ANALYSIS OF EFFECT OF STRATEGIC APPROACHES ON COMPETITVE ADVANTAGE IN COMMERCIAL BANKS IN NAIROBI, KENYA

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DECLARATION

I declare that this research proposal has not been presented anywhere for any award and that all sources of information have been acknowledged by means of references

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ABSTRACT

The banking industry in Kenya faces intense competition. According to Kenya Bankers Association Report of 2016/2017, the banks have experienced declining performance dropping in profitability by 12.3%. Commercial banks have to constantly redesign their strategies to remain competitive or to survive amid the challenges that they face which has translated to their declining performance over the recent years. Research shows how organizations have responded to changes in the business environment. Further, literature is on the subject of strategy has focussed on the subject of strategic planning, strategy implementation and touches on organizational control. Evidence on relationship of strategic approaches of cost reduction or innovation with competitive advantage in banks is unclear. This is despite the fact that these strategic approaches contribute to competitive advantage as argued in theoretical literature. Specifically, there is unclear empirical evidence that this relationship has been explored in commercial banks in Kenya yet the banks may benefit from information on effect of strategic approaches on competitive advantage as this may aid in solving the challenges they face. Therefore, this study seeks to establish effect of strategic approaches on competitive advantage of commercial banks in Nairobi, Kenya. Specifically, the study seeks to investigate effect of cost reduction strategies on competitive advantage and establish effect of innovation strategies on competitive advantage among these banks. The study will be guided by Resource Based View Theory. Correlation survey research design will be adopted. The population will comprise all the 44 chief executives of all the commercial in Nairobi City. Saturated sampling will be used. Data will be collected from secondary and primary sources. The former, from relevant documents of the banks and government and; the latter from respondents using structured questionnaire. Validity and reliability of questionnaire will be tested on pilot data targeting 5 respondents. Validity will be established through expert review. Reliability will be determined using Cronbach's Alpha test set at 0.7. Descriptive and inferential statistics data. Regression analysis will be conducted for the two objectives.. Findings will be presented in tables and graphs. The results may be used by policy makers in banking industry and government in formulating policies. Researchers may also pursue further research from the study.

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ABBREVIATIONS AND ACRONYMS

CBK : Central Bank of Kenya

CE: Cost efficiency

CQ: Conformance quality

DD: Delivery dependability

FR: Flexible responsiveness

ISO: International Organization of Standards

NPD: New product development

NPI: New product introduction

RBV: Resource Based View

OPERATIONAL DFEFINITION OF TERMS

Bank: An organization that does the following: receives deposits, pays interest on the deposit, advances loans and invest insecurities, so the major function is receiving deposits for the purpose of lending it to borrowers with an interest.

Strategic Response: Also Strategic Approach or Strategy, are the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firms objectives. In the study, the strategic approaches are cost reduction strategy and innovation strategy.

Competitiveness: This is the relative standing of one company against other companies. An organization is said to be competitive when it possesses skills or resources that provide superior value to customers and that are difficult to imitate.

Competitive Strategy: This refers to being different or unique in the eyes of the customer, by deliberately choosing a different set of activities to deliver a unique mix of value. In the study, competitive strategy is evaluated based on quality, cost, delivery, flexibility, and profitability of the bank.

Performance: Accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed.

Strategy: A planned set of manoeuvres by a bank aimed at defeating competitor of the bank

1.0. INTRODUCTION

This section covers the background to the study, statement of the problem, research objectives, hypotheses, justification for the study and the conceptual framework. It also highlights the context of the study which is commercial banks Nairobi, Kenya

1.1. Background of the Study

Every sector, including the banking sector, has an underlying set of fundamental economic and technical characteristics that give rise to competitive forces. By implementing specific strategies, a firm can either improve or erode its position within the industry (Hammer & Steven, 2004). Competitive strategy therefore does not simply depend on the environment in which a firm operates, but also attempts to shape the environment in its favour. Every firm seeks to position itself to cope with or influence the business environment to its favour (Ndung'u, Machuki, &Murerwa, 2014).

Firms therefore need to embrace strategic approaches driven by strategic thinking. According to Chiteli (2014)strategic thinking is an ongoing process in which significant events affecting the operational environment of the business are dealt with in a comprehensive manner. Strategic thinking is part and parcel of management and concerns itself with not only understanding how the organization depends on the environment as a source of inputs on one hand, and as a market for its products and services on the other. Succeeding in such an environment therefore manifests as attainment of a competitive position or a series of competitive positions that have the potential of leading to superior and sustainable performance. This paper will examine the response strategies that have been adopted by commercial banks to survive and grow in a highly competitive and rapidly changing business environment in Kenya.

Competitive strategy is the distinctive approach which a firm uses or intends to use in order to succeed in the market place and it involves positioning the business to maximize the value of capabilities that distinguish it from its competitors (Porter, 1980). A company strategy is the game plan that management has for positioning the company in its chosen market arena, competing successfully, pleasing customers and achieving good business performance. They continue to say that it consists of competitive moves and business approaches that managers employ in running the company. This shows that strategy is all about competition (Markindes, 2001). Porter (1980) maintains that coping with the five competitive forces;

there are three potentially successful generic approaches to outperforming other firms in an industry: overall cost leadership, differentiation and focus.

Developments within the finacial sector are strongly guided by the medium-term objectives of the financial sector reform and development strategy that is captured in the Vision 2030 development blueprint (Ndung'u, Machuki, &Murerwa, 2014). Over the past 5 years, access to financial services has continued to be enhanced through increased innovation in the delivery of financial products throughout the country. These developments have been a catalyst to fulfilling the goals of building an all-inclusive and efficient financial system. Despite increasing inflation rates due to high fuel and food costs, there has been an increase in the number of people accessing financial services. This increase is an important indicator of the growth and development of the financial sector. This growth can be attributed to cost-effective and efficient innovations, particularly through the mobile money revolution in Kenya (Gudmundsson, Ngoka-Kisinguh, &Odongo, 2013)

The banking industry is a highly competitive industry and banks derive competitive advantage by designing products and services to suit different categories of customers (Ajitabah&Momaya, 2003). Banks also utilize strong and persuasive communication strategies to promote their products (Ambathstha &Momaya, 2003). However, there is great similarity between the products and services offered by banks. New products and services designed and rolled out by one bank can easily be replicated by competitors, to an extent where the differences only lie on the quality of services and the charges levied by other competing banks (Ndung'u, Machuki, &Murerwa, 2014).

