EFFECT OF COMPETITIVE STRATEGY ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA. A CASE STUDY OF NAIROBI COUNTY, KENYA

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A Thesis Submitted to the School of Business and Economics in Partial Fulfillment of the Requirements for the Conferment of the Degree of Masters in Finance and Investment of Kenya Methodist University

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DECLARATION AND RECOMMENDATION

Declaration

This thesis is my original work and has not been presented for a degree or any other award in any other University.

Sign………………...Date…………………….……...

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MFI-3-0142-1/2014

Recommendation

We confirm that the candidate carried out the work reported in this thesis under our supervision.

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DEDICATION

I dedicate this thesis to my wife Alice and my Children, Kylan, Dylan and Tylan, for their support, love, support, encouragement, and guidance throughout my academic journey. Their patience and understanding during the long hours of research and writing have made it all possible.

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ABSTRACT

Competitive strategies are critical in the bank's financial performance. The banks that have effective competitive strategy are likely to achieve better competitiveness in terms of financial and non-financial performance. The study sought to determine the effect of competitive strategy on the financial performance of commercial banks in Nairobi County Kenya. The specific objectives were; to determine the effects of product differentiation strategy on the financial performance of commercial banks in in Nairobi County Kenya, to establish the effect of innovation strategy on the financial performance of commercial banks in Nairobi County Kenya; to analyze the effect of the post-COVID-19 recovery strategy on the financial performance of commercial banks in Nairobi County Kenya; and to establish the effect of human capital strategy on the financial performance of commercial banks in in Nairobi County Kenya. The study was guided by porter's generic competitive strategies theory resource-based theory, knowledge-based view, and agency theory. The study adopted a cross-sectional survey design, targeting the branch managers of licensed commercial banks operating in Nairobi County. A total of 564 banking branch managers were targeted. A sample of 234 branch managers were selected using random sampling. Data was collected using an online questionnaire administered through the Qualtrics survey portal. The data was analyzed using Statistical Package for the Social Sciences version 29. The data was presented in tables and graphs. The pilot study was conducted in Murang'a County, using 20 branch managers in commercial banks. The ordinal logistic regression was used to analyze the relationship between the variables. The result of the regression indicated a positive statistical relationship between product differentiation, COVID-19 recovery strategy, human capital strategy and innovation on financial performance. It was also established that the overall competitive strategy had a statistically significant effect on the bank's financial performance. It is recommended that the banks should establish strategies aimed at improving the product quality and review strategies to improve product quality to meet the customers' expectations and focusing on refinancing and restructuring of loans to assist the customers who are unable to pay the loans on time due to the financial challenges. The recommendation for future research includes using the qualitative approach, comparative analysis across different regions in Kenya and using the longitudinal approach.

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LIST OF ABBREVIATIONS

APA	American Psychological Association
CBK	Central Bank of Kenya
COVID-19	Coronavirus
KBV	Knowledge-based view
NACOSTI	National Commission for Science, Technology and Innovation
RBV	Resource-based View
SACCO	Savings and Credit Cooperative Society
SPSS	Statistical Package for the Social Sciences
NACOSTI	National Commission for Science, Technology and Innovation

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Globally, entities are establishing strategies to increase their competitiveness in terms of growth, profitability, brand equity and market share. Establishing a competitive strategy is crucial for businesses because it enables them to survive in highly competitive markets (Akande et al., 2019). Therefore, all organizations, including banks, are facing pressure to improve their competitive strategies continuously. The focus on competitiveness is attributed to the rise in complexity of the operating environment and the liberalization, which has resulted in the increased entry of new firms, thus increasing the competition (Balistreri et al., 2009). The primary reason why banks create and implement competitive strategies is to increase their financial performance.

The competitive strategy means how the business competes in its operation areas. Specifically, the competitive strategy defines how the organization aims to create and maintain a competitive advantage with respect to the competitors (Holdford, 2018). When establishing a competitive advantage, all the firms; including those operating in the financial sector, focus on two aspects; distinct products and services sold to specific customers and the specific competitors to be faced (Bertelè & Chiesa, 2022).

The gaining of competitive advantage is associated with increased profitability in the long run. The superior competitive strategy is achieved in various ways, such as offering differentiated products from the competitors and lower-cost products (Erfani & Vasigh, 2018). Therefore, the competitive strategy in the banking sector is examined through the assessment of two factors; the creation of the competitive advantage and the protection of the competitive advantage (Dogru, 2019).

Unlike other sectors, banks face the challenges when implementing the competitive strategies. An example, of the challenge that the banks face is intense competition. Specifically, the consumer banking industry operates in an extremely competitive market, with many players vying for market share, while established banks and emerging fintech companies pose challenges for banks when it comes to establishing a unique offering inside their respective markets. Another challenge is technological disruptions. Specifically, a rapid advancement in technology has disrupted the banking industry, leading to challenges the banks face in keeping up with digital transformation trends and integrating innovative technologies to ensure that their competitive strategies are competitive (Swacha-Lech, 2017).

Data security is also a challenge because as banks adopt digital solutions, it becomes essential to ensure customer privacy and the security of their data. Cybersecurity threats and data breaches can have severe consequences for the reputation and trust of banks as they undergo digital transformation. There is also a challenge of regulatory compliance whereby, as regulations become ever more complex and constantly changing, it becomes increasingly difficult for banks to maintain their competitive edge and comply with ever-changing regulations while maintaining a competitive edge (Singh & Kumar, 2017).

Currently, the firms operating in the Kenyan financial sector are establishing various strategies to create and retain competitive advantage. The financial sector firms are increasing their competitive advantage by focusing on innovation, offering quality financial services, and efficiency in producing financial services. Although the competition among the firms operating in the financial sector is similar to other sectors, the strict regulations limit the competitive strategies that the firms can adopt. This study sought to contribute to the knowledge of how competitive strategies affect commercial banks' financial performance.

1.1.1 Competitive Strategy

Globally, competition in the banking sector is essential for several reasons. First, just like in other industries, the competition is determined by efficient resource allocation and effective strategies. Second, effective competitive strategies lead to increased profitability, growth, and market share, thus fulfilling the stakeholders' desire to maximize investment return. Thirdly, it is the government's desire for the commercial banks to establish good competitive strategies to ensure efficient delivery of services to the citizens and the efficient flow of economic goods and services (Yuanita, 2019).

The international banks have dominated the global banking sector because they use their resources to research the best competitive strategies, such as using new models and adopting the latest technology. This assertion is supported by research by Navaretti et al. (2010). The researcher established that international banks are more competitive than locally owned banks. However, foreign-owned banks are more competitive in the country of origin, indicating that these local factors play a critical role in competitiveness (Liu & Li, 2022).

In the developing countries in Africa and South America, there has been increased competition due to the entry of foreign banks due to deregulation (Liu & Li, 2022). Other factors that have resulted in increased competitiveness in the developing nations apart from deregulations include increased financial integration, technological advances, and the removal of regulatory barriers (Dadzie & Ferrari, 2019).

According to Dadzie and Ferrari (2019), technological advancements are the most critical elements that increase banks' competitive advantages. Specifically, the banks that employ the latest technology such as artificial intelligence and blockchain technology are able to offer high-quality services and reduce costs, thus leading to increased financial performance. Loser regulation is also necessary because the banks can provide new products and adopt unique strategies for increasing competition, such as mergers, acquisitions, and strategic partnerships. Deregulations imply that the banks can adopt high-risk decisions to improve the returns on investment (Dadzie & Ferrari, 2019). However, despite their advantage compared to the local banks, foreign banks face increased competition from the local banks because they have the support of the local community, more government support, and less exposure to cross-border risks.

In the Kenya context, competition forces include customer service, new product developments, interest rates, and entry into new markets (Teckchandani, 2016). Some commercial banks such as Equity and Cooperative Bank of Kenya have adopted the cost focus whereby, they offer some services at low costs, thus targeting customers from low and middle-income backgrounds. Others such as NIC and Citibank target corporate customers. Therefore, the competitive strategy in the Kenyan banking sector is based on the mission, vision, and goals of the banks.

For this study, the four competitive strategies used by the banks were assessed to determine the effect on the financial performance. One of the strategies is product differentiation. To enhance their financial performance as well as gain a competitive advantage in the market, commercial banks and other financial institutions have adopted product differentiation as a strategy to enhance their financial performance. In the financial market, product differentiation involves the creation of unique financial products and services that set a financial institution apart from its competitors.

