RELATIONSHIP BETWEEN BUSINESS LEVEL STRATEGY AND PERFORMANCE OF COMMERCIAL BANKS IN KISUMU CITY,KENYA

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ABSTRACT

The service sectors which include the banking sector makes 58% contribution to Kenya's GDP as per the World Bank Statistics 2010. Commercial bank branches in Kisumu city are facing stiff competition from other branches as well as microfinance institutions that offer substitute services and products. In addition to mobile banking and promotions the bank branches in Kisumu city need to find alternatives to gain competitive advantage. Past studies have focused on the various techniques of business level strategies adopted by firms but have not indicated the relationship between these strategies and the performance of commercial banks. The purpose of this study was to establish the relationship between business level strategy and performance of banks in Kisumu city. The objectives of this study were; to identify the relationship between cost leadership strategy and banks performance in Kisumu city, to understand relationship between focus strategy and banks performance in Kisumu city and to analyse relationship between differentiation strategy and banks performance in Kisumu city. The study was guided by descriptive survey research design. The study's target population was 35 commercial bank branches within Kisumu city. A sample of 32 banks was selected using simple random sampling method. Primary data was collected through structured and unstructured self-administered questionnaires, while secondary data was collected by the use of relevant publications and reports. Cronbach's reliability statistics was computed giving an alpha coefficient of 0.701 for the dependent variable and 0.817 for the independent variable. The data was analyzed by use of Spearman's correlation model to establish the relationship between the variables. The findings were as follows: correlation between cost leadership strategy and banks performance was found to be a significant positive correlation coefficient thus: $r = .805$, $p<0.01$, Correlation between focus strategy and banks performance was also found to be a significant positive correlation, thus $r = .788$, $p<0.01$, Correlation between differential strategy and bank performance was also found to be a significant positive correlation, thus $r = .878$, $p<0.01$, and correlation between business strategic level and performance of commercial banks in Kisumu city was found to be a significant positive correlation of $r = .778$, $p<0.01$. Collectively these findings indicate that there is a positive relationship between business strategic level and performance of commercial banks in Kisumu city, therefore business strategy levels should be embraced in order to enhance the overall performance of organizations. The study may help in understanding the types of business level strategies used by banks; hence help in understanding their effect on banks performance in Kisumu. This would help in understanding the dynamics of business strategies that work and those that don't, especially in the western section of the country.

CHAPTER ONE

INTRODUCTION

This section provides an overview of the background of the study, the statement of the research problem, the objectives for the study, the research questions, the scope and justification of the study and a conceptual framework indicating the variables in this study.

1.1. Background to the Study

An organization's core competencies should be focused on satisfying customer needs or preferences in order to achieve above average returns. This is done through Business-level strategies. Business level strategies detail actions taken to provide value to customers and gain a competitive advantage by exploiting core competencies in specific, individual product or service markets. Business-level strategy is concerned with a firm's position in an industry, relative to competitors and to the five forces of competition. Customers are the foundation or essence of an organization's business-level strategies.

According to Osmond (2011), Business-level strategies represent plans or methods companies use to conduct various functions in their business operations. Larger companies often use more business strategies since they often have several departments with different business functions. Small businesses may adapt these strategies to their operations.

Harvard Business School's Michael Porter developed a framework of generic strategies that can be applied to strategies for various products and services, or the individual business-level strategies within a corporate portfolio. The strategies are overall cost leadership, differentiation, and focus on a particular market niche. The generic strategies provide direction for business units in designing incentive systems, control procedures, operations, and interactions with suppliers and buyers, and with making other product decisions (Porter, 2004)

According to Porter (2004) Cost-leadership strategies require firms to develop policies aimed at becoming and remaining the lowest cost producer and/or distributor in the industry. The focus is on cost leadership, not price leadership. A firm with a cost advantage may price at or near competitors prices, but with a lower cost of production and sales, more of the price contributes to the firm's gross profit margin. A second alternative is to price lower than competitors and accept slimmer gross profit margins, with the goal of gaining market share and thus increasing sales volume to offset the decrease in gross margin. Such strategies concentrate on construction of efficient-scale facilities, tight cost and overhead control, avoidance of marginal customer accounts that cost more to maintain than they offer in profits, minimization of operating expenses, reduction of input costs, tight control of labor costs, and lower distribution costs. The low-cost leader gains competitive advantage by getting its costs of production or distribution lower than the costs of the other firms in its relevant market. This strategy is especially important for firms selling unbranded products viewed as commodities, such as beef or steel.

A research done by Gakumo (2006) on application of Porter's generic strategies by commercial banks in Kenya showed that most commercial banks in Kenya based their cost leadership strategy on high level of capital investment and streamlined organizational structure. The process engineering, skills and volume sale techniques were the least emphasized aspects of the cost leadership strategy applied by the commercial banks. Njoroge (2006) in examining competitive strategies adopted by liquefied petroleum gas marketers in Kenya to cope with competition; concluded that keeping lower overheads than competitors was more preferable than keeping same overheads as with the competitors, this would in turn translate to offering products at lower prices than the competitors. These two studies put more emphasis on the various techniques of cost leadership that are applied by various organizations. As much as the studies go ahead to explain how keeping same or lower overheads enables an organization to gain competitive advantage it has failed to link the relationship between cost leadership strategy and the performance of a particular organization. This particular study attempts to therefore find the link between cost leadership strategy and performance of commercial bank branches in Kisumu city.

Focus- Organizations not only compete based on differentiation, but also select a small segment of the market to provide goods and services. Companies that use focus strategies may be able to serve the smaller segment (e.g. business travelers) better than competitors who have a wider base of customers. This is especially true when special needs make it difficult for industry-wide competitors to serve the needs of this group of customers. By serving a segment that was previously poorly segmented an organization has unique capability to serve niche (Porter, 2004).

Njoroge (2006) examined competitive strategies adopted by liquefied petroleum gas marketers in Kenya to cope with competition. The conclusion was that the focus strategy is aimed at narrowing the market segment, products and category or certain buyers. This helps firms to narrow their operations to specific markets and thus they are able to achieve competitive advantage. From this particular study it is not really clear whether by just narrowing the market segment a firm can gain competitive advantage over other firms. There is need to do further research on the effect that focus strategy has on the performance of firms considering the fact that there are other moderating variables for example social cultural and economic factors.