In Kenya, commercial banks are an important part of financial landscape. They play a crucial role in ensuring Kenya's economic progress. The banks are responsible for adding customer deposits in a safe and liquid form and lending the proceeds to worthy commercial, industrial, governmental and non-profit institutions. They also provide market-making activities in municipal, government and corporate bonds. Banks provide consulting and advisory services to customers as well as safekeeping and trust. Commercial banks in Kenya are either privately-owned or public-owned institutions that accept monetary deposits, process loans, and provide other financial services, such as international banking, documentary collection, and trade financing (Central Bank of Kenya, 2014). In Kenya, the Central Bank of Kenya (CBK) licenses, supervises and regulates commercial banks, as mandated under the Banking Act (Cap 488). Kenya currently has 43 licensed commercial banks and one mortgage finance company. Of these 43 licensed commercial banks and one mortgage finance company. Of these 43 institutions, 31 are locally owned and 12 are foreign owned. The Government of Kenya has a substantial stake in three of Kenya's commercial banks. The remaining local commercial banks are largely family owned. Commercial banks in Kenya accept deposits from individuals and turn a profit by using the deposits to offer loans to businesses with a high interest rate (Bank Supervision Annual Report, 2014).

Kenya's commercial banks like any other organization are open systems operating in a turbulent environment. Their continued survival depends on the ability to secure a "fit" with the environment (Central Bank of Kenya, 2010). The commercial banks in Kenya are liable to many forms of risk which have triggered occasional systemic crises. These include liquidity risk (where many depositors may request withdrawals in excess of available funds), credit risk (the chance that those who owe money to the bank will not repay it), and interest rate risk (the possibility that the bank will become unprofitable, if rising interest rates force it to pay relatively more on its deposits than it receives on its loan (Central Bank of Kenya, 2015). According to Kenya Bankers Association (2018), the commercial banks in Kenya have dropped in profitability by 12.3%, an indication of reduced competitive advantage.

To compete in this dynamic and highly competitive environment, commercial banks have to continually review their strategic plans and formulate new competitive strategies to suit emerging trends in the market (Awward, 2008). All firms therefore need to have a clear understanding of both the external economic trends that directly or indirectly affect their industry because ultimately they will affect consumption patterns. They include interest rates, rates of inflation and trends in the Gross Domestic Product, among other macroeconomic indicators. As the environment changes firms must change their strategies so as to survive. In turbulent environment, strategic thinking enables organizations to be flexible enough to change accordingly (Gitonga, 2008).

There is empirical evidence around the subject of strategy among firms though more general than specific. For exsample, Ndung'u, Machuki, &Murerwa (2014) carried out a study on response strategies by commercial banks in Kenya, but limited to analysing to retrenchment strategies, investment strategies, and ambidextrous strategies. Katua, Mukuku, &Ganchunga (2014) assessed the effect of reward and compensation strategies. Du Toit (2014) investigated application of the rational model of strategic planning in rugby exposing opportunities to enhance the model for use in highly dynamic environments. Uzel (2015) looked at strategic management drivers and performance. Muendo (2016) sought to establish the factors affecting strategy implementation at Kenya Bureau of Standard and to establish the influence of strategy implementation on performance at Kenya Bureau of Standards. Diar, Senaji and Mwambia(2017) examined formal and informal practices and procedures the commercial banks in Kenya use to monitor, evaluate, adjust, and control their performance processes. Chege, Wachira and Mwenda (2015) analyzed leadership styles and implementation of strategic plans. Gaturu, Waiganjo, Bichanga and Oigo (2017) examined the influence of strategic control as one of the strategic management practices on organizational performance of mission hospitals in Kenya. Ojera, Bulitia and Ogutu (2017) examined the relationship between diagnostic control systems and overall firm performance in western Kenya. Kibachia, Iravo and Luvanda (2014) looked at challenges in strategic planning process. Junqueira et al. (2015) looked at effect of strategic choices and management control systems on organizational performance. Lin, Chen, Lin, (2017) investigated the impacts of strategic control and operational control on new venture performance in the China context. Nganga, Waiganjo and Wanjiru (2016) sought to determine the effect of strategic direction on the performance of tourism government-owned organizations. Mpoke and Njeru (2015) studied effect of strategic management processes on the organizational performance of selected government research institutions Njagi and Kombo (2014) did strategy implementation and performance while Maroa and Muturi (2015) studied strategic management practices and performance. Abok (2014) investigated factors affecting implementation of strategic plans. Sev and Anghahar (2014) investigated factors that are responsible for organizational growth.

Bassa (2015) investigated strategic planning and strategy implementation. Studies have not been focused on the subject but rather general. Djordjevic and Drucker (2014) did a study focused on generation and evaluation of alternative strategies, as well as selecting strategies to pursue. Emeka, Ejim and Amaka (2015) investigated the effect of strategy formulation on organizational performance. Njagi and Kombo (2014) on the other hand investigated effect of strategy implementation on performance of commercial banks. Literature is focussed on the subject of strategic planning, strategy implementation and touches on organizational control. Evidence on relationship of strategic approaches of cost reduction or innovation with competitive advantage in banks is unclear. This is despite the fact that these strategic approaches contribute to competitive advantage as argued by Gavetti and Ocasio (2015).

Specifically, there is unclear empirical evidence that this relationship has been explored in commercial banks in Kenya. These banks may benefit from information on strategic approaches as this may become handy in solving the challenges they face.

1.2. Statement of the Problem

The banking industry in Kenya is characterized by intense competition. Commercial banks have to constantly redesign their response strategies to remain competitive or to survive. Research shows how organizations have responded to changes in the business environment. A review of existing studies show contextual differences between organizations and how they respond to challenges differ from one organization to the other, as well as conceptual differences with regard to the variables examined. Further, Literature is focussed on the subject of strategic planning, strategy implementation and touches on organizational control. Evidence on relationship of strategic approaches of cost reduction or innovation with competitive advantage in banks is unclear. This is despite the fact that these strategic approaches contribute to competitive advantage as argued by Gavetti and Ocasio (2015). Specifically, there is unclear empirical evidence that this relationship has been explored in commercial banks in Kenya. These banks may benefit from information on strategic approaches as this may become handy in solving the challenges they face.

1.3. Objectives of the Study

The main objective of the study is to analyze effect of strategic approaches on competitive advantage among commercial banks in Nairobi Kenya. Specifically, the objectives are;

i. To investigate the effect of cost reduction strategies on competitive advantage among commercial banks in Nairobi, Kenya.

ii. To establish the effect of innovation strategies on competitive advantage among commercial banks in Nairobi, Kenya.

