>
</table>

**Source: Author (2019)**

On the count of focus strategy, the responses indicated that focusing on a specific geographical market and Offering specialized products and constantly target a specific market are key competitive strategy recording a mean and a standard deviation of 3.05, 2.85 and .699 and 0.524 respectively. While serving diverse market segment, emphasizing on marketing speciality product and dealing with broad product serving wider market received an equal mean of 2.54 in terms of importance as competitive strategy and a standard deviation of 0.669, 0.711 and 0.636 respectively. According to Shaohan (2015), organizational customer orientation affects customer relationship practices, which subsequently influence production performance and customer satisfaction. Also, the findings are in agreement with a study by Nwokah and Maclayton (2016) which argued that customer-focus leads to business performance through some moderating variables. Finally, Ndungu's study (2013) posited that focus procedure empowers the organizations to have a closer relationship with their clients.
Table 4.5: Performance areas influenced most by competitive strategies

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer satisfaction.</td>
<td>3.964</td>
<td>0.922</td>
</tr>
<tr>
<td>High market share</td>
<td>3.229</td>
<td>0.604</td>
</tr>
<tr>
<td>Increased revenues</td>
<td>3.643</td>
<td>0.558</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>2.535</td>
<td>0.508</td>
</tr>
<tr>
<td>Quality products and services.</td>
<td>3.828</td>
<td>0.790</td>
</tr>
<tr>
<td>Asset acquisition and retention.</td>
<td>3.336</td>
<td>0.744</td>
</tr>
<tr>
<td>Increased revenues.</td>
<td>2.893</td>
<td>0.786</td>
</tr>
<tr>
<td>Reduced operation costs.</td>
<td>2.557</td>
<td>0.848</td>
</tr>
<tr>
<td>Technology upgrade and innovation.</td>
<td>1.786</td>
<td>0.630</td>
</tr>
<tr>
<td>Human resource expertise</td>
<td>1.429</td>
<td>0.504</td>
</tr>
<tr>
<td><strong>Aggregate</strong></td>
<td><strong>2.92</strong></td>
<td><strong>0.6894</strong></td>
</tr>
</tbody>
</table>

Source: Author (2019)

The findings show that the strategies adopted by commercial banks had led to increased competitiveness of the (M=3.964) and also high market share (M=3.229) as well as increased revenues (m=3.229). To a lower extent, the strategies had led to improved customer satisfaction (M=2.535). The study findings indicated that a sustained level of performance through continuous implementation of competitive strategies. Competitive strategies have enabled these banks to proactively evaluate future challenges in the banking industry. It should be however noted that though the above competitive strategies were indicated to be very significant, there were different degrees of variation among respondents with respect to the extent to which sources were significant. This is as indicated by the standard deviation of each of the competitive strategies. Mutunga and Minja (2014) demonstrated that 56.2 percent of the organizations grasped couple techniques of cost administration and concentrate at the same time while 25 percent were only on cost initiative and 18.8 percent were solely utilizing separation. This is also in agreement with a study by Olson and
Slater (2015) which concluded that different product-market strategies have different requirements for success.

The theory has shown that competitive methods used by banks conform to generic strategy types. Banks following a cost leadership strategy realize statistically significant superior performance compared to those that are stuck-in-the-middle. Banks that pursue broad differentiation, customer service differentiation and focus strategy report above-average returns.

### 4.5 Inferential Statistics

For quantitative analysis, the study used regression analysis to determine the relationship between competitive strategies and performance. To determine the same, the relationship between the overall mean of each of the competitive strategies was regressed with the resultant mean from the performance measure. From their overall means of each factor, and as noted by Gill and Beger (2012), use of regression analysis could result in endogeneity, whereby, measurements errors occur due to the omission of certain variables. If the measurement errors occur, the findings was not be accurate and may not be relied upon. The critical variables that constitute firms competitiveness were used to minimize this error.

