

**COMPETITIVE STRATEGIES AND PERFORMANCE OF SELECTED
COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA**

BY

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**A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS,
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DECLARATION

This research project is my original work and has not been presented for an award of degree in any university. No part of this research project shall be reproduced without permission from the researcher and or Kenyatta University.

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I confirm that the work reported in this research project was carried out by the candidate with my approval as the appointed University Supervisor.

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DEDICATION

This research project is dedicated to my loving wife Faith Ambetsa, my son Trevor Hawi and parents, Mr. and Mrs. Samuel Ochieng, for their moral support.

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ABBREVIATIONS AND ACRONYMS

ABC	Alternative Banking Channels.
CBA	Commercial Bank of Africa
CBK	Central bank of Kenya.
EBL	Equity Bank Limited.
EBS	Equity Building Society.
EGHL	Equity Group Holding Limited.
I & M Bank	Investment and mortgage bank.
KCB	KCB bank limited
KPMG	Klynveld Peat Marwick Goerdeler.
MFI	Micro Finance Institutions
MFI	Microfinance institutions.
NIC bank	National Industrial Credit Bank.
PLC	Public Limited Company.

OPERATIONAL DEFINITION OF TERMS

- Competitive strategies:** Approaches adopted by an organisation to entice customers and adopt with industry pressures by encompassing cost leadership, product differentiation, market focus and growth strategies to have an advantage over competition.
- Cost Leadership:** Under-pricing a fairly standardized product as an achievement from economies of scale, capacity utilization, encompassing all the organization's functional groups and increasing interrelationships with suppliers to assist in cost reduction.
- Differentiation Strategy:** A unique product in the industry achieved after-market study has been done and being pushed by vigorous promotions, wide distribution networks and competitive pricing.
- Liability Growth:** Refers to bank's obligations to external parties, including depositors, creditors, and other financial institutions.
- Market Focus strategy:** Selecting a market segment in which customers have unique preferences or needs identified through thorough analysis. Ensuring that selected niche is sustainable and possesses entry barriers for long-term viability.
- Growth strategy:** Strategies taken to win larger market share including market penetration, market expansion, product development and diversification.

Performance: Ability of a financial institution to achieve its strategic, financial, and operational objectives efficiently and effectively by employing competitive strategies.

Product per Customer: Refers to the average number of financial products or services a bank provides to each customer, serving as a key indicator of customer engagement, cross-selling success, and relationship management.

ABSTRACT

Poor performance in organizations can lead to significant losses, particularly in the banking sector, where it manifests as a reduction in market share, declining profitability, shrinking asset base, and loss of customers. In Kenya, commercial banks face increasing competition and financial instability, necessitating effective competitive strategies to enhance performance. This study aimed to evaluate how competitive strategies influence the performance of selected commercial banks in Nairobi City County, Kenya. Specifically, it examined the effects of cost leadership, market focus, product differentiation, and growth strategies on bank performance, utilizing Porter's generic strategies framework. A descriptive research design was employed, targeting 1,194 head office employees from three major banks—KCB, Equity, and Cooperative Bank limited who are involved in strategy formulation, implementation, and evaluation. A sample size of 291 respondents was determined using the Krejcie and Morgan formula and selected through stratified sampling. Data was collected using a structured questionnaire and analyzed using descriptive statistics (mean and standard deviation) and inferential statistics (regression correlation analysis and ANOVA). Open-ended responses were coded to identify key themes. Statistical Package for Social Sciences (SPSS version 20) was used for analysis, and Cronbach's alpha method. Coefficient of reliability was 0.957 which exceeded the threshold of 0.70 hence the research instrument was reliable. Results were presented using pie charts, tables, and figures. The findings showed that cost leadership, market focus, differentiation, and growth strategies significantly influenced performance of the selected commercial banks. Banks that effectively adopted these strategies demonstrated improved profitability, market share expansion, and operational efficiency. The study concluded that commercial banks in Nairobi City County that effectively implement competitive strategies experience enhanced performance, positioning them ahead in a highly competitive market. Additionally, the research provides insights into why these financial institutions continue to thrive despite industry challenges such as declining profits and bank mergers. It was recommended that further research be carried out on challenges faced by commercial banks in Kenya. Insights from this study can benefit management of commercial banks, policymakers, financial institutions, academicians, and researchers in formulating strategic interventions to enhance competitiveness and sustainability in the banking sector.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Performance is a crucial aspect of any organization's success and competitiveness, particularly in the banking sector, where financial stability directly impacts economic growth and investor confidence (Dermine, 2018). The author argues that while global financial institutions continue to navigate challenges such as economic instability, regulatory shifts, and technological disruptions, Kenyan commercial banks face unique challenges that have threatened their performance, stability, and sustainability. In the global scene, globalization has led to increased market liberalization, allowing for the entry of foreign competitors into domestic markets (Hasan 2019) Performance challenges are not only confined to the global level but are also predominant at the regional level (Smith & Ruiz 2020). The authors argue that different regions face unique economic, political, and social challenges that affect organizations operating within their borders. The evolving banking landscape in Kenya, influenced by competition from non-traditional financial players, regulatory changes, and rising non-performing loans, has necessitated the adoption of competitive strategies to ensure long-term survival (Odwaro 2022).

One of the most pressing challenges for Kenyan commercial banks is increase in competition from alternative financial service providers such as SACCOs, microfinance institutions, mobile banking platforms, and digital lending apps (Odwaro, 2022). The emergence of financial technology (FinTech) firms has significantly disrupted the traditional banking model by providing convenient, flexible, and low-cost financial services that attract a growing customer base (Odwaro, 2022). Safaricom's M-Pesa, which launched in 2007, has become a dominant financial platform, handling millions of transactions daily and reducing the need for customers to rely solely on banks (CBK, 2023).

Similarly, digital lenders such as Tala, Branch, and Zenka offer instant unsecured loans, increasing competition for commercial banks, which traditionally relied on credit products for profitability (Odwaro, 2022).

Another key challenge in the Kenyan banking sector is the persistent issue of non-performing loans (NPLs), which has contributed to the financial distress of multiple banks (Dermine, 2018). According to CBK's Financial Sector Stability Report of 2023, the ratio of NPLs to total loans in the banking sector stood at 14.5%, significantly higher than the recommended threshold of 5%. The collapse of several banks, including Imperial Bank in 2015, Chase Bank in 2016, and Spire Bank in 2023, highlights the adverse effects of poor credit risk management and rising loan defaults (Kela, 2018). Factors such as economic downturns, political instability, and governance failures have exacerbated this trend, creating uncertainty within the sector (Kela, 2018).

Regulatory changes have also posted significant challenges to Kenyan banks. The implementation of the Banking (Amendment Act of 2016, which introduced interest rate caps on loans, severely constrained banks' ability to price credit based on risk. This resulted in reduced lending to small and medium-sized enterprises (SMEs), ultimately slowing economic growth. Although the interest rate cap was repealed in 2019, the after-effects continued to be felt, with many banks shifting their focus from risky lending to safer investments such as government securities (CBK report of 2022). Additionally, compliance with international regulatory frameworks, such as Basel III capital requirements, has increased operational costs for banks, forcing them to adjust their business models to maintain profitability (CBK report of 2022).

The macroeconomic environment has further contributed to performance challenges within the banking sector. High inflation rates, currency depreciation, and rising fuel costs have

strained household incomes and business operations, affecting customers' ability to service loans (CBK journal of 2023). In 2023, the Kenyan shilling depreciated to a historic low against the US dollar, trading at over Ksh 150 per USD, leading to increased import costs and inflationary pressures (CBK journal 2023). This economic uncertainty has directly impacted the banking sector, as reduced disposable income limits deposit growth and borrowing capacity.

To address performance problems, implementing a well-crafted competitive strategy is of essence (Odwaro 2022). The author points out that a competitive strategy serves as a roadmap for banks to navigate the complexities of the industry, leveraging their strengths and opportunities while mitigating weaknesses and threats. By systematically analysing and selecting appropriate competitive strategies, banks can enhance their operational efficiency, customer engagement, and overall market position (Anwar 2021)

In a global outlook, competitive strategies empower organizations to expand their operations internationally and focus on building a strong reputation (Mariga 2020). International expansion allows industries to leverage on opportunities, and gain a competitive edge in the global markets (Kahingo 2018). According to the author, collaboration with international partners enhances capabilities, technological advancements, and market reach.

At the regional level, industries implement competitive strategies to adopt to the specific market demands of a particular geographic area. Regional integration initiatives provide opportunities for organizations to expand their customer base, access regional resources, and engage in cross-border trade (Aryeetey & Bhattacharya 2019).

Despite these challenges, the top three commercial banks in Kenya KCB Bank, Equity Bank, and Cooperative Bank have remained resilient, employing competitive strategies to maintain their market dominance (Kela, 2018). Equity Bank, for example, transformed from a technically insolvent institution in the 1990s to one of the most profitable banks in the region by focusing on financial inclusion and SME lending (Equity Group financial report of 2023). KCB Bank has expanded regionally, leveraging strategic partnerships to strengthen its footprint in East Africa, while Cooperative Bank has capitalized on its strong ties with SACCOs to build a stable deposit base (CBK Journal of 1994).

To remain competitive, Kenyan banks have adopted various competitive strategies, including digital transformation, product diversification, cost leadership, and customer-centric approaches (Fahima, 2023). Fahima (2023) also pointed out that banks have heavily invested in digital banking solutions, with mobile apps and internet banking becoming the primary transaction channels. Institutions such as NCBA Bank and Standard Chartered Bank have shifted towards branchless banking, reducing operational costs while enhancing service efficiency. product differentiation through tailored financial solutions, wealth management services, and SME-focused credit lines has enabled banks to target specific market segments effectively (Mariga & Rugami, 2020).

With the banking industry facing increasing pressure from technological advancements, changing consumer preferences, and regulatory demands, the need for strategic adaptation has never been greater (Challoumis & Eriotis, 2024). The authors further argue that Kenyan commercial banks must continuously innovate and refine their competitive strategies to navigate the evolving landscape and maintain financial stability. The findings of this study will provide insights into how competitive strategies can be leveraged to enhance performance, improve customer retention, and ensure long-term growth in the highly dynamic financial sector.

1.1.1. Performance

According to Bartoli & Blatrix (2015) performance is achieved through different items. The authors affirm that leading, assessment, effectiveness, and quality are used to achieve performance. Terpiłowski (2022) describes performance in business as the business's capacity to make a profit from its resources and fulfil its goals. The author contends that performance in business refer to what an organisation has achieved against some pre-set goals also known as KPIs. Riberolles (2021) describes performance as the outcome of commercial efficiency which covers qualitative and/or quantitative key performance indicators.

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

Return on assets can be used to measure profitability in banking (Alam & Islam., 2021). Ontita (2020) claims that a firms' performance can be gauged by increased earnings, stakeholder contentment and increased customer base. In Kenya, The Central Bank of Kenya evaluates banks' performance by a combination of indicators which could be financial or non-financial indicators (Kori, Muathe &Maina 2020). The Kenya Financial Sector Stability Report of 2021 indicates that financial indicators include profitability which is derived from metrics like net interest margin, income from assets, dividends earned, asset quality which reflect a healthier loan portfolio and effective risk management

practices, liquidity which ensures that banks can meet their obligations and fund customer withdrawals and finally capital adequacy which deals with regulatory capital requirements which are crucial for banks to maintain financial stability and absorb potential losses. The non-financial indicators include customer satisfaction levels, size of market share which indicates a stronger presence and competitiveness in the market, innovation and technology adaptation and regulatory compliance (Irawati et al., 2020). Ranajee, (2018), Alam & Islam (2021), Irawati, Maksum & Sadalia (2020) focused mainly on financial performance while Mbugua (2020) concentrated on customer satisfaction levels and left out other key indicators that were covered in this study. Kioko (2019) focused on financial risks and only covered one aspect of performance on the liabilities side.

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

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

Jeremy Salvucci (2022) defines market share as a company's "portion in sales" of an industry's overall sales. Market share consist of the aggregate percentage of sales generated by a company in a given period (Hayes, 2022). The author further states that an organisation

must be a market leader as an organisation in an industry that has the huge chunk of active customers and controls the market (Hayes, 2022). The author argues that ways to increase market share include implementing competitive strategies to help generating customer loyalty, and acquiring competitor's market. Market share constantly fluctuates between companies, and some allocate a lot of money on marketing in an effort to acquire market share from fellow industry players (Ontita 2020).

Atieno (2022) defines profitability as the level of financial gain achieved by a business and that it's the purpose as to which every business exists. Jenkinns (2020) study showed that this can be achieved by employing several competitive strategies to attain the profitability required. Disruptions in the market do occur and management of Central bank of Kenya capped the interest rates base rates in 2016, the volatile operational environment in post-election violence of 2007 and the Covid 19 pandemic.