1.4. Research Hypotheses

H_0i. Cost reduction strategies have no significant effect on competitive advantage among commercial banks in Nairobi, Kenya

H_0ii. Innovation Strategies have no significant effect on competitive advantage among commercial banks in Nairobi, Kenya

1.5. Significance of the Study

This study is aimed at developing an understanding of the strategic responses of commercial banks towards achieving competitive advantage in Kenya. The study may benefit the management teams which are entrusted to take care of the interests of shareholders among the banks. Information on the link between strategic responses towards achieving firm level competitiveness will be useful in evaluating the strategies that can be adopted to enhance competitive advantage among the firms. Government agencies concerned with the banking sector may also find direction of policy from the findings of this study. The study will also be useful to those who may use the findings presented as reference material as grounding for further research.

1.6. Scope of the Study

The study is in the discipline of strategic management. The study will be limited to commercial banks registered and operating in Kenya. There are currently 44 banks in Kenya that are licensed by the Central bank. The study will cover Nairobi City. This is the home to headquarters or at least a branch of all these banks. The study is also limited to the effect of the two strategic approaches on competitive advantage. The study will be cross sectional, whose data will be limited to a point in time.

1.7. Conceptual Framework

The following conceptual framework represents the relationship between strategic responses and competitive advantage. Strategic approaches enable a company to attain competitive advantage and profitability. Strategies are often oriented towards competitive priorities which are cost, quality, delivery, flexibility and innovation. The conceptual framework links the six dimensions of strategic approaches: conformance quality, cost efficiency, delivery dependability, flexible responsiveness, new product development and new product introduction, to competitive advantage in quality, cost, delivery and flexibility.

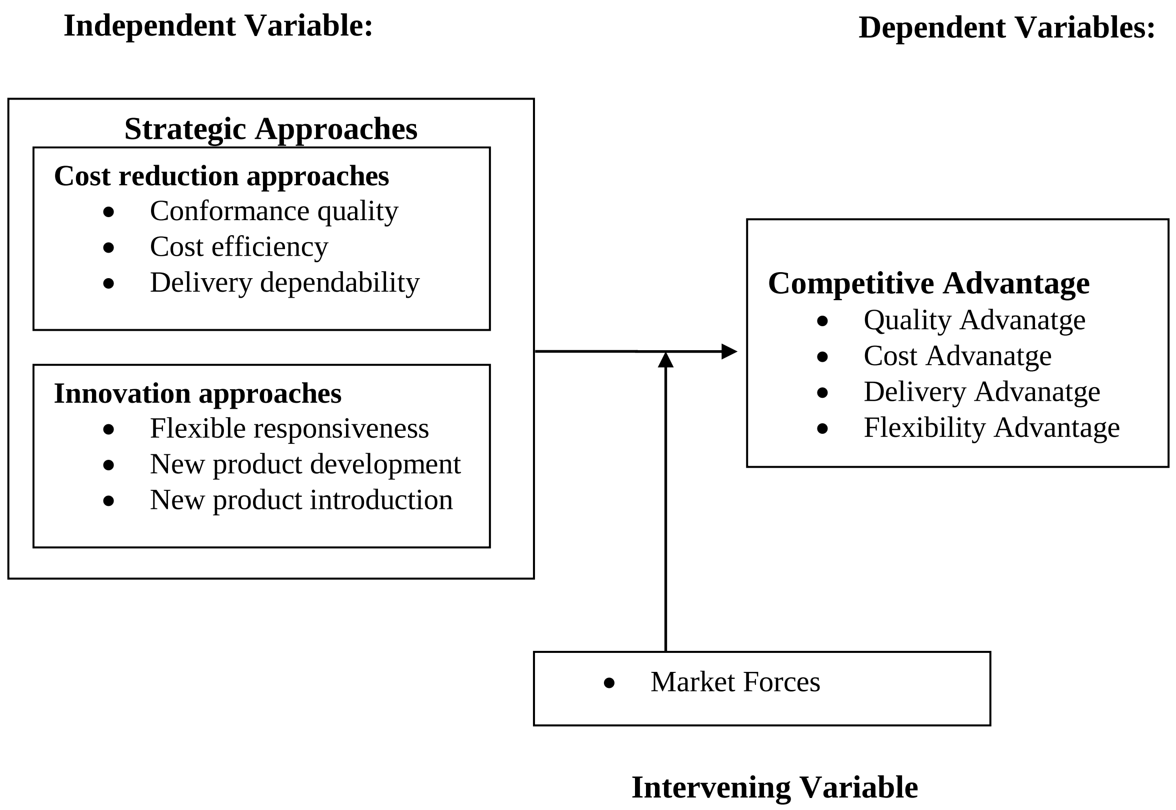

Figure 1.1: Relationship between strategic approaches and competitive advantage

Source: Adapted from Wheelen and Hunger (2015) and Hammer and Steven(2004)

2.0. LITERATURE REVIEW

This section covers the theoretical foundations on which the study is anchored. It presents reviewed literature in theoretical concepts and studies. The gap for the study is finally explained after analysis of the literature.

2.1.Introduction

The literature review surveys past studies that have been done on strategy, strategic responses, and competitiveness and established the theoretical foundations of the issues to be investigated by this study. The literature review mainly captures the relationship between strategies and competition and examines how strategies: cost reduction and innovation strategy led to the achievement of competitive priorities: cost, quality, delivery, and flexibility.

2.2.Theoretical Review

2.2.1. Theory of Study

The study is anchored on Resource Based View as propounded by Prahalad and Hamel (1990). The theory explains the link between the internal resources of a firm and its competitive advantage, specifically if those resources are valuable, rare, inimitable, and non-substitutable. Resource-based view of the firm addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. In theory, the central proposition of RBV is that firms are heterogeneous in terms of the strategic resources they own and control. This heterogeneity is caused by resource-market imperfections, resource immobility, and the inability of firms to alter their accumulated stock of resources over time. Though this understanding, every firm can be viewed as a unique bundle of tangible and intangible resources and capabilities. Resources can be assets that are tied semi-permanently to the firm such as financial, physical, human, commercial, technological, and organizational assets used by firms to develop, manufacture, and deliver products and services to its customers. These resources can either be tangible such as financial and physical resources or intangible such as employee's knowledge, experiences and skills, firm's reputation, brand name, organizational procedures .

On the other hand, capabilities refer to a firm's capacity to deploy and coordinate different resources, usually in combination, using organizational processes, to affect a desired end.

They are information-based, intrinsically intangible processes that are firm specific and are developed over time through complex interactions among the firm's resources. Capabilities can also be intermediate goods generated by the firm to provide enhanced productivity of its resources, as well as strategic flexibility and protection for its final product or service (Prahalad& Hamel, 1990). With regard to sustainable competitive advantage, the resource-based view provides a rationale for how a firm's human resources can be utilized to provide a potential source of sustainable competitive advantage.