As a result of personalizing offerings to meet specific and specific customer needs and preferences, financial institutions are able to attract more customers, increase customer loyalty, and ultimately improve the quality of their services (Wambaka, 2021). The differentiation of a product allows financial institutions to offer a wide variety of products and services that go beyond traditional banking. In addition to investment products, insurance, wealth management solutions, and tailored financing options that banks can offer, banks are also able to provide specialized investment services. Besides providing a source of additional revenue streams, diversification reduces the reliance on specific products and reduces the risks associated with concentrated portfolios as well. The ability to understand the unique needs of various customer segments allows financial institutions to develop tailored products that are tailored to the needs of particular groups. For instance, banks can customize the package to accommodate millennials, small businesses, or high net-worth individuals, for instance.

The degree of customization that is available to customers enhances customer satisfaction, fosters long-term relationships, and boosts customer retention, which ultimately contributes to an increase in financial performance. Those financial institutions that can differentiate their services and products from the rest develop an established brand identity that helps them establish trust and recognition among consumers, thereby positioning them as a preferred choice by them. A strong brand can attract new customers and strengthen the loyalty of existing ones, which positively impacts the financial institution's financial performance. As a result of a highly competitive financial sector, product differentiation has been a key factor in allowing institutions to be distinguished from the competition. Offering exclusive products and services gives them an edge in the market, helps them acquire new customers, and helps them retain existing ones. Consequently, they can gain a competitive advantage, increase market share, expand their customer base, and contribute to the growth of their revenue. (Kireru et al., 2016)

Another competitive strategy that was assessed was innovations. Commercial banks can utilize the innovation variable to examine how innovative practices and technologies are integrated into their competitive strategies, and how this affects their financial performance (El-Chaarani & El-Abiad, 2018). A commercial banking innovation is the introduction and implantation of new technologies, processes, and practices into the financial industry. In addition to the development of new financial products, it also entails the application of advanced digital technologies, as well as the implementation of innovative strategies to improve customer experiences and operational efficiency. A key component of innovation is the development of novel financial products, the adoption of advanced digital technologies, the adoption of innovative strategies, which aim to improve the quality of a customer's experience and the efficiency of the organization (Scott et al., 2017).

One of the most significant innovations in the financial sector has been the introduction of digital banking solutions. It has become increasingly common for customers to conduct transactions conveniently and securely from anywhere via online banking platforms, mobile apps, and digital wallets, thus reducing the requirement for physical branches as well. Financial institutions have achieved improved customer satisfaction, improved operational efficiency, and reduced costs as a result (Akhisar et al., 2015). Another strategy is fintech collaborations.

Specifically, it is through collaboration with fintech companies that traditional financial institutions have been able to access new technologies and services. In the financial technology sector, fintech partnerships have enabled the development of cutting-edge solutions, like peer-to-peer lending platforms, robot-advisors, and blockchain-based payment systems. By collaborating with these companies, banks have been able to expand their service offerings, expand their customer base, and remain on top of technological advances as well. Personalization and customer experience has been used as a way of innovation in the banking sector. For example, a number of technological advancements have enabled financial institutions to tailor the products and services they offer based on the preferences and behavior of their customers, such as data analytics and artificial intelligence. By offering customized product recommendations, tailored marketing campaigns, and proactive customer service, the company has been able to increase the levels of customer loyalty and retention.

Enhanced security measures have been used as a means of innovation and enhancing the financial performance. For instance, innovations have been applied to strengthening security measures in the financial sector, such as biometric authentication, multi-factor authentication, and advanced encryption techniques that help protect data and prevent fraud. The enhancement of security measures will help financial institutions enhance their reputation and build trust with their customers, which is beneficial to their financial performance. Another form of innovation is the innovations in payments. Expressively, it has been proven that financial institutions have introduced innovative solutions for payment, including contactless, mobile wallets, and real-time payment solutions. By implementing these innovations, payment processing has become faster, more efficient, and more cost-effective, increasing the efficiency of cross-border transactions, thereby improving the overall efficiency of the payments process overall (Lee et al., 2021).

Data driven solutions is another form of innovation that through data analytics and business intelligence tools, financial institutions are able to gather valuable data that can provide valuable insights. Data can help banks make informed decisions, identify trends, and anticipate their customers' needs, which will ultimately lead to more effective strategies and more successful results. In summary, with innovation transforming the financial industry, financial institutions have seen a dramatic improvement in financial performance and reshape the landscape. In order for banks to achieve sustainable growth and customer satisfaction, they have improved their efficiency, increased efficiency, and enhanced security measures through embracing digital solutions, collaborating with fintechs, personalizing customer experiences, automating processes, and enhancing security measures (Scott et al., 2017).

Another the banks have used to increase their competitiveness is COVID-19 recovery strategy. Specifically, the COVID-19 pandemic has led to the creation of a number of innovative strategies for various sectors, including the financial industry, in the context of which innovation has played a crucial role. This pandemic has presented financial institutions with unique challenges and innovation was needed in order for them to navigate through the uncertainty and disruptions that accompanied it (Capodistrias et al., 2021).

One of the ways that the pandemic has led to innovative solutions is through the digital transformation. For example, it was during the pandemic that financial institutions adopted digital solutions to maintain essential services while adhering to social distancing measures as they were forced to deal with a pandemic. Providing uninterrupted customer service and improving remote banking experiences was a vital task that was made possible with the advent of online banking, mobile apps, and contactless payments (Agnihotri et al., 2022).

Another strategy that has gained popularity is contactless payments. Specifically, financial institutions have promoted the use of contactless payment methods, as well as digital wallets, in order to lessen the number of points of contact. They have even encouraged customers to use tap-and-go cards or mobile payment apps to minimize the need to handle cash and to touch point-of-sale devices (Puriwat & Tripopsakul, 2021).

Another innovation has been in the loan assistance and relief programs. Specifically, the banking sector implemented innovative loan help and relief programs to assist individuals and businesses facing financial hardships in the wake of the pandemic. Banks offered loan deferments, reduced interest rates, and waived fee waivers to provide significant financial relief to customers who were affected by this epidemic. They have also implemented artificial intelligence in various aspects, for example, they have made use of artificial intelligence (AI) chatbots and virtual assistants to provide quicker responses to customer inquiries, and therefore better manage high call volumes during the pandemic. AI-driven customer support also allowed them to manage the increasing phone volume more efficiently (Nhamo et al., 2020).

Therefore, COVID-19 has made innovation the cornerstone of its financial sector strategy. In order to combat the challenges posed by the pandemic, financial institutions have taken measures such as embracing digital transformation, offering virtual work environments, encouraging contactless payments, introducing relief programs, utilizing AI-driven customer support, enhancing cybersecurity measures, and enabling remote customer onboarding to navigate them through. The studies have agreed that Covid-19 recovery strategy is the primary focus of many banks. According to Yarovaya et al. (2020), the pandemic made the banks appreciate the importance of the establishment of the recovery measure and mitigation measures. The human capital strategy has been at the forefront of ensuring the banks adapt to the complex and changing nature of unpredictable external environment. There were many challenges that banks faced during the pandemic that required the effective management and utilization of their human resources in order to maintain operational continuity, support their customers, and manage through all of the uncertainty.

During the COVID-19 pandemic, it was essential that employees were given the necessary tools, technology, and support to be able to work from home efficiently during the pandemic. Effective human capital management was essential in ensuring that employees were adequately prepared. By managing their remote workforce effectively, banks experienced minimal disruption to operations, maintained service levels, and improved employee productivity, which ultimately contributed to the success of these banks (Hasnaoui et al., 2021).

With the advent of the pandemic, employees faced unique challenges in terms of their well-being and engagement. There has been an increase in employee satisfaction and engagement among banks that prioritize the health and safety of their employees and offer resources for physical and mental well-being. Having engaged employees is one of the best ways to ensure exceptional customer service, which is one of the best ways to improve customer satisfaction and loyalty, which can, in turn, positively impact your bank's financial performance as well. In order to be able to cope with the rapid changes in market conditions that arose during the pandemic, human capital played a vital role (Xu et al., 2022). The banks that promoted a culture of adaptability and resilience among their employees were better positioned to address the needs of customers and market demands in a timely manner. In addition, the ability of employees to quickly respond to new challenges and opportunities contributed to the bank's ability to perform by ensuring agility and flexibility (D’Angelo et al., 2022).

It was essential that human capital was maintained during the pandemic in order to provide the best service and to maintain communication with customers. As a result of investing in training and development to equip their employees with the skills to address customer concerns and provide empathic support, banks gained a competitive advantage over their competitors. It was through positive customer interactions and timely communication that the bank-built trust and strengthened its reputation, which led to an increase in customer retention and loyalty (Purnamawati & Yuniarta, 2021).

A crucial element of banking financial performance during the pandemic was attracting and retaining skilled talent. As a result of human capital strategies focused on talent retention, career development, and recognition, employee loyalty has increased, as has employee turnover. It was also shown that banks with innovative recruitment approaches were more likely to deliver quality services and to increase financial performance by attracting top talent (Schady et al., 2023). Also, the development of remote collaboration and teamwork within banks relied on the presence of human capital.