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

A liability is a debt or something owed (Hayes 2023). Banks use customers' deposits and lend them to the public at a specified interest (Bonnett 2023). The author argues that loans issued constitute liabilities to the bank as they owe the depositors of the funds they have issued out as loans. Consistent growth in loan book leads to more income in terms of interest as long as the loans are repaid back to totality (Hayes 2023). The author points out that for a quality loan book, strategies for consistent growth and controls must be put in

place to curb slippages and provisions for the bad loans and recoveries efforts which are also a cost to the banks are avoided. These costs include legal fees, auctioneer fees and reputational costs.

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

1.1.2. Competitive Strategy

Competitive strategy has been defined by Chepchirchir (2017) as a general framework on how a company competes in an unpredictable environment. Namada's (2018) definition of competitive strategy is that it's the leverage a firm gets over its rivals in the same industry. The author contends that it is the effectiveness of a competitive strategy as an edge an organisation gains over rivals in the same industry by providing consumers with products with added value, whether cheaply, advanced benefits, or improved service. The benefit of a competitive strategy is defined as the long-term advantageous use of a special combination of internal capacities and external advantages that differentiate competitive industry players apart from non-competitive ones (Nduta 2015).

Competitive strategy is frequently characterized as the strategic capabilities possessed by the firm, arising from its distinctive amalgamation of resources and traits (Wanjiru 2019). A competitive strategy is an organizational plan that aligns its business objectives with its available resources (Kungu, 2017). The author asserts that, in strategic development, managers prioritize aligning the organization with resource allocation. Pimtong, Hanqin & Hailin (2012) allude that in order to establish the profit potential of an industry, a competitive strategy must take into account the bargaining power of consumers, the danger of new competitors, prospective alternative products, and inter-industry competition (Namada, 2018)

Competitive strategy refers to a thoughtful and well-structured plan of action that a bank articulates and executes in realising a sustainable gain over competition within the highly competitive banking industry (Farida & Setiawan 2022). The authors argue that it involves making choices about how the bank will position itself, allocate resources, and differentiate its products or services to outperform competitors and achieve superior financial and operational results.

Several scholars have provided measurements of competitive strategy (Ontita 2020). In 1957 Ansoff indicated that the strategic choices made by banks to achieve growth reflected their broader competitive positioning and approaches and then provided measurement of growth strategy by introducing strategic planning tool, called the matrix that helps organizations identify growth strategies based on market and product type. The matrix comprises four growth strategies; market penetration, market expansion, product development, and diversification. Porter (1980) introduced the generic strategies, which helps analyse industry structure and competitiveness, and the Value Chain analysis, which examines the internal activities of firms to identify sources of competitive advantage. Ali & Anwar 2021 did a study on competitive strategies and its impact on performance and

recommend porters product differentiation, cost leadership and market focus strategies as measurements for competitive advantage. Ameraldo, Saiful, & Husaini (2019) recommend funding mechanism, establishing special purpose vehicle, and branchless banking as means to enhance performance. Kumar & Balaramachandran (2021) recommends that customer experience, robotic process automation and technology adoption are measures of competitive strategy. Kela (2018) recommends that product development, cost leadership, market focus and product differentiation strategies as measurements of competitive advantage. Odwaro (2022) suggest that competitive strategy is measured in terms of cost leadership and differentiation, cost focus and differentiation focus. As relevant indicators in the present study, cost leadership, differentiation, and market focus were taken into consideration. These indicators are widely accepted in the banking industry and allow for meaningful comparisons and benchmarking among banks in Kenya (CBK Prudential Guidelines Report, 2013).

According to Porter (1985), cost leadership strategy is a plan to produce standard goods or services at minimal cost compared to competition. The author affirms that it is a way to increase market share while building a reputation as the cheapest provider. In essence, an organisation that employs a cost leadership strategy seeks to increase returns and competitive advantage by providing goods or services at lowest production costs possible (Odwaro 2022) employing cost minimisation techniques to achieve cost leadership. Furthermore, a huge chunk of the market share is normally held by the cost leader firm, since they have various advantages like economies of scale and discounts from suppliers (Porter 1980). The measurements for cost leadership are economies of scale, capacity utilization, encompassing all functional groups and good interrelationship with service providers (Wang' 2019). Economies of scale is achieved when production becomes efficient as costs are distributed across a larger quantity of produced goods achieving cost

advantages (Roest, Ferrari & Knickel 2018). Capacity utilization is also used when the installed productive capacity in a firm is efficiently used (Mesegan, Olunkwa & Yusuf 2018). The authors deduce that this can be achieved by encompassing all functional groups to achieve maximum utilization of the human resources. Cost minimization can also be achieved by having a good relationship with suppliers (Adesina 2019). The author further argued that with this, orders can be received early, good quality and after sales services can be achieved while reducing cost.

Differentiation strategy is an approach employed by organizations to offer unique value proposition better than competitors achieved through promotion, distribution, price, place and product (Islami et al. 2020). The distribution of the product must be at per so that the market never runs out of the product and customers try another substitute (Popescu 2020). The author argues that good/service must be available in the shelves either by opening other branches or through agencies or automated services and the price must also be competitive with the value of the product. The consumers must see the value in the price offered (Islami 2020). The product should have no perceived substitute in the particular market (Porter 1985).

Tarver (2023) defines market focus strategy as a concept used to group prospects with similar needs showing similar response to a marketing action and this concept assist organisations to focus on a variety of potential customers with different tastes and preferences. Market focus strategy is adopted by organizations intending to narrow down to a small segment of the market (Chaudhary (2023) thereby offer more satisfaction while enhancing competitive advantage. Kotler (1964) provided measurements for focus strategies as market segmentation and needs analysis. Porter (1980) has also associated market segmentation and barriers to entry as measurements of focus strategy. Segment choices are needed to prevent resources from being spread over too many activities (Jeannet

2020). The author also proposes proper need analysis to be carried out on the focus market to sell the right product to the right people. The author alludes that sometimes goods can be customised to fit the particular niche of the customers. Barriers of entry can be achieved on this strategy by owning the particular market by either specifically providing a good/service needed by the particular customer or other strategies can be involved like cost strategy (Gawer 2019).

A growth strategy is a blue print used to gain market coverage (Nanchengwa 2021). The author alludes that achievement of the growth strategy can be measured by the extent of market penetration, level of market expansion, number of products developed and diversification. Nanchengwa (2021) argues that growth strategy is measured in terms of product advancement, market expansion, diversification of products, market penetration. Market penetration can be achieved by pushing unique product or service to the market at a very competitive price (Muriithi, Mwangi & Waithaka 2020). The authors point out that an organisation need to focus on increasing market share by offering cheap products or introducing expensive quality product for a specific class of customers. Islami (2020) argues that market expansion enables an organisation conquer a different new market and that an organisation targets the new customers not consuming the product totally or the dissatisfied customers from the competition. The focus is on the global audience that entail customers the organisation hasn't approached before. Ochieng (2016) affirms that product development strategy ensures meeting customers expectation by customising the product to satisfy their specific needs. A customer whose need has been quenched by the product is a loyal customer and will spread the word to other potential customers which in turn would create a repeat customer loop, and new customers will be acquired through referrals from existing customers (Kotler & Keller, 2016). Going into a new untapped market with a new product is referred to as diversification (Jayathilake 2018).

1.1.3. Commercial Banks in Kenya

Although a number of economic challenges have been faced by the Kenyan banking industry, it remains vibrant. At the moment Dubai bank in 2013, Imperial bank in 2013 and Chase Bank in 2015 were placed under receivership. Only imperial bank has managed to recover. National Bank has been acquired with KCB bank and Nic bank and CBA bank have merged to form NCBA bank. The country boasts of 42 banks 31 locally owned and the remaining 11 owned by foreigners. The CBK acts as the main regulator as the companies and the banking acts assist in governance of the industry. The monetary and fiscal policies are solely formulated by the CBK. The local market is very competitive with both local and international banks scrambling for the market. Kenya is considered to be overbanked as 42 banks are scrambling for the population of 33 million people. This is in comparison to Nigeria which is the biggest economy in Africa with a population of 130 million people and only has 30 banks

KCB Bank Kenya Limited currently number one ranked bank in Kenya. In the year 1896, the National Bank of India founded a new branch and named it KCB group to add the local touch to its local customers. KCB group became a parent company of KCB bank which underwent a corporate restructure that led to its incorporation in 2015. By the year 2016, KCB bank had spread its branches in Tanzania, South Sudan, Uganda, Ethiopia, Rwanda and Burundi which led to its registration as a non-operating holding company to control the regional entities. KCB group PLC also acquired NBK in 2019 as it was in the brink of collapse. KCB Bank was the largest commercial bank in Kenya (CBK Journal, 2015) with assets of more than 366 billion shillings. The bank boasts of 201 branches in the region, emerged the Kenya's best bank in 2021 and feted the prestigious continental award of as Africa's best bank in Euromoney excellence. The Global Brands Magazines Awards feted

KCB bank as the most innovative bank with the best customer experience in Kenya. The NSE lists KCB Group shares with the ticker KCB.

In the country, Equity bank holds the second position according to the CBK and was established in 1984 under the name Equity Building Society (EBS). Equity Bank Limited became a fully-fledged bank in 2004. Equity group completed an internal restructure leading to its conversion as a non-holding company Equity Groups Holding Limited in December 2014. By market capitalisation, Equity bank leads in the country which has led to its listing in the Nairobi Securities Exchange in 2006. This listing attracted notable investors like Helios, who have invested a whopping USD 185 million in after the bank listed in NSE. The Group's transformation story has never been experienced in the country before. Through a diversified means of distribution of its goods and services, EBL group has developed a socioeconomic brand over time and improvement in offering financial services to the society. EBL has employed enormous human resource and uses the available infrastructure that has facilitated it create a strong brand giving it a unique approach on transforming locals' lives positively. EGH customer numbers stand at 9.2 million spread in the six East African countries. The group boasts of over 339.44 billion shillings asset base with a shareholders' equity in excess of 57.1 billion shillings as of 30th September, 2019 running 173 branches the highest in any bank in Kenya, including 38 branches in Nairobi and had made pretax profit of 46.1 billion shillings in 2022.

Cooperative bank currently ranked at number three in Kenya was established in the year 1966 as a cooperative society and registered under the CBK. The bank became a fully-fledged bank and offered additional products to the public in the year 1989. Following the 1998 bomb blast towards the American embassy, the bank had to relocate its headquarters and at the same year, the bank became a money gram agent. The head quarter shifted back to the initial building after renovations in the year 2002 till to date.

The bank, listed on the Nairobi Securities Exchange in 2008 under the symbol COOP, acquired Jamii Bora Bank in 2020, renaming it Kingdom Bank. It has branches in Juba, Kampala, and Addis Ababa, serving various business needs with an asset base of 404.15 billion shillings as of December 2017.

1.2 Statement of the Problem

The Kenyan banking sector has faced significant financial and operational challenges in recent years, largely due to increasing competition, evolving regulatory requirements, and technological disruptions. According to the Central Bank of Kenya (CBK) Journal (2023), several banks have collapsed or gone into receivership, with Dubai Bank, Chase Bank, and Imperial Bank facing financial distress, and Spire Bank struggling due to liquidity constraints and staff exits. The Kenya Bankers Association (2023) reported a sharp decline in deposits for smaller banks, limiting their ability to sustain operations. Additionally, banks have had to restructure 47% of their loan book worth KSh 1.38 trillion to cushion borrowers while maintaining profitability (McKinsey & Co, 2023). This restructuring has increased provisioning, directly impacting the bottom line of many financial institutions.

The competitive landscape has shifted dramatically with the rise of fintech companies, digital lenders, and mobile money platforms, which have captured a significant share of the financial market. According to CBK's Financial Stability Report (2023), mobile banking transactions through platforms such as M-Pesa, Airtel Money, and T-Kash surpassed traditional bank transactions in both volume and value, further reducing banks' dominance in financial services. The entry of digital lenders such as Tala, Branch, and Zenka, offering instant loans with flexible terms, has heightened competition, forcing traditional banks to rethink their lending strategies (Odwaro, 2023). Furthermore, neo-banks and banking-as-a-service (BaaS) providers are redefining customer experiences, leveraging AI-driven

credit scoring and blockchain technology to provide faster and more cost-effective services than traditional banks (Financial Sector Deepening Kenya, 2023).

Regulatory changes have also significantly affected banking operations. The Data Protection Act (2019) and CBK's Digital Credit Providers Regulations (2022) have imposed stricter compliance requirements on digital lenders and commercial banks, increasing operational costs. The Financial Reporting Centre (FRC) guidelines (2023) mandate banks to enhance anti-money laundering (AML) measures, requiring investment in regulatory technology (RegTech) to ensure compliance, further straining resources. Additionally, global financial instability has forced Kenyan banks to comply with Basel III capital adequacy requirements, necessitating higher capital reserves and reducing available funds for lending (CBK, 2023).