2.2.2. Strategic Approach

Today's organizations have to deal with dynamic and uncertain environments. Success demands that organizations must be strategically aware. They must understand how changes in their competitive environment are unfolding and actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes (Djordjevic and Drucker, 2014). Organizations must be able to act quickly in response to opportunities and barriers. Wheelen and Hunger (2015) argue that to succeed long term, organizations must compete effectively and out-perform their rivals in a dynamic environment.

Strategic approach also referred to as strategic response or sometimes simply as strategy, is the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfill stakeholders' expectations (Gavetti and Ocasio, 2015). Chevalier-Roignant and Trigeogis (2011) point out that strategic approach comprises actions employed to meet a firm's long-term objectives. Pearce and

Strategic approaches are ways an organization ensures a fit into the changing environment. Pearce and Robinson (2010) defined strategic response as the set of decisions and actions that results in the formalization and implementation of plans designed to achieve a firm's objectives. According to Wheelen and Hunger (2015) a strategic approach involves changes in the organizations strategic behaviour. Approaches may take many firms depending on the organizations capability and the environment in which it operates. Well-developed strategic response is formidable weapon for a firm in acquiring and sustaining a competitive edge. Grant (2010) contends that strategic approach may be environmental based, capability based or expectations based. Environmental based response is fitting the strategies to changing environment while capability based is stretching and exploiting of the resources and competencies within the organization. Expectation based response is the meeting of the expectations created by the cultural and political context. Organizations response may fall into two categories which are the strategic and operational. This could be in the form of market and product coverage, technology, culture change, change leadership and restructuring (Ndung'u, Machuki, &Murerwa, 2014).

For effective strategic approaches continuous scanning of both internal and external environment is a prerequisite so as it keeps abreast of all environmental variables underpinning current and future business operations of the firm (Thompson et al., 2007). Strategic approaches include responses which are economically efficient and cost effective, in particular those that use market-based mechanisms. They also entail flexible and phased approaches able to serve multiple social, economic, and environmental purposes. They should be easily modified to respond to increased understanding of technological and economic aspects of businesses environmental change. They should also be compatible with economic growth and the concept of sustainable development as they should be administratively practical and effective in terms of application, monitoring, and enforcement; and , reflecting obligations of the areas of financing and technology (Gavetti and Ocasio, 2015).

Strategic approaches require organizations to match the environment and to design their internal capability to match the approach (Grant, 2011). If an organization's strategy is not matched to its environment, then a strategy gap arises. The degrees to which response are viable will also vary considerably depending on the region or country involved. The implications of specific response will depend on its social, environmental, and economic context (Grant, 2011).

Cost reduction strategy can be defined as a strategy that focuses on cost savings through internal efficiency and manifests through the three capability dimensions: conformance quality, delivery dependability, and cost efficiency (Djordjevic and Drucker, 2014). To understand the strategy, the particulars of the capability dimensions must also be fully understood. In this regard, cost efficiency refers to the ability to lower production costs through efficient operations and process management. Conformance quality refers to the ability to make products with consistent quality that meet agreed-upon performance standards. Delivery dependability refers to the ability to deliver on time in the right amount and product mix as specified by customers (Wheelen and Gunger 2015). There are various management practices that can be adopted to achieve cost reductions. The most common management practices are lean production, six sigma, and quick response manufacturing among others.

According to Gavetti and Ocasio (2015), innovation strategy refers to a strategy that emphasizes on assisting customers through flexible operations and concurrent product/process development. It manifests itself through the nurturing of three other capabilities: flexible responsiveness, new product development and new product introduction. To understand innovation strategy, the capabilities that constitute it must also be fully understood (Chevalier-Roignant and Trigeogis, 2011). Flexible responsiveness refers to the ability to modify products and associated processes for non-routine demands. New product development refers to the ability to develop new products with enhanced styling, features and performance for ease of manufacturing. New product introduction refers to the ability to rapidly introduce new products into full scale production (Pearce and Robinson, 2010).

2.2.3. Competitive Advantage

The current competitive environment brings many challenges to firms. The high level of competition demands new perspectives on competitiveness. In fact, survival in the current market increasingly depends on a firms' competitive advantage. Many researchers have described competitiveness as a multidimensional and relative concept. There are many theories about competitiveness in the fields of strategy, operations and resource-based view (Barney& William, 2010). Most companies are organized on functional lines such as marketing, finance, operations, and have narrow views about their contribution to the competitiveness of the whole organization.

By definition, firm level competitive advantage or competitiveness refers to the ability of firm to design, produce and or market products superior to those offered by competitors, considering the price and non-price qualities. Competitiveness processes are those processes, which help identify the importance and current performance of core processes such as strategic management processes, human resources processes, operations management processes and technology management processes (Pearce, and Robinson, 2009).

Essentially, competitive advantage involves a combination of assets and processes, where assets are inherited (natural resources) or created (infrastructure) and processes transform assets to achieve economic gains from sales to customers. Outcomes can be achieved through competitive potentials through the competitiveness process (Wheelen and Hunger, 2015). However, there are authors who view competitiveness with the competency approach. Here, there is an emphasis on the role of factors internal to the firms such as firm strategy, structures, competencies, capabilities to innovate, and other tangible and intangible resources for their competitive success.

The more organizations respond effectively and efficiently to the changes in the business environment, they more they develop a competitive advantage. By definition, competitive advantage is the extent to which an organization is able to create a defensible position over its competitors (Djordjevic and Drucker, 2014). Empirical studies show that capabilities can allow an organization to shape its competitive advantage and differentiate itself from its competitors (Li et al., 2006). Creating a competitive advantage requires determining the factors that put a firm in a better position in comparison to what competitors do have in the marketplace. These factors are what are known as competitive priorities. With regard to cost, although all firms are concerned to some degree with it; most firms do not compete solely or even on this basis. Costs may include direct (production) costs, productivity, capacity utilization, and inventory reduction.

According to Gavetti and Ocasio (2015), competitive advantage can be achieved by adopting one or more of the following generic competitive strategies. The first is through cost leadership strategy, where a firm's products or services are of low cost relative to competitors, related and standardized products, economies of scales, internally focused, structured organization and responsibilities, with intense supervision of labour. Porter suggests that an overall cost leadership strategy requires intense supervision of labour, tight cost control, frequent and detailed control reports and structured organization and responsibility. Another strategy is differentiation strategy which is described in terms of product uniqueness, emphasis on marketing and research, flexible structure. Finally, focus strategy implies emphasis on a narrow strategic target (buyer group, product line or geographic market) through differentiation, low cost or both.

Quality encompasses production processes and marketing functions. According to pioneering works of authors such as Pearce, and Robinson(2009), the dimensions of quality can be summarized by an eight-dimensional framework: performance, features, reliability, conformance, durability, serviceability, aesthetics, and perceived quality. In traditional observance of quality control emphasis is placed on the conformance dimension of quality. Therefore, while each of the other dimensions may be possible drivers of competitiveness, they require more inter-functional coordination among different business units in the firm than do conformance quality.