As a result of the employees being able to work together effectively regardless of their physical distance, seamless business operations and the sharing of knowledge and expertise were possible. In order to improve overall efficiency, effective teamwork was necessary to improve problem-solving and decision-making (Vahdat, 2021). Therefore, when the COVID-19 pandemic occurred, human capital played a significant role in determining a bank's financial performance. As a result of the success of banks, they had to manage their human resources well, manage their remote workforce, engage and motivate their employees, be adaptable, offer excellent customer service, retain talent, collaborate remotely, and resolve crises effectively.

1.1.2 Financial performance of Commercial Banks

A successful organization is one which can achieve its goals by using resources effectively and efficiently without sacrificing quality. Both the financial and non-financial performance of the organization can be measured. Financial performance is the most commonly used in evaluating a firm's financial performance. The profitability measures such as net revenues and gross profit are the most widely used financial performance measures. Other measures include liquidity, solvency, and debt management (Kori et al., 2020). Considering that most researchers, such as Kori et al. (2020) have used profitability to measure the financial performance of commercial banks, the research adopted the profitability measures.

Another financial measure used is asset-based, which indicates the company's underlying asset that gives value. The asset base was applied in the research because the value is readily available in the published financial statements. Also, some researchers, such as Jardon and Martinez-Cobas (2021) have used the asset base to assess the firm's financial performance. The financial measures have various limitations, such as a lack of assessment of the firm’s growth, human resources, and dynamic capabilities. The banks primarily use financial indicators to assess their financial performance. The report from the CBK shows an increase in the financial performance in the commercial bank sector.

Specifically, the asset base grew from Kshs 5.4trillion to 6.0 from 2020 to 2021, representing an 11% increase. The increase in total assets is attributed to the growth in loans, advances, and investments in government securities. The high capital injections and retention of the profits increased the bank's market capitalization. In terms of profitability, the profit before tax increased from Ksh.112.1 billion to Ks.197.0 billion. The increase is attributed to the 6.7% decrease in expenses and the 9.3% increase in income. The capital adequacy also increased from 19.0% in 2020 to 19.5% in 2021 (Central Bank of Kenya [CBK], 2022). Overall, the indicators show increased financial performance in the Kenyan banking sector.

The study used non-financial resources to offset the limitations of relying on financial measures. The rationale for using non-financial measures is that their use during management is associated with better organizational financial performance (Arifeen et al., 2014). The financial measure utilized is growth. When used as a non-financial measure, growth means increasing market share and new product development. The growth as a non-financial measure is appropriate because multiple scholars in the literature have used it.

For example, Enad and Gerinda (2022) used growth to assess the financial performance of banks in Sudan, while Raphae and Man (2021) used the measure to evaluate the financial performance of banks in Tanzania. Another non-financial measure was used in the research is market share. Market share is an appropriate measure because it indicates the long-term growth and sustainability of the firm (Alfaihani et al., 2021). Furthermore, numerous researchers, Bhattacharya et al. (2022) and Fazlzadeh and Sabbaghi (2010) have indicated that market share is the most critical metric for assessing financial performance. Overall, the study used four variables to determine financial performance; profitability, asset base, growth, and market share.

1.2 Statement of the Problem

The Kenyan banking sector has a high number of 38 licensed commercial banks which have been striving to establish competitive strategies to gain market care and increase productivity. This number which takes precedent in East Africa has been attributed to favorable government regulations that have allowed the liberalization of the banking firms, making the sector competitive (Chipeta & Muthinja, 201). Therefore, the banks are faced with the role of establishing effective strategies to increase and retain competitiveness in their banking operations (Yakubu et al., 2020). They should come up with effective strategies that increases revenue, asset quality and reduces expenditures to agreeable limits.

However, according to CBK (2022), the commercial banks in Kenya have been facing a declining quality of their assets such that the non-performing loans upsurged from 14% to 14.7% in 2021 and 2022 respectively, in comparison to the issued gross loans in particular timeframe. This has raised a concern to various specific competitive strategies that banks have been using to advance their product differentiation, innovation, covid-19 recovery strategy and human capital strategies agenda. It is paramount that the applied strategies have been ineffective due to mismatch between what commercial banks are offering in terms of products and services vis-à-vis the operating environment the work under. Additionally, the product differentiation strategies have failed to work in various sectors such as manufacturing, trade, real estate, building and construction which recorded a NPL of Kshs 25.6, 12.4, 11.2 and 9.8 billion losses respectively in each sector.

Therefore, failure of the banks to assess their strategies as a measure of improving their asset quality, would result to adverse effects of the macroeconomic factors that affect the bank's financial performance. For example, the global output is estimated to decrease by 3.6% in 2023, and the slow growth in the advanced economies may lead to tighter financial regulations, adversely affecting the banks. Although the regional economy will increase, the rising inflation will likely erode consumer purchasing power, saving, and investment (CBK, 2022). These issues are likely to affect the banks negatively; hence it is critical to establish if the competitive strategies they use lead to increased financial performance.

Past studies such as Kireru et al. (2016), Menga and Nyakwara (2020) and Boehe and Cruz (2010) explored how financial performance was influenced by differentiation of products among other factors but failed to point out how sector differentiation, sociodemographic and geographic differentiation played pact in improving financial performance. Other studies like Kijkasiwat and Phuensane (2020), Mwawasaa and Ali (2020) and Muia (2021) considered the influence of innovation particularly from technological perspective failing to consider how QR codes, via cards and master cards affected financial performance. Other such as Admasu (2021) did not pinpoint on the covid-19 recovery strategies applied specifically to banks while Aman-Ullah et al. (2022) did not examine how clear career growth path, rewarding system, internal promotion and team building affected the growth of financial institution like banks. Therefore, these gaps motivated the study to examine the effect of competitive strategies on the financial performance of commercial banks in Kenya.

1.3 General Objective

The general objective of the study was to examine the effect of competitive strategies on the financial performance of commercial banks in Nairobi County Kenya.

1.4 Specific Objectives

i. To determine the effect of product differentiation strategy on the financial performance of commercial banks in Nairobi County Kenya.
ii. To establish the effect of innovation on the financial performance of commercial banks in Nairobi County Kenya.
iii. To analyse the effect of the post-COVID-19 recovery strategy on the financial performance of commercial banks in Nairobi County Kenya.
iv. To establish the effect of human resource strategy on the financial performance of commercial banks in Nairobi County Kenya.

1.5 Research Hypothesis

$H_0$1: Product differentiation strategy did not have a statistically significant effect on the financial performance of commercial banks in Nairobi County Kenya.

$H_0$2: Innovation did not have statistically significant effect on the financial performance of commercial banks in Nairobi County Kenya.

$H_0$3: Post-COVID-19 recovery strategy did not have a statistically significant effect on the financial performance of commercial banks in Nairobi County Kenya.

$H_0$4: Human Capital strategy did not have a statistically significant effect on the financial performance of commercial banks in Nairobi County Kenya.

1.6 Justification of the Study

Considering the high level of competition in the banking sector, the study provided information on the effectiveness of the various strategies used by commercial banks in enhancing their financial performance. The study was also relevant because, in this COVID-19 era, the banks have faced the pressure to change the strategies to cope with the changing operational environment; therefore, the results from the study provides the managers with information on the appropriate strategies that they can use to improve financial performance.

1.7 Significance of the Study

The study is significant to the bank managers because it provides them with information on the strategies that they can use to increase the financial performance of their banks. The implementation of these strategies would place the bank at a competitive edge over its rivals. Also, the implementation of the strategy that would result in increased financial performance would benefit the stakeholders due to the increased return on investment. The study gives insights on the strategies that can enhance the industry financial performance; thus, it guides the policy formulation by the regulators such as the CBK. Finally, the study provides information for future research researchers on the bank's competitiveness and related firms such as microfinance institutions.

1.8 Scope of the Study

The study was conducted between June 2022 and May 2023. The study population comprised the commercial banks operating in Nairobi County. The study excluded non-commercial banks financial institutions such as Saccos, investment banks, and pension funds. The respondents comprised only the branch managers of commercial banks; hence all other staff were excluded. The study was conducted between March 2022 to May 2023 because of the time limit imposed by the university. This period comprised of various activities such as the writing of the proposal, data collection and analysis, and project writing.

1.9 Limitations

Accessing the comprehensive and reliable data was challenging; especially the data of the financial performance of the banks. Also, because the competitive strategies are complex, only four strategies were assessed; hence full scope of competitive strategies. The information was collected from the branches only; thus, the critical information on the issues affecting the branches may not have been captured by the study.