#### Table 4.4: Coefficients of Determination

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-2.284</td>
<td>0.236</td>
<td>-5.436</td>
<td>0.001</td>
</tr>
<tr>
<td>Cost leadership strategy</td>
<td>0.450</td>
<td>0.119</td>
<td>0.410</td>
<td>3.790</td>
</tr>
<tr>
<td>Differentiation strategy</td>
<td>2.546</td>
<td>0.151</td>
<td>0.527</td>
<td>3.616</td>
</tr>
<tr>
<td>Focus Strategy</td>
<td>0.351</td>
<td>0.094</td>
<td>0.326</td>
<td>3.734</td>
</tr>
</tbody>
</table>

**Source:** Author (2019)
Based on the output generated in Table 4.8 above, the equation \( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon \) converts into: \( Y = -2.284 + 0.450X_1 + 2.546X_2 + 0.351X_3 + \varepsilon \)

From the regression model obtained above, if a unit change of a variable is tested holding the other variables constant, the results are as follows: the study revealed that a unit change in Cost leadership strategy, Differentiation strategy applied would change the bank competitiveness by a factor of 2.546, a change in unit of lower interest cost would change the bank competitiveness by a factor of 0.450, a unit change in focus strategy would change the bank competitiveness by a factor of 0.351.

The analysis was undertaken at a 5% significance level. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and \( \alpha = 0.05 \). If the probability value was less than \( \alpha \), then the predictor variable was significant otherwise it wasn’t. All the predictor variables were significant in the model as their probability values were less than \( \alpha = 0.05 \).

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.729</td>
<td>0.532</td>
<td>0.569</td>
<td>0.37489</td>
</tr>
</tbody>
</table>

Source: Author (2019)

The study used the coefficient of determination to evaluate the model fit. The adjusted \( R^2 \) also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average adjusted coefficient of determination (\( R^2 \)) of 0.532 and which implied that 53.2% on the variations the bank performance is explained by the independent variables understudy (differentiation strategy, lower interest rate, focus strategy, human resource base, internal bank resources).
result suggested that there exist a relationship between competitive strategies and performance exhibit with \( R \) of 0.729. In addition, there exists a positive relationship between competitive strategies and performance meaning increased strategies lead to increased performance. These findings agree with the studies by Datta (2009), Munyiri (2014), Gathinji's (2014), Aliqah (2012), Nolega, Oloko, Sakataka, and Oteki (2015) and Kungu (2014) which revealed that there was a positive and significant relationship between cost leadership strategy, differentiation strategy and focus strategy and organizational performance.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights a summary of the findings, discussion, conclusions and recommendations of the study based on the research questions of the study. The purpose of this study was to establish the effect of competitive strategies on the performance of commercial banks in Mombasa County.

5.2 Summary

The overall results indicated that majority of these banks have 11 – 20 branches countrywide, have been in operation for periods of less than 10 years, have a staff count of fewer than 1,500 employees.

Findings from this study showed that a low-cost leadership strategy as an independent variable recorded the highest mean of 3.19 with a standard deviation of 0.547. According to Datta (2009), cost leadership strategies have a solid prescient impact on the execution of business keeps money with cost initiative having the best impact. In this manner, the cost initiative system can assist keep money with realizing the most factually critical better execution when analyzed than banks seeking after differentiation or focus techniques.

Differentiation strategy was second with a mean of 2.85 and a standard deviation of 0.662. As per Kampkötter and Sliwka (2011) stronger differentiation had a substantial positive effect on performance. This effect was larger on higher hierarchical levels. But differentiation may become harmful at the lowest levels.
Aliqah (2012) also adds that there is a positive and significant relationship between differentiation strategy and organizational performance.

Finally, focus strategy was least recording a mean of 2.76 with a standard deviation of 0.643. Olson and Slater (2015) argues that balance implies that all measures are equally important in all settings. The researchers endorse the multi-measure approach to understanding company performance, but challenge the idea that all measure re equally important irrespective of the product-market strategy adopted.

The study also established that correlation between competitive strategies and firm performance indicators that recorded a significant strong positive relationship. Nwokah and Maclayton (2016) posits that the reasons underlying the weak relationship between competitive strategies and business performance of the food and beverages organizations are government policies, new product development, diversification, innovation and devaluation.

The strength of influence that each of the independent variables had on the dependent variable was determined by the use of multiple regression coefficients of the independent variables whose results show that low-cost leadership strategy had the strongest significant influence on firm performance with a standardized beta of 0.389. Indicating that for a unit increase in this strategy, an organization is likely to improve its performance by 39 percent. Differentiation strategy had a significant effect of 2.546 while focus strategy had 0.351.