Profitability has been adversely affected by interest rate volatility, rising operational costs, and increasing non-performing loans (NPLs). According to CBK's Quarterly Economic Review (2023), the NPL ratio stood at 14.5%, significantly higher than the recommended threshold of 5%, largely due to economic slowdowns, inflation, and currency depreciation. With the Kenyan shilling hitting KSh 160 per USD in early 2024, import costs have soared, reducing disposable income and increasing loan defaults (Kenya National Bureau of Statistics, 2024). Additionally, compliance costs related to cybersecurity, digital banking, and fraud prevention have escalated, affecting banks' profitability (Ndungu, 2023).

Competition for market share has intensified, with non-traditional financial service providers leveraging artificial intelligence (AI), big data analytics, and personalized financial products to attract customers. Traditional banks are struggling to match the agility and cost-effectiveness of fintech firms, which operate with lower overhead costs and provide seamless digital experiences (Sitanggang, 2023). Moreover, with the rise of open

banking regulations and API-driven banking models, customers can now access financial services from multiple providers without being tied to a single bank, further eroding banks' competitive advantage (Kihara, 2023).

While previous studies have explored the relationship between competitive strategies and banking performance, most have been conducted in economically advanced regions with different regulatory environments. For instance, Islami's (2020) study on Porter's differentiation strategy was conducted in Kosovo, an advanced economy with distinct financial structures. Gitau (2021) focused solely on cost leadership strategies, while the current study broadens the scope by examining cost leadership, differentiation, market focus, and growth strategies and their collective impact on the performance of selected commercial banks in Kenya. Given the rapid technological advancements, shifting customer preferences, and evolving regulatory landscape, understanding how Kenyan banks can implement competitive strategies to sustain performance in a highly dynamic financial ecosystem is crucial.

1.3 Objectives of the study

The study comprised of one general objective and four specific objectives.

1.3.1 General Objective

Kenyan commercial banks were assessed based on their competitive strategies, with the main objective of evaluating the effect of competitive strategies on their performance.

1.3.2 Specific Objectives

- (i)** To evaluate effect of cost leadership strategy on performance of selected commercial banks in Nairobi City County, Kenya.
- (ii)** To examine the role of differentiation strategy on the performance of selected commercial banks in Nairobi City County, Kenya.
- (iii)** To investigate the influence of market focus strategy on the performance of selected commercial banks in Nairobi City County, Kenya.

- (iv) To assess the effect of expansion strategy on the performance of selected commercial banks in Nairobi City County, Kenya.

1.4 Research Questions

- i. How does cost leadership influence the performance of selected commercial banks in Nairobi City County, Kenya?
- ii. What is the effect of differentiation on the performance of selected commercial banks in Nairobi City County, Kenya?
- iii. How does market focus affect performance of selected commercial banks in Nairobi City County, Kenya?
- iv. What is the effect of expansion strategy on the performance of selected commercial banks in Nairobi City County, Kenya?

1.5 Significance of the study

The study provides significant benefits to various stakeholders. Lower-tier lenders, including microfinance institutions and SACCOs, gain insights into competitive strategies, technology adoption, and regulatory compliance, helping them survive and expand in the financial sector. Scholars and researchers benefit from enhanced academic literature, empirical data, and policy-oriented research, serving as a foundation for further studies on lending strategies and financial inclusion.

Additionally, the study enriches the existing body of knowledge by addressing gaps in credit accessibility and refining theoretical frameworks in banking and finance. For Kenyan commercial banks' top management, the findings aid in strategic decision-making, optimizing lending models, enhancing financial inclusion efforts, and ensuring regulatory compliance. By aligning business strategies with evolving policies, banks can maintain competitiveness while minimizing risk.

1.6 Scope of the Study

The scope of this study focuses on analyzing the impact of competitive strategies on the performance of selected commercial banks in Nairobi City County, Kenya. Specifically, the research examines the three leading commercial banks KCB Bank, Equity Bank, and Cooperative Bank by assessing how their competitive strategies influence their financial stability, market positioning, and overall performance. These banks were chosen due to their significant market share, extensive customer base, and established presence in Kenya's financial sector.

The study spans from 2020 to the present, a period marked by rapid technological advancements, regulatory changes, and increased competition from fintech and non-traditional financial service providers. It explores how banks have adapted to these shifts through strategic positioning. Performance is the dependent variable, while competitive strategies are the independent variables examined in this study. Initially, the study considered four key competitive strategies: cost leadership, product differentiation, market focus, and growth strategies (expansion strategies). However, to provide a more in-depth analysis, the study narrows its focus to cost leadership and differentiation strategies, as these have been the most commonly implemented approaches among leading commercial banks in Kenya.

To assess the impact of these strategies, the Balanced Scorecard Model is employed as the primary theoretical framework, allowing for a multi-dimensional analysis of performance, including financial metrics, customer satisfaction, internal processes, and learning and growth. Data was collected from employees at the head offices of KCB, Equity, and Cooperative Bank in Nairobi City County, with a focus on individuals involved in strategy formulation, implementation, and evaluation. A structured, self-administered questionnaire

was used to gather primary data, while descriptive statistics, including mean, frequencies, proportions, and standard deviation, were applied in data analysis.

To ensure a comprehensive approach, qualitative responses were analyzed using a Likert scale, providing numerical values that were subjected to statistical processes. This was achieved by coding the responses, identifying recurring themes, and presenting findings in a structured and cohesive manner. The study's narrowed focus on cost leadership and differentiation strategies ensures a more detailed exploration of how these two competitive strategies directly impact bank performance, enabling commercial banks to refine their strategic models for improved market positioning and financial sustainability.

1.7 Limitations of the Study

These are factors a researcher is aware of and may have an adverse impact on the findings or the generalizability of the findings but is unlikely to be able to control (Mugenda & Mugenda 1999). Confidentiality on client information is the cardinal rule for banking. Obtaining essential materials for this study was hindered by policies and other complexities. Additionally, participants were reluctant to share information due to concerns about disclosing company secrets and strategies to outsiders. As a control measure, respondents were explained to, the importance of the study as the administration need the findings to appraise the extent to which the formulated strategies have assisted the bank.

1.8 Organization of the Study

The research structure was as follows: the initial chapter discussed the background, objectives, significance, and limitations of the study. Chapter two reviewed the literature, chapter three outlined the methodology, sampling procedure, and design. Chapter four presented the findings and interpretations, while chapter five concluded with the study's conclusions and policy implications.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section covers how different scholars advanced the competitive strategies concepts in relation to firms' performance.

2.2 Theoretical Literature Review

Different theories have been employed by different scholars to bring out the relationship between performance and competitive strategies. Some of these theories include the following:

2.2.1 Balance scorecard model

The model was pioneered by Kaplan and Norton in the year 1990. The author defines balanced scorecard as a tracker used by management for monitoring execution of staff activities documenting consequences of staff action. The results of this instrument are the demonstration of results to be compared to a pre-set target (Ratnaningrum 2020). The author portrays the most important information needed by the management. Said, Ahmad & Ahmad (2018) carried out systematic literature review of the balanced scorecard on trends and theme. The scholar recognizes the use of balance scorecard towards performance evaluation. Teixeira & Ribeiro (2017) concluded that the theory is crucial in evaluating performance and recommended the theory to be adopted by organisations to enhance performance on individual functional groups in organizations. The balance scorecard can have several limitations. Nielsen (2017) argues that it is robotic in the implementation. Ratnaningrum (2020) reveals that this model can be complex in larger organisations in defining matrix and data collection and establishing cause-effect relationship is often time

consuming. The author contends that it creates a tendency to destroy the human touch in organisations while enforcing mechanistic approach. The author alludes that it overlooks the external environment.

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

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

2.2.2 Porters Generic Strategies Model

Michael E. Porter in 1980 pioneered this model and argued that in order for a firm to occupy this position of superiority, it must employ the use of generic strategies; low cost, differentiation and market focus strategies. Different scholars propose this theory at it has applicable strengths (Mariga 2020). The author alludes that the theory is clear and has actionable framework for organizations to choose and implement competitive strategies. The author further alludes that it has a competitive focus as the theory places a strong emphasis on competition and how organizations can position themselves relative to competitors. Wanjiku (2021) insinuates that the theory offers strategic direction as it prompts them to decide whether they want to compete on cost, product differentiation, or focus on a specific market segment and that this clarity can guide decision-making and resource allocation. The theory has several limitations according to several studies (Mariga 2020). The author argues that one of the key criticisms of Porter's generic strategies model is that it can be overly rigid and in reality, some organizations may need to combine elements of different strategies to succeed. The author noted that the theory does not account for hybrid strategies and places a heavy emphasis on internal factors and competitive positioning but tends to overlook external environment which can significantly impact a firm's success. Marete (2018) alluded that Porter's Generic Strategies may not be as applicable in highly dynamic or emerging markets, where the competitive landscape is constantly evolving, and traditional industry boundaries are less defined. The author points out that the theory overemphasises on cost reduction at the expense of other critical factors like quality and innovation.

A firm may choose to use the cost strategy whereby it employs economies of scale minimising on production cost due to mass production making it advantageous in low pricing (Wanjiku & Deya 2021). The authors contend that, if a firm chooses the

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

2.2.3 Ansoff Matrix

H. Igor Ansoff created the matrix, in 1957 to illustrate the various levers used in exploring growth opportunities. This matrix includes four strategies: product development, market penetration, diversification and product penetration. Different scholars propose this theory as it has applicable strengths (Mwangi and Waithaka 2020). The authors alluded that market penetration strategy is the most important predictor of performance while Sudarto (2020) recommended institutions to focus on market development. The theory has several limitations according to different scholars (Mensah 2020); Product diversification diminishes profit, efficiency, and financial stability, as the relationship with profit and stability is U-shaped, while intense rivalry undermines both profitability and efficiency.

Market penetration strategies are evidenced in; rise in market share and revenue, sales growth, more acquisition of new customers, innovation development and enhanced service delivery (King'ori 2023). The author suggests that financial institutions are more deeply integrated into the market, rendering them adept at fulfilling customer wants and achieving a superior market position. Developing a new market is achieved through differentiation of customer segments; households, industrial buyers as well as entering into new regions and

foreign markets (Clarissia 2020). An organization can thrive in the competitive market only when the innovative product developed by the company can be presented in such a way that the audience gets attracted to it and reach for it (Mavratzas 2020). This is a useful tool for an organization which tries to explore the various risk quadrants and offers the best successful quadrant to face the multiple unrelated markets (Clarissia 2020).

Given the strategic options outlined in the Ansoff Matrix and their demonstrated impact on organizational performance, this study seeks to investigate how the application of these strategies particularly market penetration, market development, and diversification affects the performance of commercial banks operating in Nairobi City County.

2.3 Empirical Literature Review

This section reviews past studies to pinpoint research gaps.

2.3.1 Cost Leadership Strategy and Performance

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

Mariga (2020) examined how competitive strategy impacts the performance of commercial banks in Mombasa County, Kenya. Using a descriptive research design, the study targeted

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

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

Kahingo (2018) conducted a study on competitive strategies and the viability of microfinance institutions in Murang'a County, Kenya. The study used a descriptive design

targeting 20 microfinance institutions (MFIs) in Murang'a County. A census and self-administered questionnaire were utilized. Multiple regression analysis revealed that cost leadership strategy significantly enhances the sustainability of MFIs. Further research is suggested. The current study focused on banking institutions in Nairobi City County, linking capacity utilization and resource sharing to performance. The current study findings revealed that banks utilized resource sharing with various groups as a strategy to reduce costs.

2.3.2 Differentiation Strategy and Performance

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

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

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

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

2.3.3 Market Focus Strategy and Performance

Ndungu's 2019 study examined how diversification affected the financial performance of 42 Kenyan commercial banks. Using secondary data from financial statements spanning 2014 to 2019, the study applied panel data regression analysis. The researcher determined that regional diversification significantly correlates positively with the financial performance. The study examined geographical diversification concerning performance, whereas the current study emphasizes three of Porter's generic tactics alongside a growth plan. The study only focused on performance in terms of geographical coverage whereas

the current study focused on promotion, distribution, price and products which significantly affected performance.

Gure (2018) examined the strategic management techniques and performance of small and micro firms in Nairobi City County, Kenya. To enhance profitability and achieve favourable competition, SMEs are advised to use Michael Porter's generic strategies of competitive advantage. However, ensure a selection of individuals that can collaborate effectively. The focus approach should be used by the majority of organizations, as it is important for rapid growth. The study concentrated on the pricing and production of items. The study focused on performance of organizations engaged in manufacturing commodities. The present study concentrated on profitability, market share, asset base, liabilities, and product per client, all of which influence performance. The current study findings indicated that the high cost of initial investment poses a significant barrier to new entrants which in turn lock out most potential businesses.