1.10 Delimitations

The study was delimited to commercial banks operating in Nairobi County. The study was also delimited to the data collected from the branches of the chosen commercial banks. Finally, the study was delimited to the commercial banks only, meaning that the other firms such as Sacco's and microfinance institutions were excluded.

1.11 Assumptions

The assumptions for this study were that there were different financial products offered at the banks for various purposes. Further the banks had received at least three changes in policies emanating from the decision made by the human resource management regarding the employees. Additionally, there had been cases of products and service issuance using technological method as an indicator that the banks had incorporate innovation.

1.12 Definition of Terms

Commercial Banks

Institutions in the financial sector that receive deposits from people and businesses and give credit facilities, loans, and various financial services to their account holders. They fulfil essential function within the economic system by enabling the movement of money and stimulating economic progress. These individuals engage an important function in the financial realm by enabling the exchange of funds among individuals who save and those who borrow (CBK, 2022).

Competitive Strategy

It relates to a collection of intentional methods, guidelines, and systems used by companies with the goal of obtaining a competitive benefit amongst competitors. It is crucial for companies to establish productive approaches to outperform their rivals. This process includes determining strategic options concerning resource distribution, aim at specific customer demographics, and distinguish offerings to surpass rivals (Ajami & Goddard, 2019).

Covid-19 Recovery Strategy

Methods and guidelines implemented by companies to overcome the effects of the negative impacts of the pandemic caused by COVID-19. As stated by IMF, such approaches play a vital role for companies to successfully deal with the obstacles and uncertainties resulting from the international health disaster. This entails adjusting to the current situation, reorganizing business processes, welcoming technological advancements. Also, it requires constructing the ability to withstand uncertainties in the future (International Monetary Fund, 2022).

Human Capital Strategy

Includes the methods and methods used by companies to efficiently oversee their workforce, including employee acquisition, instruction, and skill enhancement. These specific strategies have a significant impact on boosting employee financial performance and productivity. It focuses on attracting and holding onto experienced employees. Additionally, it emphasizes cultivating a positive workplace atmosphere and coordinating staffing strategies with the overall company targets (Vo et al., 2022).

Innovation Strategy

The organized execution involving new techniques, items, solutions, technologies, or operational models, resulting in beneficial effects on the organization, including higher profits, productivity, and optimization (He & Deng, 2020). Based on He and Deng (2020) it has an important role in facilitating development and achievement within companies. This requires nurturing an environment of originality and continual development. This assists to stay in front in the fast-paced corporate world.

Product Differentiation

Strategy for product differentiation involves the techniques employed by companies to separate their goods or solutions from what rivals provide, establishing a distinctive value proposition and increasing customer awareness and commitment. This approach is vital for firms to obtain a competitive superiority in the industry. The approach commonly requires branding, aesthetics, excellence, and extra characteristics to distinguish itself from competitors in the market (Berger et al., 2020).

Organizational Financial performance

Is the examination of a company's ability to accomplish its desired results or consequences. The evaluation is vital for establishing the efficiency and effectiveness of the firm. This is frequently assessed utilizing different financial indicators, including growth and profitability, along with financial proportions like liquidity and solvency relationships. The data are utilized to evaluate the overall financial stability and achievements of the institution (Armstrong & Taylor, 2020).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews the theories related to the topic and the previous scholarly findings on the topic. Specifically, the first section covers Porter's Generic Competitive Strategies Theory, Resource Based View Theory and Knowledge-Based View Theory, and Agency Theory while the second section discusses the previous findings on the topic. The conceptual framework that guides the study is also discussed.

2.2 Theoretical Perspective

2.2.1 Porter's Generic Competitive Strategies Theory (1985)

The theory argues that there are two dimensions that are used by the organization to increase competitive advantage; strategic strength and strategic scope (Njuguna, 2015). The strategic strength looks at the supply side of competencies; namely product differentiation and efficient cost. The strategic scope on the other hand looks at the demand side; namely target market size and composition (Abdolshah et al., 2018).

Porter stressed on two critical strategies that enhance the competitiveness of the firm; costs, product differentiation and focus. The cost leadership strategy involves two steps; charging lower prices to attract more customers and increase the market share and increasing profits by reducing the costs (Rothaermel, 2021). For the firms to be successful in the cost leadership strategy, it must have the resources to invest in technologies to reduce the costs, a low-cost base such as raw materials, labor and very efficient logistics (Abdolshah et al., 2018).

The differentiation strategy, on the other hand, involves making unique products; to attract new customers (Ali & Anwar, 2021) According to Ali and Anwar (2021), for the differentiation strategy to be effective, the firms need to invest in research and development and innovation, effective sales and marketing to increase consumer awareness of the product and deliver high quality products and services. The focus strategy involves focusing on the particular niche, based on various factors such as sociodemographics. Through serving on the specific niches, the organizations can build a strong brand (Abdolshah et al., 2018). This scenario is evident in some companies, for example, the luxury product manufacturers have been able to maintain competitiveness in high-income earners despite the expensive nature of products.

However, there are risks associated with each of the strategies adopted by the firm. For example, the cost leadership strategy can cause financial constraints to the firm. It is also susceptible to risk of initiation, technological changes, and unexpected inflation costs. The risk of differentiation includes imitation that narrows the perceived difference, and increased costs due to research and development that can result in price increase compared to competitors. The risk of focus approach includes increased costs and risk of imitation of strategy by other firms (Pretorius, 2008)

Porter Generic Advantage is chosen because numerous studies such as Abdolshah et al. (2018) and Ali and Anwar (2021) have linked the implementation of the generic strategies to the firm's financial performance. For example, Islami et al. (2020) determined that the firms that have used the low-cost strategy increase the market share because most consumers prefer low-cost products and services due to budgetary constraints. The firms that offer highly differentiated products are also able to reduce the competition because the consumers incur high opportunity costs if they choose to foregone company's products for the competitors (Islami et al., 2020). Porter's Generic advantage is suitable for this study because it establishes the strategies used by the commercial banks to increase competitiveness and the market share.

The suitability of the theory in the study can also be analyzed using the primary domains. Specifically, it presents the generic strategies that are used by the commercial banks to increase their competitiveness. Using the cost leadership strategy, the banks aim to become the low-cost producer in an industry, allowing the organization to offer products or services at a lower price compared to competitors. In the context of commercial banks, this strategy would involve streamlining operations, optimizing efficiency, and minimizing expenses to reduce the overall cost of delivering banking services.

Banks could achieve this through innovation in various areas such as automation, process improvement, and economies of scale. Literature such as Chen et al. (2021) and Klimontowicz and Majewska (2022) indicate that the cost leadership is a type of innovation that is used by the commercial banks, and can have effects on financial performance. Applying the focus strategy, the bank's target a specific market segment or niche and tailoring products or services to meet the unique needs of that segment effectively.

Porter's Theory of Generic Competitive Strategies offers a solid framework to examine the consequences of competitive strategies on the efficiency of commercial banks among

Kenyan banks. In particular, the methodology is suitable for assessing the effectiveness of financial institutions in Nairobi County. The three common approaches, cost advantage, distinctiveness, and concentration, present a detailed structure for assessing how banks in the vicinity aim to compete and excel in the fiercely competitive banking industry (Abdolshah et al., 2018). Nevertheless, it is crucial to observe that every bank may opt to adopt a mix of these tactics to tailor their unique aims and economic circumstances. Taking into account the evolving qualities of these approaches and considering external influences, the study can yield valuable observations. This information can help lenders in boosting their efficiency and competitive edge in the industry.

Despite its widespread acceptance and extensive application in strategic management, Porter's Generic Competitive Strategies Theory still has limitations. These limitations include: limited scope, industry homogeneity, inflexibility, neglect of hybrid strategies, neglect of external factors and inhibiting creativity. The theory has limited scope because it focuses primarily on three generic strategies: cost leadership, differentiation, and focus. The business environment is much more complex, though, and other strategies may be more effective. Despite its diverse range of strategies, this theory may not fully capture organizations' competitive advantage. It is characterized by industry homogeneity because it assumes that a firm within the same industry is similar in resources, capability, and competitiveness. This makes categorizing firms into these generic strategies challenging because industries differ significantly and companies have different competitive advantages (Kumar et al., 2019).

Using the limitation of inflexibility, it suggests that companies select a generic strategy and stick to it. However, in practice, market conditions and business environments change over time, requiring organizations to change their strategies. In response to dynamic market conditions, the theory fails to account for flexibility and adaptation. (LeGates & Stout, 2015). Although the theory does not explicitly address combining elements from multiple strategies (hybrid strategies), many successful organizations employ hybrid approaches adapted to their specific circumstances.