Quality is a core weapon of competition in the marketplace. Quality engenders competitive advantage by proving products that meet or exceed customer needs and expectations (Lee and Zhou, 2008). Quality is clearly viewed as a main source of competitive advantage through meeting the customer requirements. There are many scholars that have linked quality to competitive strategy. Parajogo (2007) considers quality as a strategic performance as a reflection of a competitive strategy of the firms. He supports the notion that quality has gone through an evolution process, from an operational level to a strategic level. Thus, quality should be adopted as a strategic goal in organizations.

Delivery is a competitive priority where the customers are interested in satisfying their needs and wants in the right quantity at the right time. Delivery time is concerned with the ability to deliver according to the promised schedule. In this case, the business may not have the least cost or the highest quality product, but they are able to compete on the basis of reliably delivering products when they promise even if the delivery date is in the future. In some cases, delivery reliability may not be adequate. Customers may demand delivery speed (Grant, 2010).

Thus, according to Kumar (2004), “delivery of the required function means ensuring that the right product (meeting the requirements of quality, reliability and maintainability) is delivered in the right quantity, at the right time, in the right place, from the right source (a vendor who is reliable and will meet commitments in a timely fashion), with the right service (both before and after sale), and, finally, at the right price”.

Flexibility focuses on product mix, volume, changeover, and modification. Flexibility is therefore concerned with how a firm can deploy and/or re-deploy resources in response to changes in contractual agreements that are primarily initiated by customers. As such, a firm may design or plan, change volumes, and modify product varieties to meet the demands of customers (Boyer and Lewis, 2002).

2.3.Empirical Review

2.3.1. Cost Reduction Approach and Competitive Advantage

The subjects of strategy and strategic approach have received some empirical scholarly attention.

Ogori (2010) investigated the strategies employed by commercial banks in Kenya to build competitive advantage. Using a survey design, the strategies investigated were customer satisfaction, bank fees, number of banking halls and ATM, customer relationship management, and bank operating hours, publicity, products and services, identification of customer needs, and advertising. The findings showed that the ability to satisfy the customer and have repeat customers which was ranked first with a mean of 1.43. They indicated that the commercial banks charged fees lower than other banks and developed market driven products and services for their customers which were ranked second with a mean of 1.53 each. Adequate facilities like banking halls, ATM machines and the ability to know customer needs had means of 1.60 while opening and closing times, publicity to create and enhance positive image of the bank and focus on products and services not offered by other banks had means of 1.67. Identifying needs of prospective customers had a mean of 1.73. The respondents indicated that all the above strategies were used to a very great extent by the commercial banks as indicated by their respective means. Advertising on radio and newspapers was cited to have been used to a great extent as indicated by it mean of 2.17 (Ogori, 2010). While the researcher concluded that the commercial banks have adopted both the lower cost structure and differentiated products in a bid to build competitive advantage, the statistical analyses employed were basic and presented in terms of means and percentages. There were no relationships tested, either through correlation analysis or regression analysis to determine the extent to which the strategies surveyed affected competitive advantage.

Gaturu, Waiganjo, Bichanga and Oigo (2017) examined the influence of strategic control as one of the strategic management practices on organizational performance of mission hospitals in Kenya. This study focused on mission hospitals in Kenya. In Africa, an old mission hospital was mainly a complex that included a church and a school, besides the mission hospital. Extant literature indicates that mission hospitals in Kenya contribute 43% of healthcare service delivery to the medium and low-income groups of the population that mostly reside in the rural areas. In the past, mission hospitals received grants from the government and donations from churches abroad. However, this has now changed and the support given to mission hospitals is minimal. The cost of healthcare has escalated and there is a high human resource migration to countries abroad. These challenges have negatively affected the organizational performance of mission hospitals.

Lin, Chen and Lin (2017) investigated the impacts of strategic control and operational control on new venture performance in the China context. The study tested the hypotheses in a sample of 83 new ventures that have equity investment by established firms and are founded between 1993 and 2007 that issued initial public offerings while not more than eight years old. The management control that the corporate investor exercises over the new venture is a significant determinant of the new venture success.

Nganga, Waiganjo and Wanjiru (2016) sought to determine the effect of strategic direction on the performance of tourism government-owned organizations. The study adopted a cross sectional survey design using both quantitative and qualitative data. The data was collected from both management and non-management staff, to get an in depth understanding of the influence of strategic direction on performance of the organizations. The sample size of the study was 420, with a 78% response rate, the data was collected using questionnaires. Quantitative data was coded and analyzed descriptively and inferentially .The study found that strategic direction significantly influences the organizational performance of tourism agencies. The top managers and middle level managers over saw most functions relating to offering strategic direction to the organizations. The low level cadre of staff was less involved in the process of strategy formulation and were mostly involved in the implementation exercise.

Emeka, Ejim and Amaka (2015) investigated the Effect of Strategy formulation on organizational performance. They focused on Innoson Manufacturing Company Ltd Emene, Enugu using survey research. The study revealed that a well conceived and formulated strategy matched with appropriate structure located in Espirito Santo, using Contingency Theory as the theoretical framework. It is a quantitative study, using a survey as the data collection technique. 73 questionnaires were validated, after being completed by those responsible for the controlling or related area of these enterprises over the period between February and April of 2014. The data analysis was performed using the structural equations modeling technique. The main results indicate that: (i) competitive forces shape the strategy adopted by the organizations surveyed, however, contrary to what the literature predicts, those companies that operate in more competitive environments choose a strategy of cost leadership instead of differentiation; (ii) the design and use of the MCS is influenced by the strategy chosen, and the use of contemporary management practices is associated with a differentiation strategy; (iii) strategic choices and the MCS have a positive impact on organizational performance. In addition, those companies that combine differentiation strategy with contemporary management practices perform better than the other companies analyzed.

Maroa and Muturi (2015) studied the influence of strategic management practices on the performance of Floriculture Firms in Kenya. The focus was carried out in Kiambu County in central Kenya. A descriptive survey design was used with a target population of 21 floricultural firms out of which 10 firms were selected by simple random sampling, and 5 respondents from each of the 10 firms purposively chosen. Structured questionnaires were used to collect primary data. Chi- Square (X2) test was used to test the four hypotheses to establish significance of association. The findings established that majority of the firms had a strategic plan implemented their strategic plans as planned, conduct strategy evaluation and control on their strategic management practices. Further, that strategy formulation, implementation, evaluation and control had significant influence on the performance of flower firms to a moderate extent.