Kahingo (2018) assessed the impact of focus strategy on the viability of microfinance institutions in Murang'a County. The study found a strong positive link between focus strategy and the sustainability of microfinance institutions (MFIs). It identified focus strategy as the key predictor of MFI sustainability among competitive strategies. The foregoing study market focus strategy indicators of market segmentation and segment selection significantly impact the performance of commercial banks in Nairobi City County, Kenya.

Kungu (2016) focus of study was Equity bank's head office in Nairobi City using descriptive research design where 44 respondents were sampled and issued with self-administered questionnaires. Descriptive statistics were presented using frequencies and percentages. In conclusion, the banking business faces two primary sources of competitive forces, predominantly external, as firms vie for market share and enhanced customer

service.. The author recommended further research in this field as the study was limited to equity bank only which cannot generalize the whole industry. The study focused on effectiveness of competitive strategy while in the current study the focus was on competitive strategy in terms of cost leadership, differentiation, market focus and growth. The study findings of the current research showed that the banks focused on sustainable specific market segments to maximise on performance.

2.3.4 Growth Strategy and Performance

Sudarto (2020) objective of the study was to propose business strategy for Finansindo based on defined strategies. The study adopted Ansoff matrix theory for market penetration. Data used were primary data and secondary data. In conclusion, cost leadership strategy significantly affected performance. It was recommended that expansion of operation within was due to operating cost consideration. The current study used balanced scorecard model as the main model. The previous study utilized solely a qualitative design while the current study incorporated both qualitative and quantitative data. Findings in the current study demonstrated that cost leadership approach, distinctiveness, market focus, and growth strategies influenced performance.

Nanchengwa (2021) objective of the study was to assess the strategies that Zanaco bank had adopted in order to gain more market share of the unbanked community targeting 103 population. The study employed exploratory and descriptive research designs, targeting 103 participants. Data was collected via questionnaires. It concluded that enhanced strategy formulation reduces Zanaco bank's market share among the unbanked community. The study focused on unbanked population and one competitor in mobile phones. In the current study market share was an indicator of performance which in turn was the main problem. The study findings of the current study showed that product diversification lead to

improved performance but also market penetration, expansion and product development equally affect performance as found in the foregoing study.

Muriithi (2020) used a descriptive research design with 20 agrochemical companies operating in Nakuru County to source for 60 respondents. Simple linear regression was used in primary data analysis. The study found that market penetration strategies impact the performance of agrochemical companies. While the previous research emphasized on market penetration, the current study highlight was on effective entry into new markets significantly influences performance.

Ombonya (2015) examined the utilization of bancassurance as a market penetration strategy by Kenyan insurance firms. The study employed a cross-sectional descriptive research approach, with the unit of observation being 18 insurance companies who were issued with semi-structured questionnaire. Research findings indicated that bancassurance has enhanced insurance adoption by expanding distribution channels and recruiting new clientele. The study employed a penetration strategy. The present study employed a market focus method. The current study's findings indicate that product diversification enhances customer happiness and performance. Further findings showed that market growth by banks has resulted in an increased client base, hence improving performance.

2.4 Literature Review and Research Gaps

A synthesis of previous literature review and the findings of various authors and researchers indicates that organizations may implement competitive strategies differently based on their size, company nature, and overarching vision. Miles (2017) contends that the theory must facilitate the creation of novel insights in the theoretical gap while Porter adds that employing many strategies may detract from the organization's concentration hence hindering the establishment of a clear future trajectory. This study seeks to generate new

insight with regards to the service industry as the theory is biased to the goods production industries. Wanjiku (2021) focused on MFIs and did not incorporate growth strategy as a variable. The study used did not factor indicators of cost leadership theory like economies of scale, capacity utilisation, encompassing all functional groups and supplier interrelationships which play a huge role in cost reduction. Gure (2018) however, focused on price as a measure of performance despite other variables that can be used to show performance in firms. Price is not the only indicator of differentiation strategy as other indicators like promotion, distribution and product equally play an important role in performance. Gitau (2021) study was done in all banks including the ones that have collapsed and merged. The results are broad and general as different banks have different capabilities and not all banks are in the industry have the same infrastructure and capabilities as insinuated in the findings. Important indicators of performance were also left out like capacity utilisation and encompassing all groups which are important components of cost leadership strategy were left out. Mariga (2020) investigation targeted branches that are aligned to strategies formulated by head office as they only implement these strategies. The study employed cost leadership strategy, market focus strategy and differentiation strategy as independent variables of the study while the current study used an additional growth strategy which provided more insight to the problem. The study was also done in one specific geographical area.

This part of the research will highlight the findings of previous studies and the gaps found in Table 2.1.

Table 2.1 Summary of Literature Review and research gaps

Researcher and Year	Topic	Research Findings	Research Gaps	Focus of Current Study
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Odwaro (2022)	Dynamic capabilities and Porter's generic strategies in Kenyan commercial banks	Dynamic capabilities do not significantly impact the relationship between Porter's strategies and bank performance	Focused only on differentiation strategy	Examined cost, differentiation, market focus, and growth strategies
Bayad (2021)	Porter's strategies and competitive advantage	Differentiation strategy significantly correlates with competitive advantage	Focused on competitive advantage	Focused on performance
Gitau (2021)	Cost leadership strategy in Nairobi's commercial banks	Cost leadership strategy significantly influences bank performance	Focused on 40 banks with general results	Focused on top 3 performing banks in Kenya
Nanchengwa (2021)	Strategies for gaining market share among the unbanked in Zambia	Increase in strategy formulation to counter competition	Focused on one bank and the unbanked population, with mobile phones as the main competitor	Examined competition across the entire market, including mobile operators, banks, and SACCOs
Wanjiku (2021)	Competitive strategies in Kenyan microfinance institutions	Cost leadership strategy impacts microfinance institutions' performance	Focused solely on MFIs and did not include growth strategy	Incorporated Ansoff matrix and growth strategy
Mariga (2020)	Competitive strategies in Mombasa's commercial banks	Banks gain competitive advantage through efficiency	Focused on efficiency and Mombasa branches	Focused on performance in Nairobi city county
Muriithi (2020)	Market penetration strategy in Nakuru's	Market penetration strategies	Focused on market	Examined market focus strategy alongside cost,

	agrochemical companies	influence performance	penetration strategy	differentiation, and growth strategies
Islami (2020)	Porter's strategies and firm performance in Southeast Europe	Differentiation strategy positively impacts firm performance	Study conducted in Southeast Europe	Study conducted in Kenya
Sudarto (2020)	Business strategy for PT Finansindo Mikro	Recommended expanding operations within the island due to cost considerations	Anchored by cost leadership theory	Anchored by balanced scorecard theory
Gure (2018)	Strategic management in Nairobi's SMEs	SMEs embrace low-cost leadership but struggle with transport cost reduction	Focused on price and production of goods	Measured performance in terms of assets, growth, and product per customer ratio
Kahingo (2018)	Competitive strategies and sustainability of MFIs in Murang'a	Cost leadership strategy positively impacts MFIs' sustainability	Focused on MFIs in Murang'a county	Focused on KCB, Equity, and Cooperative banks in Nairobi city county
Marete (2018)	Competitive strategies in Kenyan commercial banks	Differentiation strategy improves bank performance	Applied cost, market focus, and differentiation strategies across all banks	Included growth strategy and focuses on top-performing banks
Kungu (2016)	Effectiveness of competitive strategies in Equity Bank	Identified external competitive forces in the banking industry	Focused on strategy effectiveness	Focused on strategy application and performance in selected banks
Ombonya (2015)	Bancassurance as a penetration strategy in Kenyan	Bancassurance increases insurance uptake through new	Focused on bancassurance only	Examined all products offered by banks, including bancassurance

	insurance companies	distribution channels		
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Source: Researcher 2023

2.5 Conceptual Framework

The graphical conceptualization of the relationship of study variables is considered as conceptual framework (Mugenda & Mugenda, 1999; Koob, 2021)

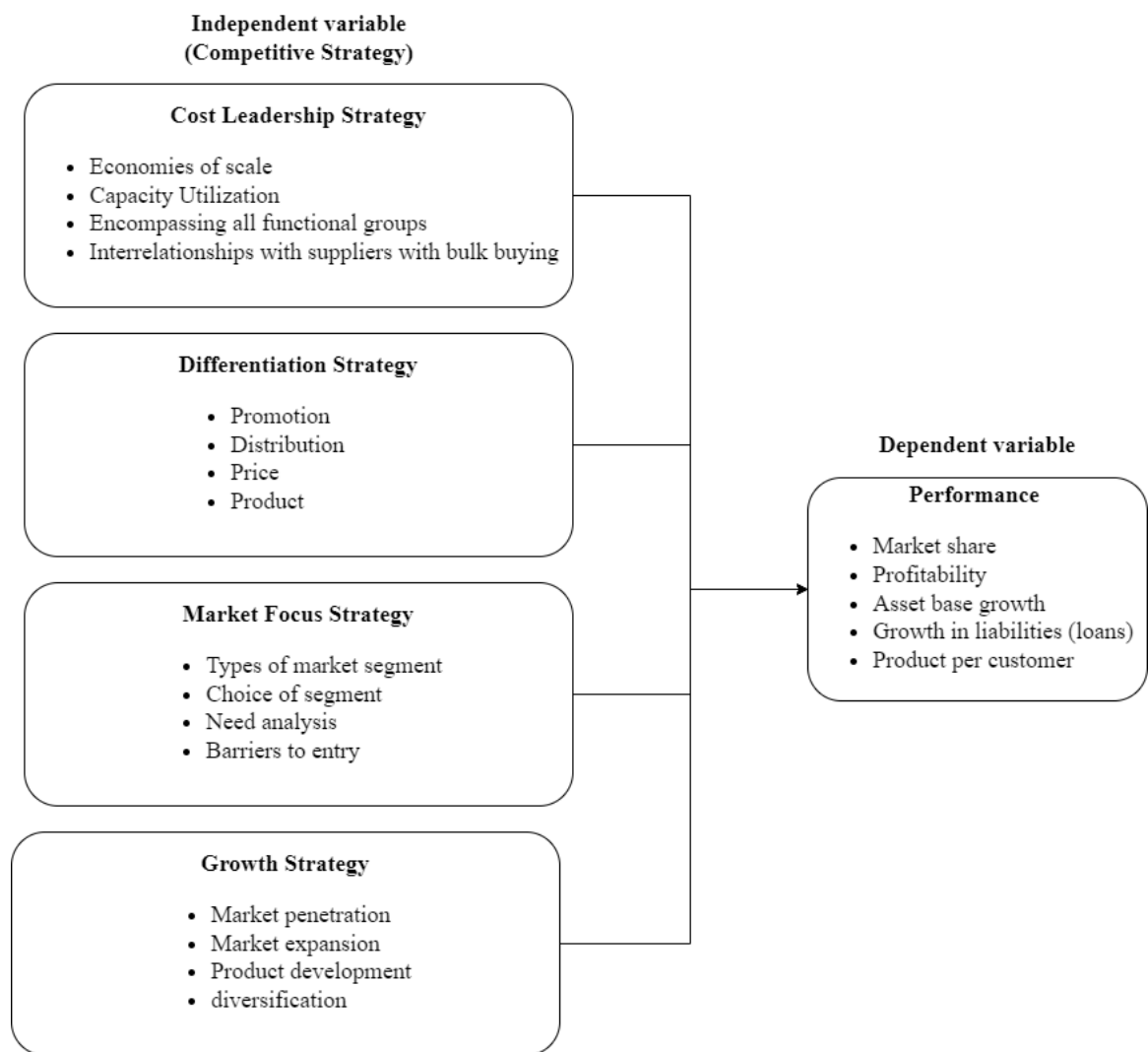


Figure 2.1: Conceptual Framework

Source: Researcher, 2023

The conceptual framework in Figure 2.1 presents the independent variable as the competitive strategies employed by banks, which include cost leadership, differentiation, market focus, and growth strategies. These strategies directly influence performance metrics such as market share, profitability, asset base growth, liabilities, and product per customer. Cost leadership strategy enhances performance by leveraging economies of scale, maximizing capacity utilization, encompassing all functional groups, and fostering strong relationships with suppliers. These measures reduce production costs, ensuring competitive pricing, which in turn increases market share and profitability. Efficient cost management contributes to asset base growth and improves financial sustainability.