The Porter theory lacks clear guidance on how to integrate elements from multiple strategies effectively. It neglects external factors because it tends to focus on internal factors and competitive forces within an industry, neglecting the impact of broader external factors, such as macroeconomic trends, technological advancements, and regulatory changes. Ignoring these external influences can limit the theory's applicability in rapidly changing environments (Goyal, 2020). It discourages creativity in its emphasis on efficiency and cost reduction, the theory fails to adequately emphasize the importance of innovation, creativity, and continuous improvement in designing a successful strategy.

Although Porter's Generic Competitive Strategies Theory has its limitations, it has shaped strategic thinking and guided organizations' pursuit of competitive advantage. This study incorporates other models of strategic management to overcome these limitations, including innovation, customer preferences, external trends, and the need for adaptability as market conditions change. In today's complex and ever-changing business environment, the research adopted a more robust and effective framework to overcome these limitations (Magretta, 2012).

2.2.2 Resource-based theory (RBV)

This theory emphasizes the role of internal resources and capabilities in sustaining competitive advantage in a company. Developed in the 1980s and 1990s by scholars such as Jay Barney and Birger Wernerfelt, RBV breaks from traditional external-focused theories and stresses firms' unique resources. The theory argues that the organization's innovations or strategies achieve the competitive advantage by using the resources that are hard to imitate or substitute (Bailey et al., 2012). The approach further argues that the success of the firm strategies is not determined by innovation only but also human resources, and contextual factors that surround the innovations such as stakeholders involved in the implementation and organizational policies (Dutta, 2013).

The theory has various tenets or key constructs. The first construct is resources, which refers to tangible and intangible assets owned, controlled, or available to a firm. Tangible resources include physical assets like machinery, facilities, and financial capital, while intangible resources encompass intellectual property, knowledge, reputation, brand equity, and organizational culture. Another construct is capabilities which describe the way a firm is able to perform tasks, coordinate activities, and achieve strategic objectives. They represent its capacity to perform particular activities or processes more effectively than its competitors (Zaman et al., 2022).

Other constructs are value, rareness, inimitability, non-sustainability, and dynamic capabilities. Creating value for customers is a competitive advantage. It can lead to superior products, services, and experiences that competitors cannot match. The RBV value lies in rare and unique resources that are not widely available to competitors. When a firm has valuable and rare resources that are difficult to copy or substitute, it can maintain a competitive advantage in the long run. In the absence of an equivalent resource to replace or replicate those owned by the firm, the firm's competitive advantage is reinforced. Dynamic capabilities contribute to the competitive advantage firms must continuously adapt their resources to change in the external environment. In anticipation of changing market conditions and emerging opportunities, dynamic capabilities refer to the ability to identify, build, and reconfigure resources and capabilities (Kraaijenbrink et al., 2010).

Most managers tend to concentrate on the financial resources such as cash and liquid investments; however, they are easily substitutable; thus, they cannot offer long-term advantage to the firm (Zahra, 2021). Therefore, the firm needs to concentrate on the strategic resources. The strategic resources are resources that are non-substitutable, difficult to imitate, valuable and rare (Bailey et al., 2012). An example of the companies that have achieved competitive advantage due to valuable resources include Apple, Google, and Amazon. These firms have hardware and software patents that meet the definition of strategic resources. In the banking sector, the firms have not been able to achieve the competitiveness and financial performance using the strategic resources (Gerhart & Feng, 2021). Therefore, Gerhart and Feng (2021) suggest that the banks need to develop strategic resources as the basis for maintaining competitiveness.

The RBV approach is suitable because it has been used for researching competitive advantage extensively by various researchers such as (Gerhart & Feng, 2021; D'Oria et al., 2021; Rivard et al., 2006). Also, the model is chosen for this study because it explains how the resources can be used to fund innovations aimed at increasing the financial performance. Specifically, the banks innovative use of resources such as organizational human resources capital, tangible and intangible resources enhance the capability of the banks to effectively meet the customer needs; thus, enabling them to perform better than the rivals. Performing better than competitors leads to better financial performance due to increase in number of customers, attraction of talented employees, and attraction of investors.

The specific characteristics of this theory can be used to indicate why it was suitable for this study. For internal focus, the external market dynamics are replaced by internal resources and capabilities. In the study, it outlined how unique resources and capabilities such as human capital of commercial banks in Nairobi County contribute to their competitive advantage. It also explains resource heterogeneity in the banking sector (Chahal et al., 2020). Specifically, RBV can identify which specific resources and capabilities give certain banks a competitive edge in the banking industry, owing to the considerable resource heterogeneity that exists among banks. It also enables the assessment of the role of dynamic capabilities in the bank's competitiveness. Specifically, changing markets, changing regulatory requirements, and changing customer preferences are necessary for the commercial banks. Therefore, banks continuously renew their capabilities such as innovations and product differentiation and resources to maintain their competitive advantage (Arifin, 2020).

Nevertheless, despite the benefits associated with this theory, it has various limitations. First, resources' value, rarity, and inimitable qualities can be difficult to quantify without firm-specific information that may be hard to come by. Second, RBV lacks external focus in that external resources are largely ignored while external factors, like market trends, regulatory changes, and macroeconomic conditions, may have significant effects. Also, some resources may become prevalent or obsolete in rapidly changing and complex business environments, undermining the sustainability of competitive advantages. Also, lack of prescriptive guidelines on the applicability, limits the applicability for firms seeking actionable strategies. (Arifin, 2020) To overcome these limitations, other theories were used to complement RBV.

2.2.3 Knowledge-based view (KBV)

The approach argues that the firm can achieve competitive advantage by utilizing the competency of the people (Doherty, 2015). Other resources such as tangible and intangible assets are as a result of human competency. People can use two means to competency in an organization, transferring the knowledge externally or internally. An example of internal competence is using the knowledge and competences to create intangible structures such as enhanced customer experience, reputation, brand awareness and customer experience (Grant & Phene, 2021). Examples of external competence include creating tangible and intangible structures such as better designed products and structures for enhancing the cost effectiveness.

The sustainable acquisition and transfer of knowledge is facilitated by various factors such as technical advancement, positive organizational culture, and external factors such as global competitiveness and deregulation. Although KBV is considered a contemporary approach, it is based on the classical theories such as resource-based view, organizational theory, and theory of the firm. KBV primary is based on the RBV theory, however, the RBV approach fails to consider the important role of the knowledge on the competitive advantage and financial performance of the firm (Júnior et al., 2019). Unlike the RBV approach, the KBV recognizes the knowledge as a strategic resource that contributes to the competitive advantage (Yli-Renko et al., 2020)

The model categorizes the knowledge into views; idiosyncratic and determinant activity. Knowledge as an idiosyncratic view as a strategic management resource that enhances the competitive advantage through value addition to various activities such as system operations, information process and business data (Bailey et al., 2012). When seeking to achieve competitive advantage, the explicit and tacit knowledge can be utilized. Explicit knowledge is knowledge that is easily recognizable within a firm's information systems, records and organizational routines (Dagnino, 2015).

Explicit knowledge is practiced by the competing firms in response to market demands rather than achieving competitive advantage. Utilizing tacit knowledge involves using hard to imitate capabilities to achieve competitive advantage. The organization applies tacit knowledge when responding to the changes in market conditions, and changes in market structures. The firms that use knowledge management viewpoint apply collectively and individuals to achieve competitive advantage (Johnson et al., 2011). The utilization of knowledge viewpoint involves identifying, creating, storing and sharing knowledge in an organization (Bailey et al., 2012).

The theory is relevant in this study because the previous studies have shown that the utilization of the knowledge resources leads to the competitive advantage (Marczewska et al., 2020; Abdul-Jalal et al., 2013) financial performance and non-financial performance (Rezaei et al., 2021; Kuo, 2011). The theory is also relevant because it shows that the application of the knowledge resources through human capital development by the banks can be exhibited by various elements such as new products, differentiation and innovation.

The theory is also relevant in the study because it considers the intangible nature of knowledge in the banking sector. Specifically, a significant portion of banking industry resources and capabilities are intangible, such as knowledge, expertise, and organizational learning. In response to market changes, KBV recognizes that knowledge is an effective asset that differentiates companies. Also, it appreciates the adaptation to the changing circumstances (Rezaei et al., 2021; Kuo, 2011).

Specifically, adapting to changing market conditions and innovating are crucial to banks' competitiveness. A key component of KBV's approach is knowledge creation and absorption, which helps banks develop innovative products, adopt new technologies, and optimize processes. It is important because it considers the role of human capital in creations and maintaining competitive advantage. Specifically, in commercial banks, human capital is an important resource as a repository of knowledge and expertise. Bank employees, including financial experts, risk managers, and customer service representatives, play a crucial role in providing high-quality services and gaining competitive advantages (Abdul-Jalal et al., 2013).