Differentiation- This new strategy may become more popular as global competition increases. Firms that use this strategy may see improvement in their ability to more effectively leverage core competencies across business units and products lines which should enable the firm to produce produces with differentiated features at lower costs. However, organizations that choose this strategy must be careful not to: becoming stuck in the middle i.e., not being able to manage successfully the five competitive forces and not achieve strategic competitiveness (Porter, 2004).

Various studies have been done on adoption of differentiation strategy by firms but each with different findings and could only apply to different sectors. According to Njoroge (2006) examined competitive strategies adopted by liquefied petroleum gas marketers in Kenya and concluded that where differentiation is only limited to a few features like colour and size, then good management of overhead costs is very important so that the companies can compete on the prices of their products only. Kariuki (2003) on the other hand while examining marketing strategies applied by middle colleges in Nairobi says that a firm that is pursuing the differentiation strategy

strives to be the service leader, quality leader, the style and technology leader, but because it is not possible for a company to be all these things, the firm cultivates the strengths that will contribute to its intended differentiation strategy approach.

This does not incorporate commercial banks because it is a service industry and as such the size and colour issues may not work well in this type of industry. There is need to carry out further research therefore to ascertain the differentiation aspects that work for commercial banks in Kisumu city and the effect it has on its performance.

According to Aliata et al. (2012) the banking industry in Kenya is governed by the Companies' Act (CAP 486), the Banking Act, (Chapter 488), the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK, 2010). The Banking Sector in Kenya is made up of 45 licensed institutions to carry out the business of financial intermediation. They are guided by prudential guidelines issued by the Central Bank of Kenya. Of the 45, 2 are mortgage finance companies and one is non-bank financial institution. Out of the 45 institutions 35 are locally owned and 10 are foreign owned. 3 locally owned banks have significant government shareholding (Okatch, 2009). The Kenyan Banking Sector registered improved performance with the size of assets standing at Ksh. 2.4. Trillion, loans & advances amounting to Ksh. 1.4 trillion, while the deposit base stood at Ksh. 1.8 trillion and profit before tax of Ksh. 28.2 billion as at 31st March 2013. During the same period, the number of bank customer deposit and loan accounts stood at 17.3 million and 2.3 million respectively. (CBK, 2013)

Commercial banks in Kisumu city play a critical role through the creation of loans to the people around this area as well as the businesses operating in and around Kisumu city. These banks also provide access to money on deposit and availability of revolving debt using credits. This is very important for the growth of any town as availability of cash allows people to make purchases of goods and services as well as aid in creation of jobs. There are a number o commercial bank branches in Kisumu city that sum up to 35 that avail these services to the population. As it is these number already creates competition in the banking industry with each bank striving for a greater market share. This is because all these commercial banks in Kisumu city offer substitute products but give different loan rates. This alone is not enough measure if a bank is to gain a competitive advantage.

There are a number of microfinance institutions and Saccos that have risen within Kisumu city that offer alternative services. This is due to low economic level of the people around Western region, thus many of these microfinance institutions have come up to alleviate this problem. According to Aliata et al. (2012) promotion is a direct way that an organization tries to reach its publics and there is need for organizations to employ effective marketing management of financial services. With the complexity of the banking industry promotional strategies are not enough for a bank striving to offer new and innovative services so as to meet customers' demands. Business level strategies should be able to help commercial banks deal with these complexities experienced in the banking industry as well as the completion that is experienced by banks from other microfinance institutions. Mobile banking is one way in which commercial banks within Kisumu city can use to deal with the completion that comes from these alternative financial services. This though can only be done based on the business level strategy that a given banks is using, guided by the mission and vision of the bank.

Gakumo (2006) and Kariuki (2003) studies the various techniques of business level strategies; cost leadership strategies and differentiation strategies ,that commercial banks employ but fails to show the relationship between this particular strategies and the performance of commercial banks. These studies were done in a different context and there is need to carry out a study on the relationship between business level strategies and commercial bank branches performance in Kisumu city.

1.2 Statement of the Problem

Commercial banks globally increase a country's economy as they have a direct impact on the GDP. The service sectors which include the banking sector makes 58% contribution to Kenya's GDP as per the World Bank Statistics 2010. From foregoing literature commercial banking sector in Kenya is really competitive as the Kenyan business environment has experienced many changes for example increased competition, increased capital and liquidity requirements as well as increased customer demands. Kisumu city to be specific has seen the rise of many microfinance institutions that offer almost similar services as the banks. To remain relevant and gain increased performance, commercial banks in Kisumu city have to adopt business level strategies. Banks are challenged to find a new balance between acceptable risk and return on equity. Each bank needs to re-examine its business model and transform itself. Competition is getting tougher than the banks are used to. There is overcapacity in the industry, and interest spreads are decreasing. The industry is consolidating as smaller or failed banks are bought up. Assets on bank balance sheets are growing slower than before. There is limited access to interbank funding. There are opportunities for banking industry players to expand and take a bigger global role; if they can adjust their business models to global competition. What has become clear is that a real competitive strategy is needed within the banking industry-especially in Kisumu city to remain relevant and competitive in the Banking industry.

1.3. Objectives of the Study

The purpose of this study was to establish the relationship between business level strategy and performance of banks in Kisumu city.

Specifically the study sought:

1) To establish the relationship between cost leadership strategy and banks performance in Kisumu city.
2) To understand the relationship between focus strategy and banks performance in Kisumu city.
3) To analyse the relationship between differential strategy and banks performance in Kisumu city

1.4. Research Questions

The study sought to answer following research questions;

1) H_0 There is no significant relationship between cost leadership strategy and banks performance in Kisumu city.

2) H_0 There is no significant relationship between focus strategy and banks performance in Kisumu city.

3) H_0 There is no significant relationship between differential strategy and banks performance in Kisumu city.