5.4 Conclusions

The study concluded that commercial banks used and emphasized the application of the cost leadership strategy to a large extent. This strategy has seen the bank still
Datta (2009) concluded that cost leadership strategies have a solid prescient impact on the execution of business keeps money with cost initiative having the best impact. Also, Munyiri (2014) found a critical connection between cost administration procedures and client maintenance. Finally, the study agrees with Gathinji’s (2014) findings which indicated that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies.

The study concluded that the bank also uses differentiation, whereby it strives to be unique in the products they offer and market penetration strategies. The study concluded that the sampled commercial banks gained a competitive advantage over its rivals, by providing comparable value to the customer, performing activities more efficiently than its competitors (lower cost), or performing activities in a unique way that creates greater buyer value and commands a premium price (differentiation). Aliqah (2012) revealed that there was a positive and significant relationship between differentiation strategy and organizational performance. The study also agrees with findings by Nolega, Oloko, Sakataka, and Oteki (2015) which indicated that differentiation strategies have been found to be effective on firm product performance at Kenya Seed Company (KSC), Kitale. Further, the findings concur with the study by Kungu (2014) which posited that differentiation of items was predominantly outer and included battles for a piece of the overall industry and quality client administrations.

The study also concluded that commercial banks embrace focus strategy by laying their focus on a type of market or population in order to keep the competition steady. Focus enabled them to lay their emphasis on a type of people where no other bank
has laid there thus making them more competitive. According to Shaohan (2015), organizational customer orientation affects customer relationship practices, which subsequently influence production performance and customer satisfaction. Also, the findings are in agreement with a study by Nwokah and Maclayton (2016) which argued that customer-focus leads to business performance through some moderating variables. Finally, Ndungu's (2013) study posited that focus procedure empowers the organizations to have a closer relationship with their clients.

The study concludes that strategies are essential for the effective functioning of any organization. The strategic direction is realized through the ability to evaluate strategies used and achieve competitive advantage than the competitors. It can be concluded that many factors are equally important in producing a position of success. Some of these are industrial factors; others are resources and competencies of the firm. The sum of all these factors results in creating and sustaining a successful competitive advantage. The conclusions from the study indicate that commercial banks have adopted differentiation, cost leadership and focus strategy in order to be able to compete effectively with other banks.

The preceding empirical analysis allows us to shed some light on the relationship between competitive strategies and performance measures in commercial banks in Kenya. Competitive methods used by commercial banks conform to generic strategy types. Commercial banks have employed different strategies to remain competitive in the industry. It should be noted that competitive strategies adopted by commercial banks provided different degrees of variation among the respondents with respect to which competitive strategy was adopted. This is evidenced by the standard deviation of each of the strategies.
From the summary of the findings, the commercial bank's profitability measures respond more positively to the increases in competitive strategies that are cost driven as opposed to product and focus frameworks. Commercial banks following a cost leadership strategy realized statistically significant superior performance as compared to those that pursued broad differentiation, customer service differentiation and focus strategy that reported above-average returns.

The results revealed that a larger return to equity and return to asset ratios lead to more profit margins with well calculated competitive strategies. This finding is intuitive and consistent with previous studies. The study’s findings also indicated that some competitive strategies have a weaker role on the capital ratios of commercial banks in Kenya and in addition, the findings suggested that competitive strategies have a less impact on bank reserves.

In examining the relationship between competitive strategy variables and the performance of commercial banks, the results confirm the predictions of the bank's performance. The evidence, therefore, suggests that adopted competitive strategies by commercial banks are important in terms of determining profitability and enhanced performance. One can, therefore, conclude from the results, that the competitive strategies are relevant in the context of commercial banks’ performance.

5.5 Recommendations of the Study

Based on the findings of this study, the following recommendations were made;

Since this study has implications on organizational performance, there is need for the banks to engage in a higher level of business intelligence to enable them gather relevant information from the market and benchmark it with best-known world practices to enable it to gain sustainable competitive advantage. This upscaled
awareness and understanding of the various interactions involving variables that predict the competitive advantage thus prioritizing in strategy formulation and implementation hence effective organizational performance.