Differentiation strategy influences performance through promotion, distribution, price, and product uniqueness to enhance brand awareness and product accessibility. Effective marketing and distribution increase visibility and customer reach, driving market share growth and boosting product adoption. Premium pricing on well-differentiated products enhances perceived value, fostering customer loyalty, and leading to higher profitability and asset base growth. Additionally, differentiation strategies contribute to the growth of liabilities as banks extend more loans due to increased customer confidence and engagement.

Market focus strategy strengthens performance by targeting specific customer segments through need analysis and market segmentation. By selecting high-value segments, banks tailor services to meet specific needs, improving customer satisfaction and increasing product per customer ratios. This strategy enables institutions to lock in and protect a particular market segment, thereby enhancing market share, asset base growth, and overall profitability. Identifying and overcoming market entry barriers further ensures sustained competitive advantage and long-term financial growth.

Growth strategy plays a crucial role in market penetration, expansion, product development, and diversification. Expanding into new markets and increasing customer adoption leads to higher market share and liabilities such as loan growth. Product development ensures that the right products are targeted to the right customers, enhancing customer engagement and increasing product per customer ratios. Diversification minimizes business risks while maintaining consistent profitability. This strategy aligns with the hypothesis that banks adopting these competitive strategies will see improved performance by optimizing traffic flow, financial growth, and long-term market competitiveness.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter delves into the research design chosen for the investigation, followed by a discussion on the target population that the study aims to observe. The sampling design utilized to select participants is explained, along with the data collection instrument employed to gather relevant information. The data collection procedure is presented to provide insight into how data was collected. The chapter additionally examines validity and reliability of the research tool and encompasses data analysis and presentation methodologies utilized to examine the gathered data. Ethical considerations are implemented to guarantee that the study complies with ethical standards and protects participants' rights.

3.2 Research Design

The researcher used descriptive research design (Dawson, 2002) that incorporated quantitative and qualitative approaches. Quantitative research involved the process of collecting, analysing, interpreting, and writing numerical results while qualitative aspect entailed the collection of open-ended data (Leech & Onwuegbuzie, 2007). The researcher used a quantitative method to test hypotheses about human behaviour.

The selection of a descriptive research design is justified by its ability to provide a comprehensive and systematic analysis of the research problem while incorporating both quantitative and qualitative approaches. This design allows for the accurate description of existing conditions, behaviors, and trends without manipulating variables, making it ideal for studies focused on understanding patterns and relationships. By combining quantitative research, which involves the collection, analysis, and interpretation of numerical data, and

qualitative research, which gathers open-ended insights, the descriptive design ensures a holistic examination of human behavior. The choice of a quantitative approach for hypothesis testing further strengthens the study's reliability by allowing for objective measurement and statistical validation.

Compared to other research designs, a descriptive design is more appropriate than a longitudinal or experimental design for several reasons. Longitudinal designs, which study variables over an extended period, may not be feasible due to time and resource constraints. Descriptive research, on the other hand, provides timely insights without requiring long-term data collection. Similarly, experimental designs, which involve manipulating variables and establishing cause-and-effect relationships, may not be suitable when the objective is to observe and describe natural behaviors rather than control conditions. Since descriptive research does not require intervention, it is ethically and practically advantageous when studying human behavior in a real-world context.

A descriptive research design supports hypothesis testing by identifying trends, patterns, and associations between variables, making it effective for studies that do not require causal inference but seek to establish correlations and relationships. By leveraging both quantitative and qualitative data, this approach enhances the depth and accuracy of findings, providing a balanced and well-rounded understanding of the research problem.

3.3 Target population

Research on the target population can only be done with small, observable, and time-bound samples (Mugenda 1999). Therefore, the target population of this research consisted of employees in charge of formulation, implementation and supervision of strategies of the selected 3 commercial banks hence; 394 for KCB, 420 for Equity bank and 380 for

Cooperative bank according to the companies' journals. The combine total of the population is 1,194.

Table 3.1 Target population

Bank	Management staff	Junior staff	Total
KCB Bank	164	216	380
Equity bank	186	234	420
Cooperative bank	201	193	394
Total	551	623	1194

Source; KCB bank journal issue 36, Equity bank journal 2022 issue 6 and Cooperative bank journal issue 38 2022

3.4 Sampling Design

The respondents volunteered to provide responses out of their own free will. Each and every respondent had an equal chance of being part of this exercise. The target were those that could easily be reached and were readily available. Sample size determination was adopted from Krejcie and Morgan (1970) as the sample was below 10,000.

$$S = \frac{X^2NP(1-P)}{d^2(N-1) + X^2P(1-P)}$$

$$S = X^2NP(1-P) / \{d^2(N-1) + X^2P(1-P)\}$$

X²=the table value of Chi-square for 1 degree of freedom at the desired confidence level (1.96 X 1/96) =3.841

N=the population size

P=the population proportion (assumed to be 50)

D=the degree accuracy expressed as a proportion (0.5)

$$S = 3.841 \times 1194 \times (1-0.5) / 0.05^2 \times (1194-1) + 3.841 \times 0.5 \times (1-0.5) = 291$$

Table 3.2: Distribution of recruited study participants

	N = Total number	n = sample number
KCB bank	380	97
Equity bank	420	97
Cooperative bank	394	97
Total	1194	291

Source: Research data 2023

The researcher considered the use of stratified sampling to ensure unbiased representation from all the selected banks. The population was divided into groups of known characteristics where experience, departments and job groups were considered. This approach provided a more comprehensive understanding of the competitive strategies across different segments of the banking industry.

The sample size of 291, distributed as 97 respondents from each bank, represents roughly 24.4% of the total population of 1,194 individuals across the three banks. This proportional allocation ensures that each bank is equally represented, which is critical for making balanced comparisons and drawing reliable conclusions about the variables under study.

The sampling procedure was initiated by defining the population, which was composed of employees from the three banks. Each bank was considered a unique stratum to ensure balanced representation. The total sample size was determined as 291 respondents, constituting approximately 24.4% of the total population, with 97 respondents per bank being allocated equally. This proportional selection was implemented to ensure that insights from each institution were weighted fairly, preventing skewed results.

Within each bank, random sampling was applied to select participants, ensuring that every individual was given an equal chance of selection, thereby minimizing bias. The selection

process was structured to include employees from diverse roles and departments, ensuring that a broad representation of perspectives was captured within the banking sector. This approach was used to enhance the generalizability of the findings across the industry.

Stratified random sampling was justified as it ensured fair representation across institutions, improved statistical accuracy, and enabled comparability of results by maintaining equal sample sizes across banks. Additionally, it was employed to reduce sampling bias by ensuring that employees from different roles and levels within each bank were included in the study. This structured and rigorous sampling procedure was designed to strengthen the reliability of the study, making the findings more applicable to understanding trends in the banking sector.

3.5 Data collection instrument

A questionnaire is a very convenient tool of data collection (Creswell 2014). Open and closed questionnaire was used in the study. Quantitative data was easily analysed and compared, and at the same time qualitative insights provided a deeper understanding of the context and complexities surrounding the topic. The researcher used a questionnaire as it is more standardized compared to other tools of data collection and offers relatively quick information collection. The first section of the questionnaire covered introduction and demographics. The subsequent section covered the variables starting with performance followed by cost leadership, market focus, and product differentiation and growth strategy. An open-ended question was used after each variable. The questions were based on the research conceptual framework indicators.

3.6 Data Collection Procedure

The research integrated quantitative and qualitative data. Quantitative data were collected using structured questionnaires. Initial contact was established through office visits and the

distribution of questionnaires during human interactions. The researcher anticipated a satisfactory response rate. The lead investigator, Ochieng V Ogal, obtained an introduction letter from Kenyatta University and secured ethical approval from the National Commission of Science Technology and Innovation (NACOSTI).

3.7 Pilot study

The researcher conducted a pilot study prior to the scheduled actual study (King'ori 2020). The author asserts that it aids in enhancing research methodologies to guarantee validity and reliability of the study. The purpose of pre-testing was to identify issues, ambiguities, or areas of confusion in the questionnaire so that improvements can be made before the main survey. The pilot study was carried out in Nakuru town, a major commercial city in Kenya known for its diverse banking sector and a total of 10 questionnaires were issued. This was due to its strategic importance as a commercial hub with a diverse range of banks, including commercial, microfinance, and investment banks.

3.8 Validity and Reliability of Research Instrument

Middleton (2023) describes reliability and validity as concepts employed to assess the quality of research. They denote the efficacy of a method, technique, or test in measuring a specific variable.

3.8.1 Validity of Research Instrument

This represents the measurement's correctness, indicating the appropriateness of a specific test for a given context (Nicholas, 2020). A validity check was performed in the questionnaire to confirm that the instrument exclusively measures its intended constructs. The current study examined content validity, construct validity, and criterion validity. Content validity focuses on whether a measure expansively covers the entire range of the concept it is meant to measure (Nicholas 2020). Content validity was determined by

experts. Construct validity evaluates how accurately a measure represents the underlying theoretical concept it is meant to measure (Sürücü & Maslakçi 2020). The researcher ensured that the key variables were aligned to existing theory and discussed in the context of existing literature. Criterion validity was used to assess the extent to which the instrument could predict external criterion according to the study's construct (Sürücü & Maslakçi 2020).

3.8.2 Reliability of research instrument

Livingston (2018) posits that dependability refers to the degree to which test scores are unaffected by random causes. The author contends that the reliability coefficient is a definitive value that can vary from 0.00 to 1.00. A rating of 1.00 signifies flawless consistency. Cronbach (1951) introduced the alpha coefficient as a measure of reliability for tests with continuous data. The scholar recommends that a reliability coefficient of .80 or higher is acceptable. Marcoulides (1988) on the use of covariance structure heavily discussed the issue of reliability. The author recommends that reliability coefficient of 0.6 and above is acceptable.

Middleton (2023) argues that reliability demonstrates the consistency of the instrument when the same method is applied to the same sample under the same conditions. If not, the method of measurement may be unreliable or bias may have crept into your research. The current study achieved a reliability coefficient of 0.9 which was considered acceptable as the threshold was 0.6. This shows that the research instrument that was used is reliable and acceptable.

3.9 Data analysis and presentation

Quantitative data was evaluated using inferential statistics, which comprised mean scores and standard deviation. The Pearson product-moment correlation was employed to assess

the impact of competing strategies on departmental performance. Linear multiple regression analysis was employed to elucidate the degree to which competitive strategies differ in performance. The process of fitting a linear regression model involves estimating the coefficients (b values) that best describe the relationship between the independent and dependent variables.

In multiple linear regression, there are multiple independent variables, and the linear equation becomes:

$$y = b_0 + b_1x_1 + b_2x_2 + \dots + b_px_p$$

where y is the dependent variable, x_1 is the cost leadership variable, x_2 is the differentiation strategy variable, x_3 is market focus strategy variable, x_4 is the growth strategy variable.

$b_0, b_1, b_2, \dots, b_p$ are the coefficients that represent the effect of each independent variable on the dependent variable.

The analysed data was presented using charts and tables. Content analysis was used for qualitative data.

Table 3.4 Operationalization and Measurement of Variables

Variable	Type of variable	Indicators	Quantifying variable	Measurement of variable
performance	dependent	Market share	Number of customers served	rating of 5-1 nominal
		Profitability	Amount of profit	rating of 5-1 nominal
		Asset base	Increase in customer deposit	rating of 5-1 nominal
		Liabilities	Amount of loans disbursed	rating of 5-1 nominal
		Product per customer ratio	Number of products	rating of 5-1 nominal

			available for customers	
cost leadership strategy	independent	economies of scale	Amount of bulk production	rating of 5-1 nominal
		capacity utilization	Level of reduced resource wastage	rating of 5-1 nominal
		encompassing all functional groups	Level of resource sharing across groups	rating of 5-1 nominal
		interrelationship with suppliers	Discounts	rating of 5-1 nominal
market focus strategy	independent	market segmentation	Number of markets served	rating of 5-1 nominal
		segment choice	Number of sustainable of operations	rating of 5-1 nominal
		need analysis	Number of items for need analysis	rating of 5-1 nominal
		barriers to entry	Number of CBK regulations	rating of 5-1 nominal
differentiation strategy	independent	promotion	Amount of sales volume	rating of 5-1 nominal
		distribution	Level of market coverage	rating of 5-1 nominal
		price	Level of prices	rating of 5-1 nominal
		product	Customer satisfaction ratings	rating of 5-1 nominal
growth strategy	independent	Market penetration	product customisation	rating of 5-1 nominal
		Market expansion	Reaction to market changes	rating of 5-1 nominal
		Product development	Number of products upgraded	rating of 5-1 nominal

		diversification	Number of products offered	rating of 5-1 nominal
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Source: Researcher 2023

3.10 Ethical considerations

The researcher refrained from fabricating data or results, instead accurately capturing and reporting them as real outcomes. All external ideas, methodologies, and outcomes received due acknowledgement. The researcher obtained requisite authorisation from the banks prior to initiating the study. The study questionnaire lacked any information that may associate the findings with specific individuals. All participants who fulfilled the study's entry requirements were requested to provide informed consent to engage in the trial. All measures were implemented to safeguard participant confidentiality. The researcher fulfilled all commitments made to participants and other pertinent parties. The lead investigator, Ochieng V Ogal, obtained an introduction letter from Kenyatta University and received ethical approval from the National Commission for Science Technology and Innovation (NACOSTI).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter delineates the methodologies, strategies, and protocols employed to analyse, present, and interpret data collected through questionnaires according to research objectives.