1.5. Scope of the Study

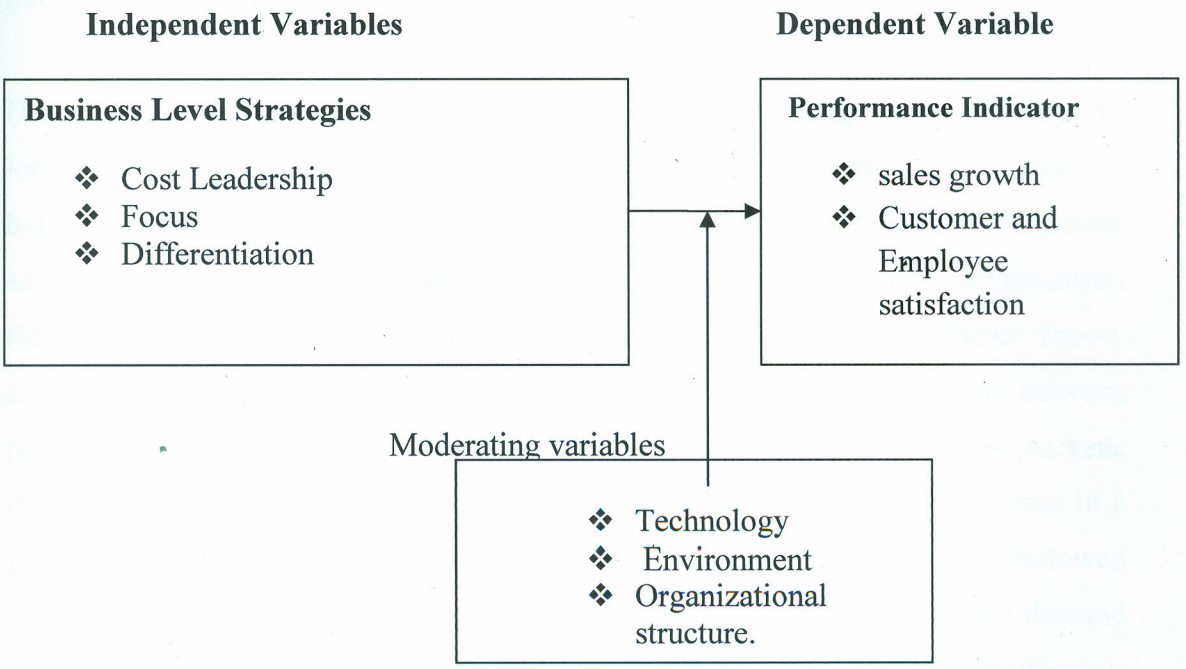
The study intended to cover the commercial bank establishment in Kisumu city, Kisumu County. It sought to establish the relationship between business level strategy and performance of banks in Kisumu and how it impacts on performance.

1.6. Significance of the Study

The study may make several contributions. First, it will help in an understanding of the types of business level strategies used by banks and hence help in understanding their relationships with banks performance in Kisumu. This would help in understanding the dynamics of business strategies that work and those that don't, especially in the western section of the country. Secondly, it may provide a background for policy makers in developing their organizations strategies in this competitive industry.

1.7. Conceptual Framework

The conceptual framework of this study shows the relationship between the independent and the dependent variable. The independent variables are cost leadership, differentiation, and focus strategy. Each of these strategies has been operationalized to yield the shown parameters. Likewise the dependent variable in this study is performance with the sales growth and customer and employees satisfaction as indicators. Several research findings (Harris and Mongiello, 2001; Atkinson and Brander-Brown,2001) in performance management are advocating an emphasis on both financial and non-financial dimensions such as competitiveness, service quality, customer satisfaction, organizational flexibility, resource utilization, and technology. The relationship between the independent and dependent variables is moderated by a number of variables; environment in which the firm operate, technology and the organizational structure of the firm which is determined by the size of the organization.



Relationship between business level strategy and performance of banks in Kisumu

Source: Self-conceptualization (2015)

CHAPTER TWO

LITERATURE REVIEW

This section presents both theoretical and empirical literature reviews on the order of fundamental aspects that define the study variables.

2.1. Theoretical review

2.1.1. Competitive Strategies

Porter (2004) identifies competitive strategy actions as positioning, taking an offensive, exploiting change and diversification. He argues that in order to attain competitive advantage in an industry, it is critical to understand the process of its evolution in order to be able to predict change and strategically react to this change. He suggests that his model developed with help from of structural analysis of industries be used as a framework for this.

Depending on the nature of the market, the competitive advantage of any firm may be long term in the case of stagnant markets or short term in the case of hypercompetitive markets. According to Johnson *et al.* (2006), firms must therefore adopt strategies that comply with the nature of their competitive environment. Repositioning and overcoming competitor's market-based moves using Game Theory are suitable strategies for hypercompetitive markets, whereas collaboration between potential competitors or between organizations may be more suitable in pure markets. Porter (1990) identifies four key prerequisites to gaining competitive advantage in a global context amid intense competition, namely; the maximum use of endowed resources, the forming of domestic networks, the exploitation of domestic demand and a suitable industry and environment structure. This strategy emphasizes efficiency.

To be successful, this strategy usually requires a considerable market share advantage or preferential access to raw materials, components, labour, or some other important input. Without one or more of these advantages, the strategy can easily be mimicked by competitors. However, low cost leadership is attached to a disadvantage which is less customer loyalty (Yakhlef, 2001,). Relatively low prices will result in creating a

negative attitude towards the quality of the product in the mindset of the customers (Pennathur, 2001). Customer's impression regarding such products will enhance the tendency to shift towards a product which might be higher in price but projects an image of quality.

2.1.2. Porters Generic Competitive Strategies

There are three distinct strategies that Porter states that can be applied by the firm to increase performance and gain competitive advantage. The study will be based on these three generic strategies because they apply to any type of organization and the size of firm does not matter. Porter also stressed the idea that only one strategy should be adopted by firms to avoid stuck in the middle situations, these generic strategies therefore provides a platform to study each strategy differently and the relationship with a firms performance.

2.1.2.1. Cost Leadership Strategy

This strategy emphasizes efficiency. By producing high volumes of standardized products, the firm hopes to take advantage of economies of scale and experience curve effects. The product is often a basic no-frills product that is produced at a relatively low cost and made available to a very large customer base. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low cost .