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To conclude, the Knowledge-Based View (KBV) was used as a guide to study competitive strategies and bank financial performance. The theory allowed the focus on innovation, adaptation, customer knowledge, and knowledge transfer in order to align with the dynamic and competitive nature of the banking industry, which recognizes knowledge as a valuable and intangible resource.

2.2.4 Agency Theory

The agency theory is concerned with the relationship between the agents and the relationship. Agents are tempted to act on their interests, such as maximizing their salaries or bonuses, which leads to a conflict of interest known as an "agency problem." instead of the principal interest of maximization of principal value (Guo et al., 2016). The theory is critical in analyzing the COVID-19 strategy because it enables the examination of whether the strategies adopted by the management are aimed at maximizing the principal's value.

Even before COVID-19, there were concerns about whether the management focused on the short-term or the long-term value. Some scholars, such as Bieńkowska et al. (2022) argued that the management was focusing on the short-term value instead of the long-term. The pandemic outbreak made the management focus on short-term value because they focused on survival. For example, most firms focused on obtaining short-term capital to enable them to continue operations and reduce the number of workers. However, these short-term strategies may not benefit the shareholders in the long run because they will have little positive effect on the maximization of investment. The pandemic resulted in difficulty in pursuing actions aimed at maximization of shareholders' returns because of the scarcity of resources and lack of experience dealing with events like the pandemic. Furthermore, the unprecedented disruption results in the less effective use of heuristics and cognitive processes required to evaluate the outcome effectively. Therefore, in this study, the agency theory enables the evaluation of whether the COVID-19 strategy taken by the firm maximizes shareholder return (Hitt et al., 2020).

However, despite the use of the agency theory in analyzing post-COVID-19 pandemic strategies, it has limitations because it fails to consider the concerns of the non-owner stakeholders such as the community, employees and customers. Nevertheless, because the study aimed to establish the financial performance, which primarily affects the shareholders, the theory was relevant compared to the stakeholders' theory.

The agency theory was applicable in analyzing the product differentiation. Specifically, assisted in explaining how shareholders and managers influence product differentiation strategies. Long-term sustainable growth and stability may matter to shareholders, but short-term financial performance incentives can drive managers. When managers prioritize aggressive product differentiation without considering its long-term viability, they may face conflicts. The major limitation of the theory in assessing the product differentiation is that the limitation of applying agency theory lies in the complexity of assessing the success of such strategies. Yusuf et al. (2018) Measuring the effectiveness of product differentiation in the banking industry is challenging, as it may require a longer timeframe to observe customer preferences and market responses.

It was also important in guiding the assessment of the innovation strategies used by the banks. Specifically, the theory provided insight into how shareholders and managers influence innovation strategies. Investors might desire innovation for competitiveness and long-term growth, but managers may fear risks or lack expertise. If innovation initiatives don't align with bank strategy, this can create agency problems. The theory has limitations when used for assessing innovation because innovation efforts may fail to meet expectations, as outcomes are uncertain, and benefits may take time to materialize (Reim et al., 2018). Assessing innovation success is not always straightforward. It also guided in the assessment of the human capital strategy.

Specifically, an understanding of agency conflict can be gained through agency theory. Although shareholders may want to invest in talent development and training, managers may prioritize cost-cutting measures. The limitations of using this theory in assessing human capital impact is that it does not assess the direct impact of human capital on financial performance. Establishing a clear cause-and-effect relationship between a bank's human capital strategies and financial performance can be challenging (Parker et al., 2018).

Although agency theory has its limitations, it remains an effective framework for analyzing agency conflicts, adjusting incentives, and enhancing corporate governance. Considering the theory's insights alongside other strategic management approaches provided a comprehensive understanding of the relationship between competitive strategies and bank financial performance.

2.3 Empirical Review

2.3.1 Product Differentiation Strategies and Financial performance

There are various studies that have been conducted to determine the effect of the product differentiation strategies on the commercial banks' financial performance. Kireru et al. (2016) researched the influence of competitive strategies on organizational financial performance of commercial banks in Kenya using a case study approach. The study variables included innovation strategies, cost leadership, market focus strategies and product differentiation. The study established that four variables had a positive impact on the financial performance of the bank. These findings are similar to findings in studies in other banks such as Family Bank (Mwalili, 2020). The researcher sought to establish how the product differentiation influences an organization's competitive advantage. The researcher assed how differentiation strategies used by the bank increase the firms' competitiveness.

The study concluded that the bank differentiates its products uniquely to meet the customer experience, which leads to competitive advantage. Using Kenya Commercial Bank as a case study and product differentiation strategies as variables, Menga and Nyakwara (2020) concluded that product differentiation is positively associated with customer retention. The study did not evaluate the impact of product differentiation on the financial performance; hence this study established the effect of product differentiation on financial performance. Other studies such as Mramba (2013) have been conducted in Kenya; however, most of these studies did not specifically show the differentiation strategies used by the banks; hence the evaluated differentiation strategies used by the banks and effect on financial performance.

Some studies have focused on the specific types of differentiation. For example, using the service differentiation as a variable, Kibithe and Chebii (2019) surveyed 384 bank customers in Nakuru County. The researcher established that service quality differentiation results in enhanced customer loyalty, which is a crucial nonfinancial performance measure. The product differentiation also led to the increased financial performance as established by a survey by Visedsun and Terdpaopong (2021) surveyed 1500 firms to determine the effect of product differentiation on the financial performance. The researcher established that the product differentiation enhanced the firm's financial performance.

Some researchers have used the various types of the financial performance when researching the product differentiation and the impact on financial performance. The product differentiation process enables commercial banks to tailor their financial products and services to meet the needs and preferences of their target customers. In a study by Gakuya and Njue (2018) concluded that banks that implement product differentiation strategies experience higher customer satisfaction. Another type of financial performance that is used to assess the commercial banks financial performance is the marketing position. Banks differentiate themselves from competitors by developing a unique value proposition. Boehe and Cruz (2010) found that banks with strong product differentiation strategies achieved more market position and competitive advantage. The profitability and growth are also an important aspect that has been used to assess the product difference and its impact on the organizational financial performance. Specifically, in addition to increased margins, effective differentiation can also lead to higher prices. According to a study by Albertazzi and Gambacorta (2009), banks that differentiate their products increased profits and revenue. Another study by Mugo et al. (2012) established that banks that differentiate their products tend to attract more customers and gain a competitive advantage, leading to higher profits and revenue. Among the factors influencing the financial performance of commercial banks in the digital era is differentiation of their products. Das (2020) found that differentiation influences their financial performance significantly.

Although empirical studies have shown a positive relationship between differentiation strategies and firm’s financial performance, and others such as Acquaah and Agyapong (2015) have established that there is no relationship between the product differentiation and organizational financial performance. For example, Acquaah and Agyapong (2015) analyzed the data from 581 micro and small businesses (MSBs) in Ghana to find out the effect of competitive strategy on the financial performance.

The study concluded that cost leadership and differentiation improve the firm's financial performance. Similarly, using the product differentiation strategy as a variable, and 248 sample obtained from the manufacturing sector, by Kharub et al. (2020) who established that there is no relationship between the differentiation strategy and the financial performance of insurance firms in Kenya .The literature therefore shows that the relationship between the differentiation strategy and organizational financial performance is far from clear; thus this study contributed to establishment of the clear relationship between the two variables in the Kenyan context.

2.3.2 Innovation and Financial performance

To survive in a highly competitive environment, the organizations are required to implement new technological innovations (Gunday et al., 2011). Despite the important role of technology and innovation in the financial performance, many organizations face the dilemmas of whether to replace the existing technology or update them (Sarkar et al., 2022). Another challenge that faces the organizations is the lack of resources to implement the latest innovations and technologies. Some of the innovative solutions used by the firms include the use of information technology (IT) to improve efficiency, customer service, communication, and improve regulatory compliance (Hoque et al., 2016). The technology has various benefits to the firms such as assisting in the better adoption to the market changes, and reaching more customers, all of which contribute to the financial performance.

The information from the literature shows that technology innovation is associated with positive financial performance of the firm. Chege et al. (2020) researched the impact of technological innovation on the financial performance of the firms in Kenya using a sample of 240 organizations. The study results showed that technology influences the firm's financial performance positively. Kijkasiwat and Phuensane (2020) sought to establish the relationship between the innovation and the firm's financial performance by surveying SMEs from 29 European countries. The researchers concluded that firms that adopted the latest technology have better financial performance. The findings are echoed by research among the Turkey automotive supplier industry, by the study by Atalay et al. (2013). Specifically, using innovation as an independent variable, and a sample of 113 firms operating in the automotive sector, the researchers established that technological innovation leads to enhanced financial performance of the firms.