The researcher highly recommends that commercial banks consider shifting more of their focus to the cost leadership strategy. Mass production, mass distribution, economies of scale, technical & product design, input cost and capacity utilization of resources are areas where the cost leadership strategy can be pursued. For instance, banking institutions have laboured to retain core deposits on the realization that deposits grow in direct proportion to customer satisfaction. To ensure success in this, commercial banks should consider offering their products to customers at minimal or even zero costs and scrap off the minimum balance requirement to open or to run an account. This would consequently lead to drawing of substantial deposit amounts.

Based on the findings from this study, it is highly recommending that commercial banks consider shifting more of their focus to the cost leadership strategies it has to appeal to cost-conscious or price-sensitive customers, this can be achieved by having the lowest prices in the target market segment. To succeed at offering the lowest price while still achieving profitability and a high return on investment, the commercial banks must be able to operate at a lower cost than its rivals, this could be possible through some fairly unique capabilities to achieve and sustain their low-cost position. Commercial banks should as well consider offering their products to customers at minimal or even zero costs and scrap off the minimum balance requirement to open or to run an account. This would consequently lead to drawing of substantial deposit amounts.
Because strategy implementation practices are strong predictors of competitive advantage, it is necessary for strategy planners to integrate and embrace the differentiation strategy. This enabled them to differentiate in various methods such as new technology, brand image, design, network customer service or the number of features. This strategy limits competitors, changes in customer tastes and increase in pricing of products due to additional costs incurred in adding unique features on the product to achieve the differentiation.

This present study indicates that commercial banks in Kenya should center on the existing markets and products or services; they can create competitive edge by getting the best mix between existing products and existing markets. This can be mainly done through product niche and market identification.

5.5.1 Suggestions for Further Studies

The study should be extended to establish the strategies employed to build competitive advantage in other related sectors in the industry such as microfinance institutions. Research should also be undertaken to determine what strategies other companies in different related industries use to build competitive advantage. Further research should also be undertaken in examining the role of core competencies in organizational performance in the industrial sector.

The study further suggests that research can be done on customers’ perception of the benefits of each of the competitive strategy used against the other competitive strategies. A comparative study should be carried out on the comparative performance advantage on the different competitive strategies used in the banking industry, challenges to both the organization and the customers.
This study recommends for further research to be conducted on other dimensions of competitive strategies, for instance, to determine how external and/or internal environmental factors have influenced the implementation of competitive strategies & thus the performance of commercial banks in Kenya.

Further research should also be conducted to establish the factors that influence the choice of competitive strategies adopted by commercial banks in Kenya. This assisted the bank’s management to understand the key areas on which to lay emphasis on.

Since this study adopted a cross-sectional survey design and it was not possible for all the banks to participate in the research, a case by case study would assist in bringing out some unique findings of specific banks.
REFERENCES


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APPENDICES

Appendix I: Letter of Introduction

RE: FILLING OF QUESTIONNAIRE ON ‘COMPETITIVE STRATEGIES AND PERFORMANCE OF COMMERCIAL BANKS IN MOMBASA COUNTY

Dear respondent,

I am an MBA student at Kenyatta University carrying out research on “Competitive Strategies and Performance of Commercial Banks in Mombasa County, Kenya.” The research is meant for academic purpose only. You are kindly requested to provide answers to these questions as honestly and precisely as possible. The information provided has been kept confidential.

Your assistance was highly be appreciated.

Thank you.

Nyachwaya, Joseph Mariga
Appendix II: Letter from Graduate school
Appendix III: Questionnaire

Research Instructions

This questionnaire is set up of five sections. Please answer all questions in all the sections and put a tick \( \Box \) ONCE ONLY in the appropriate box in each question unless the question asks of you otherwise.

SECTION A: Demographic Information

1. What is your gender?
   a. Male  
   b. Female  
2. How old are you?
   a. 15-19 years  
   b. 20-24 years  
   c. 25-29 years  
   d. 30-34 years  
   e. 35-39 years  
   f. 40-44 years  
   g. 45-49 years  
   h. 50-years and above  
3. What is the highest level of education you have completed?
   a. Primary  
   b. Secondary  
   c. College/Diploma  
   d. Degree  
   e. Masters  
   f. PhD  
4. Please state the name of the bank you are working for.
   Name of Bank  
5. What is the position you hold in the bank?
   a. Manager  
   b. Director  
   c. Senior Manager  
   d. Head-of-Department  
6. What is your work experience?
7. What is the type of ownership of the commercial bank?
   a. Local ownership
   b. Foreign ownership
   c. Partially local and foreign

SECTION B: Cost leadership strategies and performance of commercial banks

8. Statements on the table indicate various banking cost leadership strategy. Rate the extent to which you agree with their application on commercial banks in Mombasa County using a Likert scale of 1-5 where; 1 = N/A (Not Applicable), 2 = Strongly Disagree, 3 = Disagree, 4 = Agree and 5 = Strongly Agree.