When a firm designs, produces and markets a product more efficiently than competitors such firm has implemented a cost leadership strategy (Allen *et al.* 2006). Cost reduction strategies across the activity cost chain will represent low cost leadership (Tehrani, 2003; Beheshti ,2004) Attempts to reduce costs will spread through the whole business process from manufacturing to the final stage of selling the product. Any processes that do not contribute towards minimization of cost base should be outsourced to other organizations with the view of maintaining a low cost base (Akan *et al.* 2006). Low costs will permit a firm to sell relatively standardized products that offer features acceptable to many customers at the lowest competitive price and such low prices will gain competitive advantage and increase market share (Bauer & Colgan, 2001; Hyatt, 2001; Davidson, 2001).

These writings explain that cost efficiency gained in the whole process will enable a firm to mark up a price lower than competition which ultimately results in high sales since competition could not match such a low cost base. If the low cost base could be maintained for longer periods of time it will ensure consistent increase in market share and stable profits hence consequent in superior performance. However all writings direct us to the understanding that sustainability of the competitive advantage reached through low cost strategy will depend on the ability of a competitor to match or develop a lower cost base than the existing cost leader in the market.(Colgan, 2001)

A firm attempts to maintain a low cost base by controlling production costs, increasing their capacity utilization, controlling material supply or product distribution and minimizing other costs including R&D and advertising (Prajogo, 2007). Mass production, mass distribution, economies of scale, technology, product design, learning curve benefit, work force dedicated for low cost production, reduced sales force, less spending on marketing will further help a firm to main a low cost base (Tuminello, 2002). Decision makers in a cost leadership firm will be compelled to closely scrutinize the cost efficiency of the processes of the firm. Maintaining the low cost base will become the primary determinant of the cost leadership strategy. For low cost leadership to be effective a firm should have a large market share (Richardson & Dennis, 2003; Hyatt 2001 cited by Allen and Helms 2006). New entrants or firms with a smaller market share may not benefit from such strategy since mass production, mass distribution and economies of scale will not make an impact on such firms.

Low cost leadership becomes a viable strategy only for larger firms. Market leaders may strengthen their positioning by advantages attained through scale and experience in a low cost leadership strategy. But is there any superiority in low cost strategy than other strategic typologies? Can a firm that adopts a low cost strategy outperform another firm with a different competitive strategy? If firms costs are low enough it may be profitable even in a highly competitive scenario hence it becomes a defensive mechanism against competitors (Kim& Lim, 1988). Further they mention that such low cost may act as entry barriers since new entrants require huge capital to produce goods or services at the same or lesser price than a cost leader.

As discussed in the academic frame work of competitive advantage raising barriers for competition will consequent in sustainable competitive advantage and in consolidation with the above writings we may establish the fact that low cost competitive strategy may generate a sustainable competitive advantage.

Low cost leadership could be considered as a competitive strategy that will create a sustainable competitive advantage. (Kim et al., 2004). However, low cost leadership is attached to a disadvantage which is less customer loyalty relatively low prices will result in creating a negative attitude towards the quality of the product in the mindset of the customers. Customers' impression regarding such products will enhance the tendency to shift towards a product which might be higher in price but projects an image of quality. (Yakhlef, 2001).

2.1.2.2. Differentiation Strategy

With the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers. The firm pursuing differentiation seeks to be unique in its industry along some dimension that is valued by customers, which means investing in product R&D and marketing (Porter, 1980).

It is the ability to sell its differentiated product at a price that exceeds what was spent to create it that allows the firm to outperform its rivals and earn above-average returns. A product can be differentiated in various ways. Unusual features, responsive customer service, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation (Porter, 1980).

Differentiation is aimed at the broad market that involves the creation of a product or services that is perceived throughout its industry as unique. The company or business unit may then charge a premium for its product. This specialty can be associated with design, brand image, technology, features, dealers, network, or customers' service. Differentiation is a viable strategy for earning above average returns in a specific

business because the resulting brand loyalty lowers customers' sensitivity to price. Increased costs can usually be passed on to the buyers. Buyers' loyalty can also serve as an entry barrier-new, firm must develop their own distinctive competence to differentiate their products in some way in order to compete successfully (Porter, 1980)

Rather than cost reduction, a firm using the differentiation needs to concentrate on investing in and developing such things that are distinguishable and customers will perceive. Overall, the essential success factor of differentiation in terms of strategy implementation is to develop and maintain innovativeness, creativeness, and organizational learning within a firm (Yakhlef, 2001).

Successful differentiation is based on a study of buyers' needs and behavior in order to learn what they consider important and valuable. The desired features are then incorporated into the product to encourage buyer preference for the product. The basis for competitive advantage is a product whose attributes differ significantly from rivals products. (Yakhlef, 2001).Competitive advantage results when buyers become strongly attached to these incorporated attributes and this allows the firm to: charge a premium price for its product, benefit from more sales as more buyers choosing the product and more buyers become attached to the differentiating features resulting in greater loyalty to its brand.

Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command, or by offsetting the lower profit margins through more sales volumes (Yakhlef, 2001). Kotler (2001) insists that anything that a firm can do to create buyer value represents a potential basis for differentiation. Once it finds a good source of buyer value, it must build the value, creating attributes into its products at an acceptable cost. These attributes may raise the products performance or make it more economical to use. Differentiation possibilities can grow out of possibilities performed anywhere in the activity cost chain. The risks associated with a differentiation strategy include imitation by competitors and changes in customer tastes. Additionally, various firms pursuing focus strategies may be able to achieve even greater differentiation in their market segments Kotler (2001).

2.1.2.3. Focus Strategy

The focus strategy concentrates on a narrow segment and within that segment attempts to achieve either a cost advantage or differentiation. The premise is that the needs of the group can be better serviced by focusing entirely on it. A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly. Because of their narrow market focus, firms pursuing a focus strategy have lower volumes and therefore less bargaining power with their suppliers. However, firms pursuing a differentiation-focused strategy may be able to pass higher costs on to customers since close substitute products do not exist. Firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well. Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Finally, other focusers may be able to carve out sub-segments that they can serve even better. (Porter, 2005).