However, despite most findings from the literature showing that innovation leads to enhanced financial performance, few studies have contrary findings. For example, after surveying 197 manufacturing firms in Turkey, Karabulut (2015) established that innovation has negative effects on the growth. The conclusions are supported by Laforet (2021) who established that failing to take into account the adverse effects of technological innovation could lead to uncontrolled and unsustainable growth; thus, adversely affecting the financial performance. In spite of these negative associations, the majority of the studies have supported the positive relationships between the two variables.

The studies conducted in the context of commercial banks Mwawasaa and Ali (2020) and Muia (2021) have also established a positive relationship between technological innovation and financial performance. However, the effective implementation of the technology innovation in the banking sector may be challenging. Therefore, the banks are required to consider various factors such as customer views, regulatory issues, the costs of technology (Wang et al., 2020). Failure to consider these factors can result in the adoption of technology that does not offer the required benefits to the firm. Considering that there are new innovations in the banking sector, it is critical was critical to analyze how these technologies impact the banks financial performance.

In a study by Mazzucato (2018) innovative banks experienced higher asset growth and higher shareholder value. Innovation contributed to the improvement of financial performance through new products, digital banking solutions, and improved customer experiences. As a key driver of improving customer experience, innovation is crucial for commercial banks. Huizingh (2017) examined innovation and customer satisfaction and found that banks with innovative service offerings had higher customer loyalty. According to this research, the customer needs and preferences are changing, so innovation is important. Similarly, Lima et al. (2023) emphasize the importance of innovation in creating seamless digital banking experiences. By investing in digital innovations, banks were able to provide convenient and personalized experiences, increasing customer loyalty and satisfaction. The relationship between innovation and risk management in commercial banks is also explored by (Fraser et al., 2021). Innovating banks had better risk assessment frameworks and risk mitigation strategies, contributing to a more secure banking system.

Furthermore, an analysis by Lemieux (2017) investigated the impact of innovations on the management of credit risks. In the study, it was discovered that banks that utilized advanced data analytics and innovative risk models showed a reduced risk of credit defaults, and that their asset quality was improved as well. Using innovative practices in banking can lead to enhanced operational efficiency in commercial banks. An investigation conducted by Svejvig and Andersen (2015) found that innovation is a driving force for process improvement in the banking industry as a whole.

In order for banks to streamline their operations, reduce costs, and improve efficiency, they had to adopt innovative technologies and process reengineering. Furthermore, Chege et al. (2020) conducted research on innovation and its impact on productivity in banks in an analysis of the results of the study. According to the study, innovative banks achieved higher productivity levels than non-innovative ones. The study also concluded that innovation enhances operational efficiency and resource utilization.

It is evident from a comprehensive literature review that innovation has a profound impact on the financial performance of commercial banks worldwide, as well as the relationship between it and them. Innovation has emerged as an integral element of competitive advantage and long-term success for banks across a range of areas, including enhancing financial performance, improving customer experience, enhancing risk management, and improving operational efficiency. However, most of the studies have been conducted outside Kenya, therefore, this study fills the research gap by focusing on the Kenyan context. Also, the banking industry is rapidly evolving and it is imperative that the studies be conducted in the Kenyan context to determine the strategies used by the banks to enhance the financial performance.

2.3.3 Post-COVID-19 Recovery Strategy and Financial performance

The outbreak of COVID-19 pandemic in 2020 has had adverse effects on the business globally. The banking sector is one of the sectors that has been adversely affected by the pandemic. For example, by August 2020, the non-performing loans increased by 13.6 %. However, in 2021, the value of non-performing loans decreased from Sh11.3 billion to Sh425.6 billion, the largest decrease since 2019, an indicator that banks are establishing positive post-COVID-19 recovery plans in addition to the stimulus plans undertaken by the government (The Financial Sector Deepening Kenya [FSDK], 2021).

The COVID-19 had adverse impacts on various aspects of the banking financial performance. Economic downturn caused by the pandemic resulted in increased financial uncertainty, increased credit risk, and a potential risk of bank loan defaults as a result. The business cycle was negatively affected by a decline in revenue and a rise in job losses, which caused borrowers' ability to repay loans to deteriorate, which led to an increase in non-performing assets (Bose et al., 2022). The banks had to revise their risk models and provisioning strategies to protect themselves from credit losses and to maintain financial stability as a result. Also, online banking, mobile apps, and digital payments saw a surge in usage as customers avoided physical branches in order to comply with social distancing measures and lockdowns. This resulted in an increase in customers choosing not to use physical branches. Managing the increased digital traffic and protecting themselves from cyber threats required institutions to invest heavily in the upgrading of their digital infrastructure and cyber security (Puriwat & Tripopsakul, 2021).

Furthermore, for banks to remain afloat during the sudden economic downturn, they had to ensure they had sufficient liquidity and capital reserves. To boost financial markets and to enhance banks' access to funding, central banks implemented monetary measures, including interest rate cuts and liquidity injections. As a result, regulators have provided temporary relief from capital requirements so that banks have a greater ability to lend to their consumers. In the wake of the pandemic, consumer behavior changed dramatically. Physical branch visits declined and a growing demand was present for remote services. Consumer behavior changed. In order to engage their customers and personalize their offerings, banks had to create virtual communication and tailor their financial advice (Kiwara, 2021).

In an effort to reduce the impact of the pandemic on the banking industry worldwide, regulatory authorities have implemented various measures. To reduce the regulatory burden on banks these measures included relaxing accounting standards, forbearing on loan classifications, and forgoing certain regulatory deadlines (Shen et al., 2020). A pandemic prompted central banks worldwide to adopt accommodative monetary policies as a means of stimulating economic activity, including interest rate cuts and quantitative easing. Despite this, banks also saw their net interest margins compressed by this, affecting their profitability at the same time, affecting borrowing and lending.

While the financial crisis was raging, governments provided fiscal stimulus packages and relief measures to help businesses and individuals cope with it. During this period, loan moratoriums, bank loan guarantees, and direct financial assistance to affected sectors helped relieve financial stress for borrowers, reducing potential loan defaults and limiting financial strain. To aid banks in responding to the crisis, regulatory bodies relaxed some standards temporarily in some areas (Bose et al., 2022).

However, new regulations and compliance requirements related to pandemic response had to be implemented as well, resulting in an increase in operational challenges and costs. As a result of the COVID-19 outbreak, the banking sector faced a wide variety of challenges that affected a wide range of their strategies and operations. In order to sustain competitiveness in the financial sector, financial institutions had to deal with a complex and evolving environment caused by a combination of financial support measures, changing customer behavior, regulatory responses, and market volatility (Dyduch et al., 2021). A global recovery from the pandemic requires banks to continue to adapt, innovate, and prioritize resilience as they continue to serve their customers and contribute to economic growth in the wake of the pandemic. During this time of post-pandemic challenges and opportunities, the banking sector will need to remain vigilant, flexible, and responsive.

It is important to explore the strategies used by the bank to promote the recovery. For example, the demand for remote banking services accelerated the digital transformation efforts among banks rapidly. For seamless digital transactions and interactions, they improved their online banking platforms, mobile apps, and customer service portals through investments in upgrading these systems (FSDK, 2021). In order to reduce the necessity of physical branch visits, digital channels became the primary method by which customers could access banking services. Furthermore, in order to provide personalized customer services, banks introduced new innovative solutions such as virtual assistants and chatbots, as well as centralized customer service platforms in order to provide efficient support to customers.

These technologies helped banks manage a surge in customer service requests efficiently and effectively. Banks have faced an elevated risk of cyber threats as the number of remote operations and the number of digital transactions increased. To safeguard customer data and prevent cyberattacks, they stepped up their cybersecurity measures, and implemented multi-factor authentication for online transactions as well as increased network monitoring (FSDK, 2021). They also conducted regular cybersecurity awareness training sessions for their employees. Moreover, most banks invested in advanced threats detection and response systems to identify and control potential security breaches promptly. Proactive cybersecurity measures were critical to ensure that the integrity of the financial systems was maintained and that customer trust was maintained. Furthermore, because of the pandemic, banks introduced loan forbearance and restructuring options as a way to help businesses and individuals cope with financial difficulties (Dyduch et al., 2021).

Those initiatives enabled borrowers to defer payments or modify loan terms to better align with their financial circumstances, so they could better align with their current financial circumstances (Sun & Li, 2021). During this period, banks worked closely with their customers to assess their specific needs and devise individualized solutions. During economic uncertainty, loan restructuring strategies have been able to reduce financial stress for borrowers and reduce the risk of default, thereby contributing to financial stability.