Away (2011) evaluated the strategies for achieving competitive advantages in the Ghananian banking industry, with special reference to Ghana Commercial Bank Ltd. The study focused on the strategies adopted by Ghana Commercial Bank to achieve competitive advantage. The study focused on the current competitive strategies adopted by the bank, the effectiveness of the strategies, and the impact of the strategies on bank performance, sustainability, and competitive advantage. Data was analyzed using descriptive statistics. The research also reported that Ghana Commercial Bank was implementing the cost leadership strategy, though in certain instances the focus was on differentiation strategy.

Muendo (2016) sought to establish the factors affecting strategy implementation at Kenya Bureau of Standard and to establish the influence of strategy implementation on performance at Kenya Bureau of Standards. The research used a case study approach and used primary data which was collected using an interview guide. The researcher interviewed five senior managers at the organization. Data collected was qualitative in nature and content analysis was used to analyze this data. The study revealed several factors affecting strategy implementation at KEBS; these include the organizational structure, organizational culture, leadership style, communication, employee involvement and Information Communication Technology infrastructure. These factors either support or hinder the implementation of strategies in the organization and that strategy implementation was a critical factor in improving the performance at KEBS through employee performance, employee retention and attraction, greater market coverage on surveillance, improves turnaround time on sample analysis and increased number of clients on ISO certification. The study concludes that for an organization to successfully implement its strategy, it must ensure the existence and alignment of all strategy supportive aspects of the organization.

2.3.2. Innovation Strategies and Competitive Advantage

More studies have been conducted around the subject of strategic approach and competitive safdvbanatge Evidence from Njagi and Kombo (2014) show that their sudy determined the effect of strategy implementation on performance of commercial banks in Kenya. The specific objectives of the study were to determine the effect of operationalization of strategy on performance of the banks and to determine the effect of institutionalization of strategy on performance of the banks. To achieve these objectives, the study adopted correlational research design. The target population was the forty three commercial banks in Kenya. Given the small number of commercial banks, a census study was conducted. The data gathered was analyzed using descriptive statistics such as percentages to summarize the data. Pearson's correlation coefficient was used to determine the nature and strength of the relationship between strategy implementation and organizational performance. To determine the effect of strategy implementation on organizational performance, a multiple regression model was developed. The results reveal that there is a moderately strong relationship between strategy implementation and organizational performance. The researcher therefore recommends that for institutions to thrive and compete they must implement strategies effectively.

Sev and Anghahar (2014) sought to establish the factors that are responsible to organizational growth level in Dangote group of companies. Four (4) companies from Dangote conglomerate quoted on the Nigerian Stock Exchange market namely; Dangote Cement Pic, Dangote Flour Pic, Dangote Sugar Refinery Company Pic and National Salt Company of Nigeria Pic were surveyed with a population size of 5060. The sample size survey was 371. 209 respondents from Dangote Cement Company Pic, 75 respondents from Dangote Flour Mill Pic, 48 respondents from Dangote Sugar Refinery Company Pic and 39 respondents from National Salt Company Pic using judgmental and convenience sampling technique. The Quasi-experimental survey technique especially the cross-sectional design method was adopted. The Friedman Ranking test was carried out in testing the formulated hypothesis. The test of the result revealed that there is a relationship between organizational factors such as market share growth, sales volume growth (turnover), profitability growth, effective strategy application, competitive advantage and share capital size and organizational growth in the Dangote Cement Company Pic and Dangote Flour Mills Pic with a 0.425 and 0.360 strength of association respectively.

Kibachia, Iravo and Luvanda (2014) A common challenge faced by all organizations, whether private or public, is how to successfully they manage strategic planning process for attainment of organizational objectives. Some researchers have noted that organizations fail to implement up to 70 per cent of their strategic plans. This study sought to determine the challenges faced by the Kenya Bureau of Standard in its efforts to implement its strategic plans. Specifically, the study tried to find out how organization structure, leadership style, top management, staff involvement and organizational change affect implementation of strategic plans in the Organization. It also tried to identify the role of funds in strategic plan implementation. The study was explanatory in nature since its main purpose was to explain the factors that affect implementation of strategic plans in the public sector and especially in the Kenya Bureau of Standard. From the findings strategic planning process has been faced with various risk factors including inadequacy of funds and less involvement of staff in the whole process of strategic planning. The researcher would recommend that the Kenya Bureau of Standard should address the factors that affect strategic planning process because the strategic plan is the key route to improved business performance and has an important role in every organizational setting. To mitigate or even avoid severe effects on the performance of the organization by the government, the organization should adhere to its regulations concerning attainment of funds.

Ojera, Bulitia and Ogutu (2017) used data, collected during the period November 2008 to May 2009 from 109 senior managers in a census survey of 45 firms in the sugar value-chain in western Kenya, to examine the relationship between diagnostic control systems and overall firm performance. Descriptive statistics and bi-variate regression analysis were used to analyze data. The findings revealed diagnostic control systems positively and significantly related to overall firm performance ($\beta = 0.358$, $p < 0.01$). The results of this study suggest that urgent measures are required by the firms in the study to design diagnostic control systems to cope with the changing business environment.

Kathuni&Mugeda (2012) carried out a study to determine the direct sales strategy applied by commercial banks in Kenya. The purpose of the study was to gain a deeper understanding of the contribution of direct sales strategy towards attainment of competitive advantage among commercial banks in Kenya. It further sought to establish the direct sales strategy approaches adopted by commercial banks and their impact on the bank's competitive advantage. As an innovation strategy, direct sales were defined as going head to head, feature for feature against your competition. A direct sales strategy is a hard way to sell,unless you have clear superiority over your competition (Brown, 2009). Kathuni&Mugenda (2012) established that a majority of the banks (57.9%) have embraced the direct sales strategy for competitive advantage. Product knowledge was the greatest factor that affects the productivity of the direct sales people. The direct sales personnel are the ambassadors of the bank and should be well equipped with proper product information. Customer referrals have the greatest impact in enhancing direct sales strategy implementation whereas media promotional campaigns have the least impact. Direct sales strategy enhanced bank growth, promotes customer awareness and it is a vital tool for competitive advantage.

In evaluating the competitive strategies of Ghana Commercial Bank, Awuah (2011) demonstrated that the bank used innovative information systems to achieve efficiency on customer information management and to provide the easy access to banking services at the customers' own convenience and to strategically position the bank to survive and attain the requisite competitive edge in the turbulent and intense industrial rivalry. The computerization has increased shareholders' wealth; employees are relieved of extraneous duties which hitherto were manually performed; government receives increased income through taxation and the public welfare has always been paramount in the provision efficient services. There was also a strategy to fully automate the operations of the bank by the use of ICT was aimed at enhancing productivity and expanding customer access to the branches and ultimately increase profitability (Awuah, 2011).