2.1.3 Performance

There are some financial and non-financial performance indicators that can be used to measure performance in a given organization. There are some important objective indicators one can use to measure financial performance of a company. Return on Equity (ROE) measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets and it also gives an idea of how efficient management is at using company's assets to generate earnings. On the basis of DuPont model, we can assume that there is a positive influence of company's productivity on its performance as well because productivity, ceteris paribus, influences return on equity Iglicar & Hocevar, (1997). Gorenak and Pagon (2006) note that value added per employee (VAE) is also an important objective measure of company performance, because nowadays, the difference between successful and unsuccessful companies is not only a matter of their products, services or technology, but also of some other factors lying behind them.

Given that many company mission statements identify customer satisfaction as a key corporate goal, the balanced scorecard translates this into specific measures. The balanced scorecard is "a set of measures that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results for actions already taken. And it complements the financial measures with operational measure on customer satisfaction, internal processes, and the organization's innovation and improvement activities – operational measures that are the drivers of future financial performance". Kaplan (1992). It allows the managers to look at the business from four important perspectives namely; customer, financial, internal business and innovation and learning. Performance targets may need raising or lowering in light of past experience and future prospects. Strategy may need to be modified because it is not working well or because changing conditions make fine tuning necessary.

2.1.4 Technology, Organisation Structure and Environment

A "technological capability" (Teece et al., 1997) is "the ability to perform any relevant technical function or volume activity within the firm including the ability to develop new products and processes and to operate facilities effectively". Over the past decade, firms' technological capability is an important strategic resource enabling them to achieve competitive advantage within their industry, particularly in high-tech industries. For example, according to Mc Evily et al. (2004), firms with superior technological competencies tend to be more innovative and thus perform at high levels. Those firms with superior technological capability can secure greater efficiency gains by pioneering process innovations and can achieve higher differentiation by innovating products in response to the changing market environment (Teece et al., 1997)

Porter (1985) also suggests that the technology employed or developed by the firm significantly determines any cost leadership or differentiation position and, in particular, the firm's ability to lead and sustain technological change in its industry ultimately confers a sustainable competitive advantage. And, since technological

capabilities determine the firm's ability to perform R&D, such capabilities should positively enhance the firm's competitive advantage. For example, a firm engaged in a cost leadership strategy can further enhance the positive relationship between this strategy and performance if the firm also has considerable technological capabilities, that is, technological capabilities will likely enable the firm to pioneer more efficient manufacturing processes and lower the material content of its product, simplifying its logistics, and/or enhancing scale economies (Porter, 1985). Similarly, superior technological capabilities also enhance the differentiator's competitive advantage by improving product quality, adding features and value, or enhancing economies of scope.

The environment has long been considered one of the critical contingencies in organization theory and strategic management Child (1972). Many conceptualizations of the environment are largely consistent with Dess and Beard's (1984) three dimensions—munificence, complexity, and dynamism. These dimensions draw on two commonly used approaches to conceptualizing environments: as a source of information and as a stock of resources (Aldrich and Mindlin 1978). In essence, dynamism and complexity reflect the degree of uncertainty facing an organization and munificence signals a firm's dependence on those environments for resources.

Decisions about the design of the organization and the competitive strategy of a firm are very important in order to gain competitive advantage and to improve firm performance. The relationship between organizational structure, competitive strategy, and firm performance has usually been analyzed using the contingency approach

2.2.0. Empirical Literature Review

2.2.1. Cost leadership Strategy and its effects on performance.

Jowi (2006) conducted a study on the competitive strategies applied by Mumias sugar company and indicated that cost leadership is based on aggressive construction of large scale facilities, tight cost and overhead control, vigorous pursuit of cost reductions associated learning effects and utilization of economies of scale for discretionary expenses such as R & D, promotion or advertising. For a successful execution of the cost leadership strategy the firm has to have sufficient financial resources, adequate process engineering skills and intense supervision of labour and low cost distribution capability. This study focuses much on the cost leadership techniques as well as ways in which a firm can successfully implement this particular strategy but it has failed to indicate the impact it has on the performance of an organization.

On a study done on application of Porters Generic strategies framework in hospitality establishments in Nairobi, Gitonga (2003) found that cost leadership is one of the strategies applied by the hospitality establishments in Nairobi, Kenya. In a study carried by Kariuki (2003) on marketing strategies applied by private colledges in Nairobi, the preference of cost leadership strategy was not much, with 72% of the respondents not preferring to use the strategy.

According to Dulo (2006) manufacturing firms pursuing a cost leadership strategy follow policies of purchasing materials in large volumes to get low cost of inputs, mass production of a limited range of products, marketing non branded or privately branded goods or services (to avoid advertising costs), making extensive use of automation to maximize economies of scale, locating any manual production in low wages areas of the world and aggressive pricing to build and maintain market share.

These studies reveal that firms in different industries adopt different business level strategies which are unique in each context. This is to mean that the conclusion that less preference of cost leadership strategy may not be the case with the banking industry. In addition no study has been done on the relation between cost leadership

strategy and performance of commercial bank branches in Kisumu city. Owiye (1990) argues that the findings of studies carried out in one culture could not be assumed to apply to other cultures unless this was supported by research. A research gap is therefore created with the need to determine through a research whether there is a relationship between business level strategies including cost leadership strategy and performance of commercial bank branches in Kisumu city.

2.2.2. Differentiation Strategy and its effect on performance

On a study done on the application of Porters generic strategies by commercial banks in Kenya, Gakumo (2006) indicates that reputation on quality and service and use of corporate image were the most used differentiation aspects used by the commercial banks as their selling points. That research was done on organization in the service industry (banking sector) thus the results for the study of the dairy sector may be different as these are two different industries. According to the above research, strength in carrying out basic research and reward on creativity among employees were the least used differentiation aspects in the banks as their selling points.