<table>
<thead>
<tr>
<th>Cost leadership strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. We always charge lower price than our competitors</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>b. We heavily invest in sales promotion</td>
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<tr>
<td>c. We constantly reduce labour input through automation</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. We normally charge lower than our competitors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. We frequently source supplies from those suppliers who provide discount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION C: Differentiation strategies and performance of commercial banks.

9. Statements on the table indicate various banking differentiation strategy. Rate the extent to which you agree with their application on commercial banks in Mombasa County using a Likert scale of 1-5 where; 1 = N/A (Not Applicable), 2 = Strongly Disagree, 3 = Disagree, 4 = Agree and 5 = Strongly Agree.

<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. We always offer a broad range of product</td>
<td></td>
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<tr>
<td>b. We focus on product design technique that economize on cost of materials</td>
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<tr>
<td>c. We make conscious effort to differentiate our product from those of competitors</td>
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</tr>
<tr>
<td>d. We offer a narrower range of product than our competitors</td>
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<tr>
<td>e. We continuously develop new products</td>
<td></td>
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</tr>
</tbody>
</table>

SECTION D: Focus strategies and performance of commercial banks.

10. Statements on the table indicate various focus strategies. Rate the extent to which you agree with their application on commercial banks in Mombasa County using a Likert scale of 1-5 where; 1 = N/A (Not Applicable), 2 = Strongly Disagree, 3 = Disagree, 4 = Agree and 5 = Strongly Agree.

<table>
<thead>
<tr>
<th>Focus strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. We serve a diverse market segment</td>
<td></td>
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</tr>
<tr>
<td>b. We serve a specific geographical market</td>
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<tr>
<td>c. We emphasize on marketing speciality product</td>
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<tr>
<td>d. We deal with broad product serving a wider market</td>
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<tr>
<td>e. We constantly target a specific market</td>
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</tbody>
</table>
SECTION E: Organizational performance

11. In your own opinion, which strategy gives your bank a competitive edge over other banks in Mombasa County?

<table>
<thead>
<tr>
<th></th>
<th>Greatly</th>
<th>Often</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Cost leadership strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Differentiation strategy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Focus strategy</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

12. Which areas are influenced by the competitive strategies applied by your bank?

<table>
<thead>
<tr>
<th></th>
<th>Greatly</th>
<th>Often</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Not at all</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Consumer satisfaction.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Quality products and services.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>c. High market share.</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>d. Asset acquisition and retention.</td>
<td></td>
<td></td>
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<tr>
<td>e. Increased revenues.</td>
<td></td>
<td></td>
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<tr>
<td>f. Reduced operation costs.</td>
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<tr>
<td>g. Technology upgrade and innovation.</td>
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<tr>
<td>h. Human resource expertise</td>
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</tbody>
</table>

13. What is the estimated average number of clients served per month by your bank?

_____________________


____________________________________________________________________

*THANK YOU*
Appendix IV: List of Licensed Commercial Banks in Mombasa County.

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. CFC Stanbic Bank
7. Chase Bank (Kenya)
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. Ecobank
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. Fina Bank
22. First Community Bank
23. Giro Commercial Bank
24. Guardian Bank
25. Gulf African Bank
26. Habib Bank
27. Habib Bank AG Zurich
28. I&M Bank
29. Imperial Bank Kenya
30. Jamii Bora Bank
31. Kenya Commercial Bank
32. K-Rep Bank
33. Middle East Bank Kenya
34. National Bank of Kenya
35. NIC Bank
36. Oriental Commercial Bank
37. Paramount Universal Bank
38. Prime Bank (Kenya)
39. Standard Chartered Kenya
40. Transnational Bank Kenya
41. United Bank for Africa
42. Victoria Commercial Bank
43. Housing Finance


Attach Naccosti approval/ permit