Ndung'u, Machuki, &Murerwa (2014) investigated response strategies by commercial banks to economic changes in Kenya. The study noted that commercial banks in Kenya must devise strategies in order to cope up with the environmental changes, they have to continuously scan the environment and be able to respond accordingly. Kenya Commercial banks should not only concentrate on attracting new customers but also emphasize on developing extensive distribution channels to gain a competitive edge in the market

2.4. Summary of Literature and Gap

The empirical evidence available around the subject of strategic approaches and competitive advantage is diverse. For example, Bassa (2015) investigated strategic planning and strategy implementation. Studies have not been focused on the subject but rather general.On the other hand Djordjevic and Drucker (2014) did a study focused on generation and evaluation of alternative strategies, as well as selecting strategies to pursue. Emeka, Ejim and Amaka (2015) focussed differently too. They investigated the Effect of Strategy formulation on organizational performance. Njagi and Kombo (2014) on the other hand investigated effect of strategy implementation on performance of commercial banks. Ndung'u, Machuki, &Murerwa (2014) carried out a study on response strategies by commercial banks in Kenya, but limited to analysing to retrenchment strategies, investment strategies, and ambidextrous strategies, Katua, Mukuku, &Ganchunga (2014) assessed the effect of reward and compensation strategies. On the other hand, Du Toit (2014) investigated application of the rational model of strategic planning in rugby exposing opportunities to enhance the model for use in highly dynamic environments. Uzel (2015), also taking his own direction, looked at strategic management drivers and performance while Muendo (2016) sought to establish the factors affecting strategy implementation at Kenya Bureau of Standard and to establish the influence of strategy implementation on performance at Kenya Bureau of Standards. Diar, Senaji and Mwambia(2017) examined formal and informal practices and procedures the commercial banks in Kenya use to monitor, evaluate, adjust, and control their performance processes. Chege, Wachira and Mwenda (2015) analyzed leadership styles and implementation of strategic plans. Gaturu, Waiganjo, Bichanga and Oigo (2017) examined the influence of strategic control as one of the strategic management practices on organizational performance of mission hospitals in Kenya.

Further, Ojera, Bulitia and Ogutu (2017) examined the relationship between diagnostic control systems and overall firm performance in western Kenya as Kibachia, Iravo and Luvanda (2014) looked at challenges in strategic planning process. While Junqueira et al. (2015) looked at effect of strategic choices and management control systems on organizational performance, Lin, Chen, Lin, (2017) investigated the impacts of strategic control and operational control on new venture performance in the China context. Nganga, Waiganjo and Wanjiru (2016) sought to determine the effect of strategic direction on the performance of tourism government-owned organizations. Mpoke and Njeru (2015) studied effect of strategic management processes on the organizational performance of selected government research institutions Njagi and Kombo (2014) did strategy implementation and performance while Maroa and Muturi (2015) studied strategic management practices and performance. Abok (2014) investigated factors affecting implementation of strategic plans. Sev and Anghahar (2014) investigated factors that are responsible for organizational growth.

Literature is focussed on the subject of strategic planning, strategy implementation and touches on organizational control. Evidence on relationship of strategic approaches of cost reduction or innovation with competitive advantage in banks is unclear. This is despite the fact that these strategic approaches contribute to competitive advantage as argued by Gavetti and Ocasio (2015). Specifically, there is unclear empirical evidence that this relationship has been explored in commercial banks in Kenya. These banks may benefit from information on strategic approaches as this may become handy in solving the challenges they face. Knowledge is not adequate on the effect of cost reduction strategies on competitive advantage among commercial banks in Kenya. There is also limitation of knowledge on effect of innovation strategies on competitive advantage among commercial banks in Kenya. This knowledge could help these banks and related firms overcome the competition challenges that they face.

3.0 RESEARCH METHODOLOGY

This section presents the methodology that the researcher intends to use to conduct the study. It outlines the research design, study area, target population, sample size, sampling technique, data type and source, data collection method, instrument validation and reliability test, data analysis and presentation.

3.1.Research Design

The study will use a correlation design to investigate the strategic responses of commercial banks to achieving competitive advantage. Correlation designs are used when researchers are interested in establishing relationships between two or more variables. Gall, Gall and Borg (2003) indicated that correlation designs involve discovering both the direction and degree of the associations among variables without manipulating the variables. Although correlation design does not establish the cause and effect as an experimental design, the approach can ascertain potential causal factors for relationships among variables. According to Creswell (2002) a correlation design is well suited for identifying the type of association, explaining complex relationships of multiple factors that explain an outcome and predicting an outcome from one or two predictors.

3.2.Study Area

The study will be conducted in Nairobi area. Nairobi is the capital city of Kenya and also the headquarters of Nairobi City County. It is the commercial hub of Kenya. The area is chosen since it is the home to the headquarters or at least a branch of all the commercial banks in Kenya

3.3.Population of Study

The population of this study will comprise of all the chief executives of commercial banks registered and operating in Kenya. There are 44 commercial banks in Kenya.

3.4.Sampling

The study will adopt saturated sampling involving use of the entire population. It will be a census study. This is because the population is small.

3.5.Data Collection

Data will be collected through both secondary and primary methods. Questionnaires will be the main data collection tools. The questionnaire will be administered to the respondents drawn from the selected managers.

A 5-point Likert-type scale will be used to grade responses because it permits the measurement of relativeness of different aspects of the study on a single scale (Kothari, 2004). The questionnaire will be divided into three sections. The first section will seek general information, the second section will seek information on strategic responses and the third section will seek information on competitive strategy. All the responses falling in different categories in the questionnaire will be categorized according to the variables under investigation. Secondary data will be obtained from financial performance reports from individual companies, journals, books and other resource materials on strategy of commercial banks. Review of related studies will be done to compare relevant information as regards the same.

3.6.Validity and Reliability of Instruments

Validity is defined as the degree to which a test measures what it purports to measure. An instrument is validated by proving that its items are representatives of the skills and characteristics to be measured (Mugenda&Mugenda, 2003). Content validity will be ascertained by making sure that the questionnaire items sufficiently cover the research objectives. The questionnaire will also be subjected experts scholars and practitioners in the field of research(Kothari, 2005).

The term reliability refers to the extent to which results are consistent over time and accurately represent the total population under study. If the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. In this study,Cronbach's Alpha Reliability Coefficient will be used to test reliability of the questionnaire. Nunnaly (1978) indicated 0.7 to be an acceptable reliability coefficient.Cronbach's Alpha values above 0.7 will ascertain whether the data collection instrument is satisfactory and reliable for data collection. Pilot data from 5 respondents who will not form part of the main study will be used.