As noted from this study by Gakumo the emphasis is still on the aspects of differentiation used by commercial banks in Kenya. The bigger question is whether using a given aspect or technique of differentiation as opposed to another creates a competitive advantage over competitors. There is need to do a research investigating the effect of this particular strategy on the performance of commercial banks in Kisumu city. It is important to know that study area matters a great deal when studying differentiation strategy because there is a perception that people especially from the Western part of Kenya prefer quality of service as opposed to low pricing. This particular study is meant to bridge the knowledge gap here and through unbiased research determine whether this perception is true as much as the banking sector in Kisumu city is concerned.

In Kenya, a study by Murage (2011) focused on the competitive strategies in the petroleum industry and found that service stations use differentiation as a method of obtaining competitive advantage over other service stations. The study by Arasa &

Gathinji (2014) on relationship between competitive strategies and firm performance in Telecommunication companies concluded that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies. As seen these are studies on different sectors, the first being in the petroleum industry and the second study being in the telecommunication strategy. The findings are that differentiation strategy is the most preferred choice in the two industries, this is to mean that the type of industry matters a great deal in determining choice of strategy that an organization will use to gain competitive advantage.

2.2.3. Focus Strategy and its effects on performance.

A study done by Gakumo (2006) on the application of porters generic strategies on commercial banks in Kenya showed that focus strategy with 15% was the second most applied strategy. A further 40% of the banks were stuck in the middle meaning that they failed to develop their strategy in at least one of the three directions. The study does not go ahead to demonstrate the result of being stuck in the middle , whether the 15% showed better performance in comparison to the 40% who were stuck in the middle. This particular study on the relationship between business level strategies and performance of commercial banks in Kisumu city sought to fill this knowledge gap.

Nandakumar *et al* (2011) examined the relationship between business-level strategy and organisational performance and to test the applicability of Porter's generic strategies in explaining differences in the performance of organizations. The results of this study indicated that firms adopting one of the strategies, namely cost-leadership or differentiation, perform better than "stuck-in-the-middle" firms which do not have a dominant strategic orientation. The integrated strategy group had a lower performance compared with cost-leaders and differentiators in terms of financial performance measures. This provides support for Porter's view that combination strategies are unlikely to be effective in organizations. However, the cost-leadership differentiation and focus strategies were not strongly correlated with the financial performance measures indicating the limitations of Porter's generic strategies in explaining performance heterogeneity in organizations.

Njau, (2013) on An Investigation of the Effects of Porter's Generic Strategies on the Performance of the Education Sector (A Survey of Tertiary Institutions in the Nyeri Town) investigation on the effect of Michael Porter's competitive generic strategies of cost leadership, focus strategy and differentiation strategies in their marketing. It emerged that the cost leadership strategies of offering standardized' courses to many students and relying on government subsidies to lower fees being rampant. There was a dearth of differentiation strategies save for offering courses perceived to be unique and marketing courses using non-price issues. The focus strategies of offering weekend and evening classes and targeting a particular segment of students were among the strategies with greater effect on the performance of the tertiary institutions. The result of multiple regression analysis indicated that the differentiation strategy had not significant effect on organizational performance of such companies. The result contradicted the previous research (Allen & Helms, 2002) results which indicated a positive and significant relationship between product differentiation strategy and organizational performance.

As a result of inconsistency in findings of these studies and different conclusions by the two studies there is a need for a third research to be done. Based on this particular premise this study sought to find out if the business level strategies had a positive or negative effect on performance of organizations specifically commercial bank branches in Kisumu city. It is important to also note that no study has been done on the relation between business level strategies and performance of commercial bank branches in Kisumu city.

CHAPTER THREE

METHODOLOGY

This section presents the research design and methodology to be applied during the study. Key areas covered will include the Research Design, Study area, Target population, Sample size, Data collection methods and Data analysis techniques.

3.1. Research Design

The descriptive research design was used for this study which would enable in depth search of information on the relationship between business level strategies and performance of banks. According to Kothari (1985) descriptive research is carried out with specific objective(s) and hence it results in definite conclusions. It tries to describe the characteristics of the respondent in relationship to a particular product or practice/culture of importance. The major purpose of descriptive research is description of the state of affairs as it exists at present. The study analyzed the commercial banks in Kisumu City.

3.2. Study Area

The study was carried out in Kisumu city. The city is the third largest in Kenya and is found within Kisumu County. Kisumu is a port city in Western Kenya at 1131m (3711ft) with a population of 394684(2009 census). Its geographical coordinates are 0° 60' 0" South, 34° 45' 0" East. It is the third largest city in Kenya, the principal city of Western Kenya, the immediate former the capital of Nyanza province and headquarters of Kisumu County. Kisumu was founded in 1901 as the main inland terminal of the Uganda Railway and named Port Florence. Although trade stagnated in the 1980s and 1990s, it is again growing around oil exports. It is also a commercial hub linking the major countries of Eastern Africa region boasting of several commercial banks. The study concentrated on commercial banks only.

3.3. Target Population

The study targeted a population of 35 commercial bank branches within Kisumu city. The respondents were 35 branch managers of the sample commercial banks.

3.4 Sample Size

A Sample of 32 banks was selected using simple random sampling method. There was a response rate of 65% from the Commercial Bank branches. Simple random sampling method was used to select the sample because the Banks possess similar characteristics.

The Yamane formula was adopted in determining sample size.

n = N/ 1 + N (e)2

Where by: n = the sample size N = the population e = level of precision (at 95% confidence interval, e = 0.05)

Given that N = 35, then: n = 35/ 1 + 35(0.05)2 = 32

3.4. Data Collection Methods

Primary data was collected through structured and unstructured self-administered questionnaires, while secondary data was collected by the use of relevant publications and reports. According to Orodho (2005) questionnaires are commonly used to get important information about a population especially when the respondents can be reached. The questionnaires were taken to each Bank by the researcher and filled by the respondents branch managers.

3.5. Data Analysis and Presentation

Orodho (2005) points out that analysis means categorizing, ordering, manipulating and summarizing data so as to come up with answers to research questions. The data collected from the field was organized, coded, and summarized using mean, median and mode. Spearman's rank order correlation coefficient was also used to analyze the relationships between the study variables namely; the direction, form and degree of the relationships. The data collected through the questionnaires was summarized and

presented using frequency counts, percentage tables, tables, graphs and charts, with the help of Statistical Package for social sciences (SPSS) computer software.