4.2 Response Rate

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

Table 4. 1 Response Rate

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

Source: Research data, (2023)

The high response rate of 79.7% can be attributed to targeting decision-making staff, who found the study relevant to their roles, and conducting data collection at the bank's main

offices, ensuring accessibility. Effective communication, follow-ups, and a well-structured questionnaire further encouraged participation. Additionally, respondents' familiarity with structured evaluations increased engagement. Exceeding the 70% "excellent" benchmark (Mugenda, 2008), the high response rate enhances data reliability, validity, and representativeness, strengthening the study's overall findings and conclusions.

Non-response bias occurs when individuals who do not participate in a survey differ significantly from those who do, potentially leading to skewed results. In this study, 59 out of 291 distributed questionnaires were not returned, resulting in a non-response rate of 20.3%. While the overall response rate of 79.7% is high, reducing concerns about severe bias, it is still essential to analyze potential differences between respondents and non-respondents to ensure the findings remain representative.

Non-responses could have resulted from workload constraints, lack of interest, or survey fatigue. If non-respondents were primarily employees with higher workloads or those disengaged from strategic decision-making, their exclusion could overestimate engagement levels or perspectives on competitive strategies within the banks.

Table 4. 2 Reliability Results

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

Growth strategy	.959	Accepted
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Source: Research data, (2023)

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

4.3 Demographic Analysis

Demographic information supplied data to evaluate the suitability of respondents in addressing questions for generalization purposes. The demographic data of the respondents encompassed their job group and tenure at the institution.

4.3.1 Job Group of Respondents

It was paramount to determine the respondents job groups to allow the researcher understand the composition of the study population. Mwangi (2020) alludes that analysing demographic data can reveal patterns and trends specific to different job groups. The author states that this information can be useful for understanding how certain variables or factors might vary across different professional levels thereby help to assess whether specific groups are overrepresented or underrepresented in the study. The findings of the study are displayed in figure 4.1.



Figure 4. 1 Job Group of Respondents

Source: Research Data (2023)

From the data collected, a majority of the respondents were mid-level management at 44% followed by the supervisors at 26% of the respondents. The senior management came in third at 19% of the respondents while the junior staff had the least number to be interviewed at 11%. The distribution clearly indicates that most of the staff employed by the head office are mostly in management as this is where the strategies are made and they are the ones to ensure implementation to the later as all the heads of departments are based there.

It can therefore be deduced that mid-level managers make the better population at headquarters of these commercial banks. Most of the entry level staff are deployed in branches where they gather experience to be promoted back at headquarters.

4.3.2 Respondents' Work Experience

The researcher analysed respondents' years of service to investigate the correlation between work experience and commercial banks' performance in Kenya. Understanding respondents work experience is important since employees with longer tenure may have

deeper insights into organizational strategies, decision-making processes, and operational challenges, whereas newer employees may provide fresh perspectives but lack historical content. The study's findings are presented in Figure 4.2.

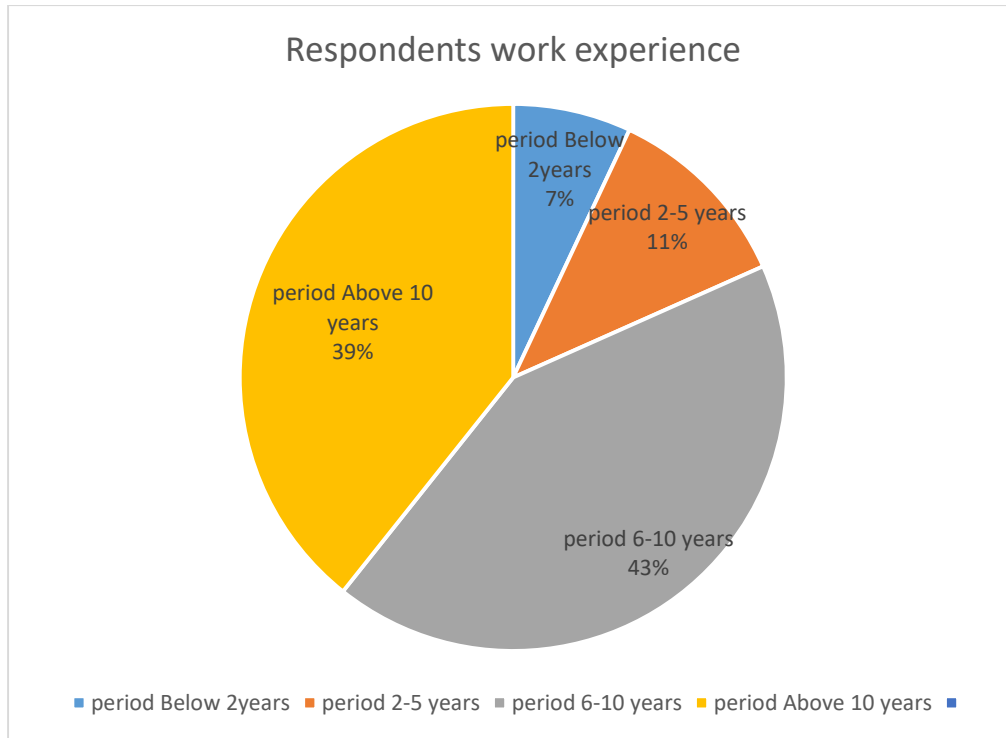


Figure 4.2. Respondents working experience

Source: Research Data (2023)

From the findings, 97 respondents had been with the organisation between 6 to 10 years representing 43%. This was closely followed by respondents with over 10 years' experience with 90 respondents representing 39% portion of the respondents. Respondents with a 2-to-5-year experience were 26 representing 11% of the sample group while 16 respondents had below 2 years' experience representing 7%. This distribution is supported by Mulu (2019) who argued that management depends highly on human resource skills handling them. As the majority of respondents possess considerable expertise, making them well knowledgeable about competitive strategies, the author asserts that the talents can be

acquired through experience. Thus, commercial banks in Kenya are expected to perform well.

4.4 Descriptive Statistics

The research specifically concentrated on cost leadership strategy, market focus strategy, differentiation strategy, and growth strategy to investigate how they influenced performance. Participants were drawn from three foremost commercial banks in Kenya, as reported by the CBK journal of 2022: KCB Bank, Equity Bank, and Cooperative Bank of Kenya. The responses were evaluated using a Likert Scale of 1-5, where: 1 - Strongly Disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly Agree.

4.4.1 Cost Leadership Strategy and Performance of Selected Commercial Banks in Kenya

The feedback was based on the objective ‘To evaluate effect of cost leadership strategy on performance of selected commercial banks in Nairobi City County, Kenya.’ The results were displayed in Table 4.3.

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

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

Aggregate		5.092	1.12
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Source: Research data, (2023)

Economies of scale have reduced production costs as per the mean of 4.03 which in turn didn't vary much (standard deviation of 1.06). Banks were at capacity in utilizing available resources, (mean of 3.80) though variation was low (standard deviation of 0.912). Capacity utilization improved efficiency (mean of 4.42 and standard deviation of 0.899) which indicates low variation in efficiency. Banks encompass resource sharing with different functional groups with a mean of 4.24, standard deviation of 0.908 hence implying a low variation. Banks had strong interrelationship with suppliers (mean of 4.38) and a standard deviation of 0.895 showing that variation was low. Banks' cost leadership strategy resulted in improved performance, mean of 4.50 but a low variation in improvement of performance due to a standard deviation of 0.930. An aggregate mean of 25.46 showed that the selected commercial banks adopted cost leadership strategy though a standard deviation of 0.934 showed there was minimal achievement in performance. Aggregate mean shows a cost leadership results in improved performance (mean of 5.09) but minimal variance in performance due to standard deviation of 1.12.

The findings align with Porter's Generic Strategies model, which emphasizes cost leadership, differentiation, and market focus as key competitive strategies (Porter, 1980). Wanjiku and Deya (2021), who note that cost strategy enhances competitiveness by lowering expenses. Gitau's (2021) findings indicated that cost leadership drives bank performance. This is also supported by Mariga (2020), found out that operational efficiency provides a competitive edge. Marete (2018) also argues that cost leadership must be balanced with quality and innovation for long-term competitiveness.

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

4.4.2 Qualitative data on cost leadership strategy

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

Table 4.4 Qualitative data on cost leadership strategy.

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

Source: Research Data (2023)

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

The findings align with Porter’s Generic Strategies model, which emphasizes cost leadership as a means of gaining competitive advantage (Porter, 1980). The study revealed that 58.2% of respondents confirmed cost reduction due to cost leadership, translating into profitability, while 23.7% directly linked cost leadership to profitability growth. This

supports Gitau (2021), who found that cost leadership significantly determines bank performance. Additionally, 5.6% of respondents attributed affordability to cost leadership, reinforcing Mariga’s (2020) findings that efficient cost management enhances competitive positioning. Furthermore, 3.0% of respondents associated profitability with customer growth, supporting Wanjiku (2021), who argued that competitive strategies help firms attract and retain customers. However, 9% provided varied insights, and 0.4% disagreed, indicating that while cost leadership is beneficial, its impact may not be uniform. These findings align with Marete (2018), who cautioned that excessive cost-cutting could undermine quality and innovation, highlighting the need for a balanced approach to competitive strategy.

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

The second objective of the study was to assess the degree of consensus or dissent regarding the impact of differentiation strategy on the performance of chosen commercial banks in Nairobi City County, Kenya. The findings are displayed in Table 4.5.

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

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

Aggregate		4.1	0.9
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Source: Research data (2023)

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

Banks provide unique product pricing, with a mean score of 3.83 and a low variation (standard deviation of 0.869). Customer ratings for these products are high, averaging 4.08, with a standard deviation of 0.957, indicating consistency. The uniqueness of the products is supported by a mean of 3.76 and a standard deviation of 0.868, showing minimal variation. Implementing a product differentiation strategy enhances performance, as evidenced by a mean of 4.44 and a low variation (standard deviation of 0.970). The general mean of 4.10 and an aggregate standard deviation of 0.900 showed that selected commercial banks adopted differentiation strategy to achieve higher levels of performance though didn't vary much.

The findings align with Porter's Generic Strategies model, which emphasizes cost leadership, differentiation, and market focus as competitive strategies (Porter, 1980). Differentiation strategy was found to significantly enhance bank performance. These findings support Bayad (2021) and Islami (2020), who found a positive correlation between differentiation and firm performance. The study also confirmed that market segmentation

expanded market coverage, reinforcing Mariga (2020), who highlighted the importance of competitive tactics. Marete (2018) found that appealing products improved performance.

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

4.4.4 Qualitative data on differentiation strategy

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

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

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

Source: Research Data (2023)

In Table 4.6, about 5, (2.2%) indicated that the key advantage of differentiated products was accessibility while the same percentage of respondents attributed that it assisted in affordable rates. Approximately 41% (97) of the respondents indicated that differentiated products create brand loyalty, and 13.8% appreciated customer service as a key benefit to the customers. Seven respondents (3%) attributed the benefits to market adaptability while 34 (14.7%) plainly hinted that it was just advantageous. Approximately 22.4% of the respondents mentioned different individual benefits to be unique catalogue.

The findings align with Porter’s Generic Strategies model, which highlights differentiation as a key competitive strategy (Porter, 1980). The study revealed that 41% of respondents

attributed brand loyalty to differentiated products, supporting Islami (2020), who found a positive correlation between differentiation and firm performance. Additionally, 13.8% emphasized customer service as a crucial benefit, reinforcing Mariga (2020), who highlighted promotional activities as key drivers of performance. While 2.2% linked differentiation to accessibility and affordability, these findings align with Bayad (2021), who found that accessible banking services significantly enhanced performance. Furthermore, 3% of respondents associated differentiation with market adaptability, supporting Marete (2018), who argued that appealing product offerings increase competitiveness. However, 14.7% of respondents noted differentiation as broadly advantageous, while 22.4% mentioned various individual benefits, indicating diverse consumer perceptions. These findings suggest that differentiation enhances market positioning and customer engagement, ultimately contributing to improved bank performance.