3.7.Data Analysis

The data collected will be summarized and screened for purposes of analysis. Quantitative data will be coded and analyzed using descriptive statistics and inferential statistics. Regression analysis will used to determine effect of between strategic approaches on competitive advantage.

A standard linear regression model will be used in the study:

$Y = \beta 0 + \beta_1 CQ + \beta_2 CE + \beta_3 DD + \beta_4 FR + \beta_5 NPD + \beta_6 NPI + \mathcal{E}$

Where:

Y = Competitive advantage (Quality, Cost, Delivery, Flexibility)

X_1=Conformance quality (CQ)

X_2=Cost efficiency (CE)

X_3=Delivery dependability (DD)

X_4=Flexible responsiveness (FR)

X_5=New product development (NPD)

X_6=New product introduction (NPI)

$\mathcal{E}$ = Error term

$\beta_0, \beta_1, \beta_2, \beta_3$ ...= slope of the regression equation.

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Appendix I: Letter of Introduction

MAGDALINE NTHENYA
C/O DEPARTMENT OF BUSINESS ADMINISTRATION
SCHOOL OF BUSINESS AND ECONOMICS
MASENO UNIVERSITY

22.6.18

TO WHOM IT MA Y CONCERN

Dear Sir/Madam

RE: ACADEMIC RESEARCH

I am a student at Maseno University pursuing Master of Business Administration. As part of the requirements, I am carrying out this research entitled, ANALYSIS OF EFFECT OF STRATEGIC APPROACHES ON COMPETITIVE ADVANTAGE AMONG COMMERCIAL BANKS IN NAIROBI, KENYA. Please assist to answer the questions provided in a questionnaire. Your Identity is not required and the information you provide will be treated in strict confidence.

I remain grateful.

Yours Sincerely

Magdaline Nthenya (MBA/BE/05008/2014)

RESEARCH SUPERVISOR
Dr Charles Ondoro
Maseno University

Appendix II

SURVEY QUESTIONNAIRE

PART A: PERSONAL DETAILS

1. How old is the company?

   Under 20 years old [ ]

   21- 30 years old [ ]

   31-40 years old [ ]

   41-50 years old [ ]

   Over 51 years old [ ]

2. Nature of firm

   Local [ ]

   Foreign [ ]

PART B: STRATEGIC APPROACHES

B1: Cost Reduction Strategy

B1 (A): Which statements best describes your banks strategies with respect to conformance to quality standards set in order to remain competitive in the market?

	Strongly Agree	Agree	Disagree	Strongly Disagree
a) Personnel are highly specialized.				
b) More than half of our personnel are university graduates.				
c) Training is given a crucial importance in the firm’s budgets.				
d) Service delivery activities are performed in a pre-established and fixed place.				
e) System efficiency goals are have priority when designing service delivery process.				
f) Service delivery activities are performed where it is more convenient for the customer.				
g) Most work procedures are pre-established and cannot be modified.				
h) Customer satisfaction goals have priority when designing service delivery process.				
i) All incidents not prevented in the work procedures must be communicated to a				

superior for resolution.				
j) There is a procedures book, which is known by all workers.				
k) Decisions about Information Technologies adoption are done on the basis of service customization.				

B1 (B): How do the following statements describe the cost efficiency measures taken by your bank in order to remain competitive in the market?

	Strongly Agree	Agree	Disagree	Strongly Disagree
a) Production resources can move to those places where service is delivered				
b) Resources for service delivery are located in order to optimize customer satisfaction c) and final service delivery				
d) Resources for service delivery are located in order to optimize space and maximize efficiency.				
e) Every worker is assigned to an exclusive task				
f) Acquisition of Information Technologies is oriented towards costs reduction				
g) Decisions about Information Technologies adoption are done on the basis of tasks h) improvements from the worker point of view				
i) Acquisition of Information Technologies is oriented towards customer satisfaction				

B1(C): Has your bank implemented the following delivery dependability measures to gain competitive advantage or remain competitive in the market?

	Strongly Agree	Agree	Disagree	Strongly Disagree
a) Service delivery system is designed so there is one or a few ways to perform every task.				
b) Variability is continually decreased along the service delivery process				
c) Most service delivery activities are oriented towards service customization.				
d) The firm offers a wide range of different services				

e) All offered services are customized.				
f) New services are continually offered to customers.				
g) Services are delivered to satisfy one or few small customer segments.				

B2: Innovation Strategy

B2 (A): What is your level of agreement with the level of flexibility and responsiveness in your banks' strategy?

	Strongly Agree	Agree	Disagree	Strongly Disagree
a) New procedures for service delivery are continually developed.				
b) New services are continually developed.				
c) Customer opinions are indeed considered when designing new services.				
d) There is an exclusive team for service design and development				

B2 (B): New product/service development

i. How important are each of the following innovation objectives important to your bank?

Objectives	High	Medium	Low	Not relevant
a) Reduced time to respond to customer or supplier needs				
b) Improved ability to develop new products or services				
c) Improved quality of your goods or services				
d) Reduced costs per unit output				
e) Improved communication/information sharing within your enterprise				
f) Improved communication/information sharing with other enterprises or institutions				

B2 (C): New product/service introduction

i. During the years 2011 to 2013, did your bank introduce new or significantly improved product/services?

Yes [ ] No [ ]

ii. Were any of your product/service innovations during the three years 2011-2013?

	YES	NO
New to your market?		

(Your bank introduced new or significantly improved good or service onto your market before your competitors (it may have already been available in the markets)		
Only new to your firm? (Your bank introduced a new significantly improved good or service that was already available from your competitors in your market)		

PART C: COMPETITIVE ADVANTAGE

What is your agreement with the statements as regards the bank's ability to achieve the following competitive priorities?

		Strongly Agree	Agree	Disagree	Strongly Disagree
Cost	Increase capacity utilization				
	Reduce production costs				
	Increase labor productivity				
Quality	Provide high-performance products/services				
	Offer consistent, reliable quality				
	Improve conformance to design specifications				
Delivery	Provide fast deliveries				
	Meet delivery promises				
	Improve conformance lead time				
Flexibility	Make rapid design changes				
	Adjust capacity quickly				
	Offer a large number of product features				
	Offer a large number of product features				
	Offer rapid volume changes				
	Offer a large degree of product variability				
	Adjust product mix				

THANK YOU

Appendix III: Work Schedule

Activity	Period 2018				
	Month 1	**Month 2**	**Month 3**	**Month 4**	**Month 5**
Problem identification					
Review of literature					
Proposal writing and presentations					
Proposal presentation					
Data collection and data entry					
Data analysis					
Presentation of draft					
Final draft					
Submission of project for examination					