3.6. Data validity and reliability

The data collected was validated by experts .A pilot study was done to test the reliability of the instruments used. This was carried out on 6 commercial banks in Eldoret town. According to Mugenda and Mugenda (2003) subjects in the actual study should not be used in the pilot study. Nunnally (1978) notes that coefficient alpha provides a good estimate of reliability. Alpha values of between 0.80 and 1.00 are considered reliable; values of between 0.50 and 0.80 are acceptable while values of below 0.50 are considered less reliable.

Variable	Alpha coefficient
Business level strategies	0.817
Performance	0.701

CHAPTER FOUR

FINDINGS, PRESENTATION AND DISCUSSIONS

4.1. Introduction

This chapter deals with the response rate, the data analysis report and discussion of findings from data. There was a response from 21 banks out of the sample 32 commercial bank branches. The purpose of this study was to establish the relationship between business level strategy and performance of banks in Kisumu city. The findings are divided into three parts covering the three objectives. In each part, data is presented and an analysis is given as per the findings of the study.

Table 4.1: Mission and Vision statement of organization

Mission and Vision of the organization	yes		No	
	F	%	f	%
1. Does your company have a mission statement?	21	100	0	0
2. Does your company have a vision statement?	21	100	0	0

Source; Research Data (2015)

From the table above the study found out that all the respondents agreed that their organization had a mission and vision statement at 100%.

4.2. Cost Leadership Strategies

This part presents data collected on relationship between cost leadership strategy and performance of banks in Kisumu city

Table 4.2: Cost leadership and bank performance

Cost leadership and Bank Performance	f	%
1. Price setting; Lower than competitors	10	47.62
2. Price setting; Equal to competitor	8	38.10
3. Price setting; Higher than competitor	3	14.28
4. Attracting customers by offering low priced products	2	9.53
5. Attracting customers by building customer loyalty	11	52.38
6. Retention of popular staffs	9	42.85
7. Involvement in marketing and sales	17	80.95

Source; Research Data (2015)

From the table above the study found out that that 47.62% of the respondents indicated that they set their prices lower than competitors, 38.10% set their prices equal to the competition while only 14.28% set their price higher than their competitor. The tables above indicated that 80.95% of the respondents indicated that their organization involves marketing and sales while 19.05% do not involve.

4.3 Focus Strategies

This part presents data collected on relationship between focus strategy and banks performance in Kisumu city.

Table 4.3: Focus Strategies

Focus strategies	Yes		No	
	F	%	F	%
1. Do you have a special category of customers?	16	76.19	5	23.81
2. Do you have a specialized product range for some customers only?	21	100.00	0	0.00
3. Does your company focus on a specific region when marketing your products?	18	85.71	3	14.29

Source; Research Data (2015)

From the table above, 76.19% indicated that they have a special category of customers and 23.81% said it did not; 100% indicated the organization have a specialized product range for some customers only; 85.71% of the respondents indicated that they focus on a specific region on marketing their products while 14.29% that the organization to not focus on specific regions.

4.4 Differentiation Strategies

This part presents data collected on the relationship between differential strategy and banks performance in Kisumu city.

Table 4.4: Differentiation Strategies

Differentiation strategies	Yes		No	
	F	%	F	%
1. Do you strive to create a unique image of your company to your customer?	21	100.00	0	0.00
2. Do you brand the products you offer in the market?	21	100.00	0	0.00
3. Do you have a sales and marketing department in your company?	21	100.00	0	0.00

Source; Research Data (2015)

From the table above, 100% of the respondents indicated that they have a a unique image of their company to their customers; they brand the products they offer in the market and have a sales and marketing department.

4.5 Relationship between cost leadership strategy, focus strategy, differential strategy and performance of banks at Kisumu City

Table 4.5: Relationship between cost leadership strategy, focus strategy, differential strategy and performance of banks at Kisumu City

Correlations

		1	2	3	4
Spearman's rho	1. cost leadership strategy	.911**			
	2. focus strategy	1.000	.911**		
	3.differential strategy	.921**	.889**	.921**	
	4. Banks performance	.788**	.805**	.788**	.878**

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

Source: Research Data, (2015)

From the study, the following correlations were observed between cost leadership strategy, focus strategy, differential strategy and performance of banks at Kisumu City as shown thus;

There was a significant positive correlation between business level strategy and performance of commercial banks thus $r = .788$, $p<0.01$, two tails

The correlation between cost leadership strategy and performance of commercial banks was found to be a significant positive correlation of $r =.805$, $p<0.01$, two tails

Correlation between focus strategy and performance of commercial banks was found to be a significant positive correlation thus: $r = .788$, $p<0.01$, two tails

Correlation between differential strategy and performance of commercial banks was a positive significant correlation thus: $r =.878$, $p<0.01$, two tails.

These findings showed that there was a strong significant relationship between business level strategy and performance of commercial banks in Kisumu city.

4.6 Discussion of Findings

The first item on the study of the relationship between business level strategies and performance of commercial banks in Kisumu city was to check whether the banks under study had a Mission and Vision Statements. The result was that all the respondents indicated that their organizations had a vision and mission statements that acts as a guide in the day to day operations as well as the type of strategy that a commercial bank branch can adopt.

The findings were in three parts as per the study objectives. The first objective sought to identify the relationship between cost leadership strategy and performance of commercial banks in Kisumu city. In relation to price setting many of the bank respondents indicated that they set their prices lower than their competitors as opposed to setting prices higher than competitors. Majority of the respondents also indicated that they build customer loyalty so as o attract and retain their customers in addition to marketing their products and services. This is to mean that most commercial bank branches use a number of cost leadership techniques in an effort to improve their performance. These include building customer loyalty, pricing lower than competitors and making their services known to the clients through marketing and sales.