4.4.5 Market Focus and Performance of Selected Commercial Banks in Nairobi City County, Kenya

The fourth objective was to analyse the influence of market focus strategy on the performance of selected commercial banks in Nairobi city county, Kenya. The results is presented in Table 4.7

Table 4.7 Market Focus Strategy and Performance of Selected Commercial Banks in Nairobi City County, Kenya

Market focus strategy			
	N	Mean	Std. Deviation
The bank serves several market segments.	232	4.31	.965
The bank has focused on several market segments.	232	4.37	.930
The bank evaluates a market segment before choosing the segment.	232	4.45	.957

The bank chooses the market segment which is sustainable.	232	4.49	.921
The bank conducts need analysis before focusing on a particular segment.	232	4.53	.892
The bank ensures that the products and services offered meet the needs of the target group	230	4.28	.878
The bank has structures in place to deter competition in the target market it operates on.	232	3.56	.996
The high cost of initial investment poses barriers to new entrants in the industry.	232	4.24	.935
Implementation of focus strategy has improved the overall performance of the bank.	232	4.62	.895
Aggregate		4.26	0.97

Source: Research Data (2023)

The mean of 4.317 and standard deviation of 0.965 show that banks serve several market segments though variation was low. Banks have focused on several market segments, as shown by mean of 4.37 though a standard deviation of 0.930 implies a low variation. Banks evaluate market segments before choosing the segment (mean of 4.45) and a standard deviation of 0.957 signals a low variation.

Banks strategically select sustainable market segments, as shown by a mean score of 4.49 and a low variation (standard deviation of 0.921). They conduct thorough need analyses before targeting specific segments, with a mean of 4.53 and a standard deviation of 0.892, indicating consistency. The products offered meet the target group's needs, reflected by a mean of 4.28 and a low variation (standard deviation of 0.878). Additionally, banks have structures to deter competition in their target markets, with a mean of 3.56 and a standard deviation of 0.996, showing minimal variation.

Banks' high cost of initial investment poses a significant barrier to entry for new businesses in this industry (mean of 4.24) and a standard deviation of 0.935 points out that there was low variation to barriers to entry. A mean of 4.62 shows that implementation of focus strategy has improved the overall performance of the bank but there was low improvement

in performance as indicated by a standard deviation of 0.895. The aggregate mean of 4.32 and an aggregate standard deviation of 0.930 show that market focus strategies adopted by selected commercial banks affect performance which in turn didn't vary much.

The findings align with Ansoff's Growth Matrix, which emphasizes market penetration and segmentation as key growth strategies (Ansoff, 1957). Kahingo (2018) found that market segmentation significantly impacts financial institution performance. The findings also support Clarissia (2020) who suggested that differentiation across customer segments enhances market presence. The findings also align with Ndungu (2019) who noted that banks' high initial investment costs create significant entry barriers. The results are also consistent with Kungu (2016), who highlighted market competition as a major challenge. These results affirm that market focus strategies contribute to bank performance with steady, predictable outcomes.

This study used an open-ended question to get further insight on the matter and also to confirm if the respondents were in context. The response has been highlighted in the table 4.8 below.

4.4.6 Qualitative data on market focus strategy

The question was, "Based on your experiences with this bank, how has the market focus strategy, targeting specific customer segments, influenced your satisfaction and perception of the bank's offerings"

Table 4.8 Qualitative data on market focus strategy

		Frequency	Percent
Valid	Can be improved	2	.9
	Customer loyalty	40	17.2
	Customer satisfaction	7	3.0
	I am satisfied	170	73.3
	Null	9	3.9
	Other	2	.9

	Product accessibility	2	.9
	Total	232	100.0

Source: Research Data (2023)

Findings above indicate that 2 respondents (0.9%) were not satisfied and recommended that customer satisfaction can be achieved by adopting market focus strategy. About 40 (17.2%) were satisfied that the market focus strategy improved customer loyalty. About 170 respondents (73%) confirmed to be satisfied on how the banks have implemented the market focus strategy. About 9 (3.9%) did not answer the question. Two respondents (0.9%) confirmed that it made the products accessible.

The findings align with Ansoff's Growth Matrix, which highlights market penetration and segmentation as critical growth strategies (Ansoff, 1957). The study revealed that 73% of respondents were satisfied with how banks implemented the market focus strategy, supporting Kahingo (2018), who found a strong link between market segmentation and financial performance. Additionally, 17.2% of respondents confirmed that market focus improved customer loyalty, reinforcing King'ori (2023), who emphasized that penetration strategies enhance customer retention. A small percentage (0.9%) suggested that market focus improved product accessibility, aligning with Clarissia (2020), who noted that financial institutions thrive by differentiating customer segments. However, 0.9% of respondents were dissatisfied and recommended refining the market focus strategy to improve satisfaction, consistent with Mensah (2020), who cautioned that market penetration alone may not always guarantee efficiency. These findings indicate that banks' adoption of market focus strategies has positively influenced performance, although continuous refinement is necessary for sustained growth.

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

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

Table 4.9 Growth strategy on the performance of selected commercial banks in Kenya.

Growth strategy	N	Mean	Std. Deviation
The bank has been able to penetrate new markets effectively.	232	4.43	1.004
The bank has achieved more customers by penetrating new markets.	232	4.54	0.892
The bank has been able to increase coverage through market expansion.	232	4.53	0.882
Market expansion by the bank has led to increase in number of customers.	232	4.57	0.875
The bank has upgraded product offering to meet customer needs	232	4.49	0.892
The bank has developed a wide range of products.	232	4.46	0.887
Product diversification lead to increase in sales	232	4.55	0.886
Product diversification leads to great customer satisfaction.	232	4.57	0.899
The implementation of the growth strategy has resulted in improved performance.	232	4.66	0.916
Aggregate		4.53	0.9

Source: Research data (2023)

Banks have been able to penetrate new markets effectively (mean of 4.43) and a standard deviation of 1.004 indicates a slight variance that banks have been able to penetrate new markets.

Banks have achieved more customers by penetrating new markets (mean of 4.54) despite a low variation as indicated by a standard deviation of 0.892. A mean of 4.53 and a standard deviation of 0.882 indicate that banks have been able to increase coverage through market expansion which in turn had a low variation. Despite the bank's market expansion, the number of customers has increased, with a mean of 4.57, but a standard deviation of 0.875

indicating minimal variation. Banks have upgraded product offering to meet customer needs as indicated by a mean of 4.49 but a standard deviation of 0.892 signals a low variation in customers' needs. The average number of products developed by banks is 4.46, while the standard deviation is only 0.887, indicating a low level of variation.

Product diversification leads to increase in sales (mean of 4.55) although the variance was low as shown by a standard deviation of 0.886. Product diversification leads to great customer satisfaction (mean of 4.57) which in turn didn't greatly change as indicated by a standard deviation of 0.899. Implementation of growth strategy has resulted in improved performance (mean of 4.66) but performance didn't vary much as shown by a standard deviation of 0.916. The aggregate mean of 4.53 and standard deviation of 0.824 show that selected commercial banks adopted growth strategy which in turn didn't bring much change in performance.

The findings align with Ansoff's Growth Matrix, which highlights market penetration, expansion, and diversification as key strategies for growth (Ansoff, 1957). The findings is in line with Muriithi (2020) findings, who found that market penetration positively impacts firm performance. Product diversification also contributed to increased sales and enhanced customer satisfaction, similar to with Ombonya (2015), who found that diversified products drive customer adoption. Additionally, banks upgraded their product offerings, in line with Sudarto (2020) findings that growth strategies enhance market position. However, despite the adoption of market growth strategies, performance variation remained low, suggesting consistent but modest gains. These results confirm that market penetration and product development contribute to performance, but their impact is relatively stable over time.

The researcher used an open-ended question to get further insights on growth strategy and performance. The responses have been highlighted in table 4.10 below.

4.4.8 Qualitative data on growth strategy

The question was “In your view, how has the bank's growth strategy contributed to expanding your customer base and market presence? Can you share any specific examples or observations”?

Table 4.10 Qualitative data on growth strategy and performance of selected commercial banks in Nairobi city county, Kenya

		Frequency	Percent
Valid	Affordable rates	1	.4
	Agency Banking	25	10.8
	Customer service	1	.4
	Increased branches	60	25.9
	International client base	48	20.7
	Market expansion to remote areas	42	18.1
	Null	33	14.2
	Online banking	14	6.0
	Other	8	3.4
	Total	232	100.0

Source: Research data (2023)

In Table 4.10, 1 respondent (0.4%) mentioned that growth strategy had assisted in expanding customer base due to affordable rates and about 10.8% (25 respondents) attributed agency banking to have assisted in customer base growth. Another 0.4% (1 respondent) indicated that excellent customer service has led to increased market presence. About 25.9% of the respondents indicated that increased number of branches have led to expansion of the customer base. Approximately 20.7% stated that the international clients base has led to increased market penetration. About 18.1% attributed customer base growth to expansion to remote areas while 14% did not answer the question. Approximately 6% of the respondents indicated that online banking has made services accessible even to international clients broadening the client base. Another 3.4% (8 respondents) affirmed that growth strategies have helped the banks expand market base.

The findings align with Ansoff’s Growth Matrix, which emphasizes market penetration, expansion, and diversification as key growth strategies (Ansoff, 1957). The study revealed that 25.9% of respondents attributed customer base expansion to an increased number of branches, supporting Nanchengwa (2021), who found that strategic expansion enhances market share. Additionally, 20.7% of respondents highlighted international client acquisition as a driver of market penetration, aligning with Sudarto (2020), who recommended market development for financial institutions. The role of agency banking in customer growth (10.8%) reinforces Ombonya’s (2015) findings that alternative distribution channels improve market reach. Moreover, 6% of respondents indicated that online banking facilitated service accessibility for international clients, supporting Mavratzas (2020), who emphasized digital innovation in market expansion. While only 3.4% linked growth strategies directly to market base expansion, the overall findings confirm that a combination of market penetration and product diversification enhances bank performance and customer reach.

4.4.9 Performance of selected commercial banks in Nairobi city county, Kenya

Respondents were asked to indicate the level of agreement/disagreement. The summary has been presented as in the table 4.11 below.

Table 4.11 Performance of selected commercial banks in Kenya.

Performance			
	N	Mean	Std. Deviation
The organisation’s market share has expanded over time.	23	4.24	.944
The organisation’s net profit margin has increased over time.	23	4.22	.959
The bank's total assets have increased over time.	23	4.32	.869
The bank has improved its loan book value over time	23	4.28	.879

The bank offers a wide variety of products to customers	23 2	4.39	.881
Aggregate		4.29	0.91

Source: Research data (2023)

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

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

4.4.10 Qualitative data on Performance

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

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

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

Source: Research data (2023)

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

4.5 Regression Analysis

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

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

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874 ^a	.763	.759	.40354

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

3.12 Dependent Variable: Performance

Source: Research data, (2023)

The adjusted R^2 was used to establish the predictive power of the study model and it was found to be 0.763 implying that 76% of the variations in performance of user selected commercial banks in Kenya are explained by Cost leadership strategy, market focus strategy, differentiation strategy and growth strategy and 24% are determined by other factors which were not considered in the current study. The study aligns with Islami's (2020)

findings, which concluded that to attain objectives such as profit maximisation, cost offsetting, business sustainability, and competitive advantage, commercial banks must implement competitive strategies to thrive in a dynamic business environment.

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

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

a. Dependent Variable: Performance

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

Source: Research data (2023)

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

Table 4.15: Analysis of Coefficients using SPSS version 20

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.181	0.154		1.172	0.242
	cost leadership	0.168	0.077	0.165	2.187	0.03
	market focus	0.293	0.085	0.281	3.434	0.001
	differentiation	0.276	0.092	0.253	2.987	0.003
	growth strategy	0.217	0.077	0.218	2.827	0.005

	A Dependent Variable: Performance					
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Source: Research (2023)

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

The established optimal model for the study was:

$$\text{Linear Equation: Performance} = 0.181 + (0.168 * 1) + (.293 * 2) + (.276 * 3) + (.217 * 4) = 2.631$$

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the findings of this study and conclusion emanating from the study objectives as well as outlines the recommendations on performance of commercial banks.

5.2 Summary of the Findings

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

5.2.1 Cost leadership strategy and performance

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

The findings highlight the critical role of maintaining a low-cost base in commercial banking, making cost efficiency a key policy priority. Banks must develop policies that enhance economies of scale, automation, and operational efficiency while mitigating the risk of customer attrition to competitors offering lower costs.