These results are consistent with a previous study done by Mwangi & Ombui (2013) that showed that cost leadership affects performance in hospitals. This study done in Kijabe hospital to find the effect of competitive strategies on performance of mission hospitals deduced that the hospital focused on lower cost of purchase of equipment and that the hospital used many supplies to hedge on cost exploitation. In this way the hospital aimed at producing its services cheaper than competitors. . Independent of the fact that the studies were done in different sectors of the economy there is an agreement that the cost leadership strategy has an effect on the performance of any organization.

In contrast to this study done on Commercial bank branches in Kisumu city that concluded that as the level of business level strategy was increased, the bank performance also increased, the study done in Kijabe Hospital concluded that cost

leadership had the greatest effect on the performance of the mission hospitals. This was followed by product/market development strategies, then market focus while differentiation had the least effect on the performance of the mission hospitals. The study recommends that firms using the differentiation should concentrate on investing in and developing such things that are distinguishable. The contrast could be because of the difference in study area as well as the fact that the study was done in the hospital meaning a different target population.

The second objective sought to understand the relationship between focus strategy and performance of commercial banks in Kisumu city. The result was that most of the commercial bank branches had a specified category of customers that they serve. This goes ahead to indicate that all banks including the few who did not have a special category of clients had specialized products for some customers only. The issues of area also matter a lot because the response indicated that the banks focused on certain regions when marketing their products. The result of the study indicated that most banks used this focus strategy because of the positive impact that it had on the performance of the banks which was measured in terms of the sales realized as well as profits made.

These findings agree with early studies that competitive strategy enhanced performance (Gathoga 2001). Murage (2011) recognized that firms that have properly planned and applied competitive strategies have a tendency to have higher performance than those that do not. Competitive strategies can lead to high organizational performance, customer satisfaction and increased competitiveness in the face of competitors.

The third objective was to analyse the relationship between differentiation strategy and performance of commercial banks in Kisumu city. The Study sought to determine whether the commercial bank branches employ the various differentiation techniques so as to improve performance. The findings were that 100& of the respondents created unique image of the company to the customers as well as branded their products with an intention of presenting differentiated products in the market. In order to increase the sales of the branded products all the respondents had a sales and

Marketing Department. The effect of this is increased competitive advantage over other competitors therefore realizing increased performance which was measured in terms of volume sales as well as banks profits.

The results from this study are consistent with the results of another study done by Arasa & Gathinji (2014) on the relationship between competitive strategies and firm performance (a case of mobile companies in Kenya). The study concluded that competition is high in the industry and product differentiation and low cost leadership are the most commonly used strategies. Other strategies include strategic alliance strategies and specific market focus strategies. The study concludes that the strategies adopted improved the overall firm performance. It goes ahead to state that companies should focus on providing a unique product to enhance customer loyalty. In contrast to this specific study done on Commercial bank branches in Kisumu city the study went ahead to assess the different levels of implementation of competitive strategies within organizations.

There was a positive relationship between the three strategies namely Cost Leadership, Focus and Differentiation strategies and the performance of Commercial Bank branches in Kisumu city.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter outlines the summary of findings, conclusions, recommendations and suggestions for further research for this study.

5.1 Summary of findings

The purpose of this study was to establish the relationship between business level strategy and performance of banks in Kisumu in Kisumu city.

The findings of the study were summarized based on study objectives as follows:

5.1.1 Cost leadership strategy and banks performance in Kisumu city.

The first objective sought to establish the relationship between cost leadership strategy and banks performance in Kisumu city. For any successful organization strategic planning, management requires that a company considers its position in the market. This study found out that all the respondents agreed that their organization had a mission statement all these findings meant that most respondents were of the opinion that the organization's mission was relevant. A high number indicated that their organization try to set prices below their competitors, while a few set their prices equal to their competitors. The study also indicated that majority of the respondents indicated that their organization involves marketing. A correlation between business level strategy and performance of commercial banks was found to be a significant positive correlation coefficient.

5.1.2 Focus strategy and banks performance and relationship between differentiation strategy and banks performance in Kisumu city.

The second and third objective sought to establish the relationship between focus strategy and performance of commercial banks and the relationship between differentiation strategy and performance of commercial banks. The findings showed that most respondents indicated that they have a special category of customers ; All respondents indicated the organization have a specialized product range for some customers only. All of the respondents indicated that they have a unique image of

their company to their customers; they brand the products they offer in the market and have a sales and marketing department.

The correlation between cost leadership strategy and performance of commercial banks was found to be a significant positive correlation also correlation between focus strategy and performance of commercial banks was also found to be a significant positive correlation thus. A comparison of the two correlation showed that as the level of business level strategy was increased, the bank performance also increased.

5.1.3 Business strategic level and performance of commercial banks in Kisumu city.

The study revealed that there was a significant positive correlation between business level strategies and performance of commercial banks in Kisumu City. was found to be a significant positive correlation coefficient thus: $r=.805$, $p<0.01$, Correlation between focus strategy and banks performance was also found to be a significant positive correlation, thus $r =.788$, $p<0$, $p<0.01$, Correlation between differential strategy and bank performance was also found to be a significant positive correlation, thus $r= .878$, $p<0.01$.

5.2 Conclusion

Following the findings from the study it was established that there indeed was a positive relationship between business level strategy and performance of commercial banks in Kisumu city as shown thus: The correlation between cost leadership strategy and performance of commercial banks was found to be a significant positive; Correlation between focus strategy and performance of commercial banks was found to be a significant positive relationship. The study also established that there was a positive relationship between differential strategy and performance of commercial banks. Finally the study established that there was a positive relationship between business level strategy and performance of commercial banks in Kisumu city.

5.3 Recommendations and Suggestions

All the banks should adopt business level strategy for better performances. Business level strategy should be a familiar term widely practiced in Kenya. The theories and concepts relating to business level strategy should find their way on business and financial news papers for people to be informed more on how business level strategy impacts business performance. The suggestion is that organizations wishing to further study the two variables specifically for its own purposes should also adopt the same methodology that was used in the study.

5.4 Limitations of the study

Some banks were not ready to give information easily; they were very suspicious on the purpose of the study. This in turn led to a low response rate by the Commercial Bank Branch Managers who were the respondents. Also it took more time as anticipated to collect data as some banks required the researcher to send a copy of the questionnaire to be scrutinized first before they could answer it.

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