Banks should adopt technology-driven cost reduction methods, such as AI-based automation and cloud banking, to lower operational costs while maintaining service quality. Strengthening partnerships with fintech providers can offer cost-effective solutions for payment processing and other services. Since consumer loyalty tends to diminish with low-cost strategies, banks should implement loyalty incentives, value-added services, and personalized banking experiences to retain customers. Policymakers should support digital financial inclusion policies that enable banks to scale their services efficiently while ensuring fair competition in pricing models.

5.2.2 Differentiation strategy and performance

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

are not easy to imitate and are highly rated by customers, thereby gaining a competitive advantage and improved performance.

The strong positive link between differentiation strategy and bank performance underscores the need for banks to continuously innovate and build unique product offerings. Regulatory frameworks should encourage fair competition while protecting intellectual property to prevent easy imitation of differentiated products. Banks should invest in unique financial products such as customized digital lending, AI-driven advisory services, and sustainable banking solutions to distinguish themselves. Commercial banks need strong brand messaging and targeted marketing to communicate the unique value of their services, ensuring widespread customer awareness. Offering personalized banking experiences based on customer data analytics can help create a competitive advantage. Policymakers should strengthen consumer protection laws to prevent misleading claims in differentiation strategies and encourage fair marketing practices.

5.2.3 Market focus strategy and performance

From the research findings, focusing on a niche and offering the needed good or service to the niche is a good determinant of the market focus strategy. This strategy requires need analysis and evaluating a market segment that is sustainable and trying to lock it out from competitors. Respondents agreed that market focus strategy is a vital factor in gaining competitive advantage over other firms. A statistically significant connection emerges between Market Focus Strategy and bank performance. This underscores the importance of tailored market strategies, indicating that banks in Kenya can enhance their overall performance by strategically aligning their focus with market demands and dynamics. One key disadvantage is that the economy is an open economy and with the given level of

innovation and competition, it is always quite difficult to obtain brand loyalty since innovation is on an uptrend in this economy.

A market focus strategy enables banks to capitalize on niche markets, but sustaining a competitive edge in a rapidly evolving economy remains a challenge. There is a need for policies that support niche banking models while ensuring innovation does not lead to market monopolization. Banks should invest in big data analytics to continuously assess customer needs and tailor niche products accordingly. Targeting underserved markets, such as SMEs and digital-only customers, through customized financial solutions can help lock in niche markets. Banks should assess the long-term sustainability of niche segments and diversify product portfolios to avoid over-reliance on a single market focus. Policymakers should facilitate financial inclusivity policies that allow banks to tailor their services to specialized customer groups without restrictive compliance burdens.

5.2.4 Growth strategy and performance

From the research findings, the selected commercial banks ensure that the banks penetrate new markets effectively, the bank must increase product offerings to the intended customers, the bank was supposed to offer a wide range of products which lead to product diversification in order to achieve competitive advantage. Growth strategy is highly significant for commercial banks in Kenya. It directly correlates with enhanced performance by promoting market penetration, increasing product offerings, and achieving product diversification. These strategic initiatives are vital for maintaining long-term success in the banking sector.

The findings indicate that market penetration, product diversification, and increased product offerings drive performance in commercial banks. Banks must balance expansion strategies with risk management frameworks to ensure sustainable growth. Banks should

explore geographic expansion into rural and emerging markets with affordable financial solutions. Developing non-traditional banking services such as wealth management, insurance integration, and digital asset services can enhance competitiveness. Partnering with fintech firms or acquiring smaller institutions can accelerate growth while reducing entry barriers into new segments. Policymakers should establish incentive programs for innovation-driven expansion, such as tax breaks or low-interest funding for banks investing in inclusive financial services.

5.3 Conclusion

The research findings indicate that cost leadership strategy enables commercial banks to achieve significant cost reductions through economies of scale, capacity utilization, resource sharing, and strong supplier relationships, ultimately resulting in increased profitability. However, the study recognizes that external market conditions, regulatory constraints, and technological advancements may impact the sustainability of this strategy. Future research could explore the long-term risks associated with cost-cutting measures, including potential impacts on service quality and customer satisfaction.

Similarly, the study concludes that market focus strategy has a statistically significant influence on bank performance by enabling institutions to target specific market segments, tailor products to customer needs, and deter competition. However, this approach is challenged by increasing market dynamism, digital disruption, and regulatory changes, which may alter the competitive landscape. Further studies should examine how digital banking innovations influence market segmentation strategies in Kenya's financial sector.

The research also finds that the differentiation strategy significantly enhances the performance of selected commercial banks by driving product awareness, brand positioning, quality assurance, and unique pricing models. However, the study

acknowledges that the risk of imitation by competitors remains a major limitation. This finding contributes to academic theory by reinforcing the role of competitive advantage in differentiation-based strategic models while suggesting that future research should explore mechanisms for maintaining uniqueness in highly competitive markets.

Additionally, the study concludes that growth strategies have a statistically significant impact on performance through market expansion, product diversification, and continuous product innovation. The findings contribute to existing literature by validating the positive link between growth strategies and financial performance in emerging banking markets. However, this study was limited to selected commercial banks in Kenya, and findings may not fully generalize to smaller financial institutions or fintech firms. Future research could explore how digital banking innovations and fintech partnerships affect growth strategies.

This study contributes to academic theory by expanding the strategic management discourse within the banking sector, particularly in developing economies. It highlights how traditional competitive strategies must adapt to dynamic technological and regulatory environments, offering insights for future research.

From a practical perspective, the findings provide actionable recommendations for commercial banks and policymakers, emphasizing the need for adaptive strategic planning, regulatory alignment, and digital transformation to sustain competitive advantage. By integrating cost leadership, differentiation, market focus, and growth strategies effectively, commercial banks can enhance their overall performance and navigate the evolving financial landscape more efficiently.

5.4 Recommendations

The study recommends that commercial banks, particularly large institutions such as KCB and Equity Bank, prioritize cost reduction methods to sustain their competitive advantage.

Given their extensive branch networks and high operational costs, these banks should focus on digital transformation, automation of banking processes, and renegotiation of supplier contracts to lower costs without compromising service quality. Short-Term (0–6 months): Conduct a cost efficiency audit to identify high-expense areas and optimize procurement processes. Mid-Term (6–12 months): Implement process automation in back-office operations, customer service, and transaction processing. Long-Term (1–2 years): Adopt AI-driven banking solutions for customer engagement and fraud detection to enhance cost savings.

Commercial banks, particularly Cooperative Bank and Equity Bank, should intensify their focus on niche banking solutions to serve SMEs, agricultural financing, and diaspora banking. These banks should leverage data analytics to identify underserved customer segments and tailor financial products accordingly. Short-Term (0–6 months): Conduct market segmentation analysis to identify viable customer groups. Mid-Term (6–12 months): Develop and roll out tailored banking products for SMEs, agribusiness, and diaspora remittances. Long-Term (1–2 years): Enhance customer retention programs through personalized financial advisory services and loyalty incentives.

Banks such as Stanbic Bank and NCBA, which target high-net-worth individuals (HNWIs) and corporate clients, should invest in product differentiation by offering premium banking services, personalized financial management, and exclusive investment opportunities. Enhancing brand positioning through differentiated digital banking solutions will further strengthen their market appeal. Short-Term (0–6 months): Introduce customized wealth management solutions and digital advisory tools. Mid-Term (6–12 months): Expand premium customer experience programs through exclusive service centers and AI-powered financial advisors. Long-Term (1–2 years): Develop strategic partnerships with fintech

firms to offer innovative digital banking experiences that competitors cannot easily replicate.

Mid-sized banks such as I&M Bank and DTB Bank should focus on geographic expansion, product diversification, and market penetration to enhance competitiveness. Digital banking should be a core enabler of their growth strategies, helping them expand their reach while maintaining operational efficiency. Short-Term (0–6 months): Launch digital-only banking solutions to penetrate untapped markets cost-effectively. Mid-Term (6–12 months): Expand operations to emerging regional markets in East Africa through strategic partnerships. Long-Term (1–2 years): Diversify product offerings by introducing Islamic banking, green finance, and insurance-integrated banking solutions.

5.5 Recommendation for Further Research

Further research is needed to examine the challenges banks face in implementing competitive strategies, particularly in the wake of technological disruptions, regulatory changes, and shifting customer preferences. Future studies should also explore the impact of fintech collaborations and mobile banking on the competitiveness of commercial banks in Kenya. By customizing strategy implementation per bank category and establishing clear timelines, commercial banks can ensure a structured approach to sustaining their competitive edge while optimizing internal resources for long-term success.

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Appendices

Questionnaire

Dear Participant

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

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

Yours sincerely,

Researcher.

Appendix 1. Questionnaire

1. What is your current role in this organization and how long have you been with the organization?
 - a) Senior Manager
 - b) mid-level manager
 - c) Supervisor
 - d) Other (please specify: _____)

2. How long have you been working at this organization?
 - a) Less than 2 years
 - b) 2-5 years
 - c) 6-10 years
 - d) More than 10 years

3. For the following questions, please use a 5-point Likert scale, where: 1 - Strongly disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly agree

Performance	1	2	3	4	5
The organisation's market share has expanded over time.					
The organisation's net profit margin has increased over time.					
The bank's total assets have increased over time.					
The bank has improved its loan book value over time					
The bank offers a wide variety of products to customers					

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

4. For the following questions, please use a 5-point Likert scale, where: 1 - Strongly disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly agree

Cost Leadership Strategy	1	2	3	4	5
The economies of scale have reduced production costs.					
The bank is at capacity in utilizing available resources.					
Capacity utilization improves efficiency.					
The bank encompasses resource sharing with different functional groups.					
The bank has strong interrelationship with its suppliers.					
The bank's cost leadership strategy has resulted in improved performance.					

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

5. For the following questions, please use a 5-point Likert scale, where: 1 - Strongly disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly agree

Market focus strategy	1	2	3	4	5
The bank serves several market segments.					
The bank has focused on several market segments.					

The bank evaluates a market segment before choosing the segment.					
The bank chooses the market segment which is sustainable.					
The bank conducts need analysis before focusing on a particular segment.					
The bank ensures that the products and services it offers meet the needs of the target group					
The bank has structures in place to deter competition in the target market it operates on.					
The high cost of initial investment poses a significant barrier to entry for new businesses in this industry.					
Implementation of focus strategy has improved the overall performance of the bank.					

Based on your experiences with this bank, how has the market focus strategy, targeting specific customer segments, influenced your satisfaction and perception of the bank's offerings?

6. For the following questions, please use a 5-point Likert scale, where: 1 - Strongly disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly agree

Product differentiation strategy	1	2	3	4	5
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The bank has effective promotion it offers.					
Product promotion increase product awareness					
The bank has a significant number of branches in different locations					
The bank's product and services can be accessed all over the country.					
The bank's prices are competitive in the market					
The bank offers unique prices for its products and services.					
The bank's products have high customer ratings.					
The bank offers unique products and services.					
The implementation of the product differentiation strategy improved performance.					

From your perspective, what are the key advantages or benefits that your bank's differentiated products and services offer compared to our competitors?

7. For the following questions, please use a 5-point Likert scale, where: 1 - Strongly disagree, 2 – Disagree, 3 – Neutral, 4 – Agree, 5 - Strongly agree

Growth strategy	1	2	3	4	5
The bank has been able to penetrate new markets effectively.					

The bank has achieved more customers by penetrating new markets.					
The bank has been able to increase coverage through market expansion.					
Market expansion by the bank has led to increase in number of customers.					
The bank has upgraded product offering to meet customer needs					
The bank has developed a wide range of products.					
Product diversification lead to increase in sales.					
Product diversification leads to great customer satisfaction.					
The implementation of the growth strategy has resulted in improved performance.					

In your view, how has the bank's growth strategy contributed to expanding your customer base and market presence? Can you share any specific examples or observations?

Appendix 2. Letter of Authorisation



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke

Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Executive Dean, Graduate School

DATE: 15th November, 2023

TO: Ochieng Ogal Vincent
C/o Business Administration Dept.

REF: D53/OL/CTY/26773/2015

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 8th November, 2023 approved your Research Project Proposal for the M.B.A Degree Entitled, "**Competitive Strategies and Performance of Selected Commercial Banks in Nairobi City County, Kenya**".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

ANNBELL MWANIKI
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL

c.c. Chairman, Business Administration.

Supervisors:

1. Dr. Kipkorir Sitienei
C/o Department of Business Administration
Kenyatta University

AM/Inn

Appendix 3. Research Permit


REPUBLIC OF KENYA


**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION**

Ref No: **271017** Date of Issue: **09/December/2023**

RESEARCH LICENSE



This is to Certify that Mr.. Vincent Ogal Ochieng of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: COMPETITIVE STRATEGIES AND PERFORMANCE OF SELECTED COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA for the period ending : 09/December/2024.

License No: **NACOSTI/P/23/31649**

271017
Applicant Identification Number


Director General
**NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION**

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