The banks also established strategies to support SMEs who were significantly affected by the pandemic. As a result of the pandemic's economic fallout, SMEs were hit particularly hard by the consequences of the disaster, prompting banks to devise more specific strategies to support these businesses. Many banks offered low-interest loans, extended credit lines, and fee waivers to the SMEs as part of their overall relief program. A number of banks cooperate with government programs to distribute funds to small businesses through lending initiatives during the economic crisis period (Zou et al., 2020). By assisting small businesses, banks were able to maintain employment and stimulate the economic recovery at the same time. The banks also strengthened the digital payment systems. Specifically, with a focus on reducing cash reliance and minimizing physical contact, banks have promoted digital payment methods, including contactless payment options, mobile wallets, and online payment platforms, to help customers spend less from their pockets (FSDK, 2021).

Also, the banks collaborated with fintech companies and payment processors to develop innovative payment systems that were seamless, secure, and cashless. It was the intention of banks to promote financial inclusion and adapt to changes in customer preferences by enhancing the capability of digital payment (Alsamhi et al., 2022). The banks also invested heavily in human capital development. Specifically, by implementing remote work policies and flexible arrangements, banks have prioritized employee safety and well-being. Employees can work from home as long as they have the necessary tools and technologies for that to be possible. Furthermore, banks made sure their employees had access to mental health and well-being resources and were kept updated regularly with updates regarding the evolving situation.

By prioritizing employee safety, banks sought to maintain workforce productivity and strengthen organizational resilience in order to maintain employee productivity. The banks have also increased the cooperations with the members of the community. For example, there were lots of banks that enhanced their corporate social responsibility by engaging with their local communities and supporting various pandemic relief efforts (FSDK, 2021). One such example is donating to a number of healthcare initiatives, giving money to charitable organizations, and providing financial assistance to communities in need (Shen et al., 2020).

In addition to providing customers with raining, banks also provided educational materials and executed campaigns to help customers navigate financial challenges during the pandemic, aiming to inspire community goodwill and trust among the banking industry and customers (Dyduch et al., 2021). Therefore, the COVID-19 pandemic necessitated rapid and adaptive strategies by banks in order to address the changing challenges that were part of the epidemic and meet the needs of consumers, employees, and communities. However, because we are still in the COVID-19 recovery era, most studies have addressed the impact of COVID-19 on the banks' financial performance

Alsamhi et al. (2022) surveyed 371 firms at Bombay Stock exchange to establish the impact of the COVID-19 on the financial performance. The researcher established that the pandemic resulted in the decrease in the firm's financial performance. This finding is supported by a review by Dyduch et al. (2021) who surveyed 151 SMEs in Poland to establish how the effects of pandemic on various aspects of the firms. The study established that the pandemic resulted in reduced financial performance of the organizations because of the panic about the future survival. However, the organization that maintained effective and transparent communication gained investors' support; thus, their financial performance was affected to a lesser extent (Zou et al., 2020).

Using the data from the listed Chinese companies, Shen et al. (2020) sought to establish the impacts of COVID-19 on the financial performance. The study concluded that the pandemic resulted in the adverse impacts on the financial performance because the firms are forced to adapt the strategies such as defer of investment; leading to the exposure of risks such as missing profitable opportunities. Therefore, according to this study, some of the strategies taken by the management may lead to the loss of investment.

Using a case study of firms operating in Bahir Dar City, Admasu (2021) established that the pandemic resulted in adverse effects on the firms' financial performance. However, the firms that modified the strategies for sourcing raw materials, labor policies, and strategies for dealing with foreign exchange fluctuations were less affected by the pandemic. The study by the Chinese firms established that although the COVID-19 has adverse effects on the firms, the organizations that focus on the low sales revenues are more affected by the pandemic (Shen et al., 2020).

Another study by Sun and Li (2021) among the Chinese listed firms established that corporate social responsibility (CSR) reduced the negative impacts of the COVID-19 pandemic on the financial performance. The integrated review of literature by Bose et al. (2022) established that the firms that have effective sustainability strategies are less affected by the pandemic. The studies conducted in Kenya have focused on the impact of the COVID-19 on firms' financial performance; specifically, they have not established the strategies adopted by the firms to deal with the pandemic and the impacts on the firm's financial performance. This study therefore, filled the research gap by establishing the impact of the COVID-19 on the financial performance of commercial banks.

2.3.4 Human Capital Strategy and Financial performance

Effective management of human capital is a crucial aspect of improving the firm's financial performance. It is proper management of human capital that employees are able to perform optionally (Barbosa, 2020) therefore, facilitating the achievement of the specific organizational aims; including the improved financial and non-financial performance.

There are various aspects of the human capital strategy. The first one in talent acquisition and development. A successful human capital strategy begins with attracting top talent to the organization. To execute competitive strategies effectively, banks identify which skills and competencies are essential. In addition to a wide variety of skills, they may also look for candidates that possess expertise in digital technology, data analytics, risk management, and customer relationship management.

Additionally, a proactive recruitment process incorporates diversity and inclusion to create a workforce that reflects the diverse market served and the diverse customer base. Notably, recruiting individuals with different backgrounds and experiences, banks foster creativity, innovation, and improve the quality of their decisions. Another aspect is employment development and training. Specifically, after successfully hiring talented employees, bank leadership invest in continuous training and skill development initiatives that will keep their workforce up-to-date with the latest innovations in technology and industry trends, which are usually developed through partnerships between banks and technology companies.

Therefore, developing the skills and capabilities of their employees, banks enhance the overall productivity and financial performance of their workforce and boost the overall financial performance of the bank because this enhances employee productivity and encourage employee retention. Another coping mechanism is the financial performance management and recognition. Human capital strategies are effective if they incorporate a system of financial performance management that aligns individual and team goals with the organization's strategic objectives. An employee's ability to contribute their best efforts towards achieving strategic objectives is motivated to do so through regular financial performance evaluations, feedback, and recognition mechanisms. In an environment where top talent is scarce, a financial performance-based reward system serves as an incentive to encourage and reward top performers as well as retaining high-performing staff.

Through encouraging and rewarding excellence, banks foster a culture that rewards financial performance and reinforces desired behavior at all levels. The bank also uses the strategies to employ and wellbeing to increase the employee financial performance. Expressively, the success of any human capital strategy is powered by employee engagement, and the ability to engage employees is one of the key factors that affect employee engagement. Banks prioritize employee engagement through open communication, feedback loops, and opportunities to express employee opinions. Additionally, it is important to emphasize the importance of employee well-being through initiatives geared toward work-life balance, mental health resources, and flexible work arrangements that can promote employee satisfaction and loyalty. In an organization that is committed to delivering exceptional customer service, a motivated and satisfied workforce is more likely to go the extra mile for the company.

There are various studies conducted to establish how human capital affects financial performance Sutia et al. (2013) surveyed 77 business leaders in Indonesia to establish the impact of human capital investment, strategy orientation and leadership on the company's financial performance. The research concluded that there is a positive impact on the human capital on the financial performance, however, the impact is insignificant. The study was conducted outside the banking sector; thus, the current research focused on the banking sector.

Aman-Ullah et al. (2022) sought to determine the effect of human capital and financial performance and moderating effect of innovative leadership. The researcher used a sample of 356 managers working in hotels in Saudi Arabia. The study concluded that human capital management is associated with positive organizational financial performance and innovative leadership does not have a significant moderating effect on the relationship between human capital and organizational financial performance. Another study by Fernando et al. (2020) found out that successful integration of human capital capabilities such as strategic resources is associated with enhanced organizational financial performance.

Using a survey of manufacturing firms in Indonesia, Uysal (2020) sought to determine the mediating role of human capital management on the relationship between innovation strategy and internal process financial performance and organizational financial performance. The research concluded that human capital significantly mediates the relationship between innovation strategy and internal process financial performance and organizational financial performance. A case study of Safaricom Limited to establish the impact of human capital on organizational financial performance established that effective human resource planning led to enhanced organizational financial performance (M'Mbura, 2019). Other studies such as Mkongo and Macha (2022) concluded that human capital management is associated with positive organizational financial performance.

Therefore, the literature showed that effective human capital management and strategy leads to positive organizational financial performance, however most studies have been conducted outside the banking sector, thus this study contributed to the knowledge of human capital strategy in the banking sector.

2.4 Summary of Research Gaps

In summary, the evidence on the effect of the selected strategies (product differentiation, technological innovation, Post COVID-19 strategy, and human capital strategy) on the financial performance of commercial banks was inconsistent. Specifically, although most of the information from the literature shown that the selected strategies led to positive organizational financial performance, most studies were conducted outside the banking sector with few studies conducted in the banking sector.

The literature on product differentiation showed that the relationship between product differentiation and financial performance was unclear; therefore, the study established the relationship between product differentiation strategies and commercial bank financial performance. The rapid changes in technology warranted research on the effect of technology on financial performance to determine how the current technology affects the bank's financial performance.

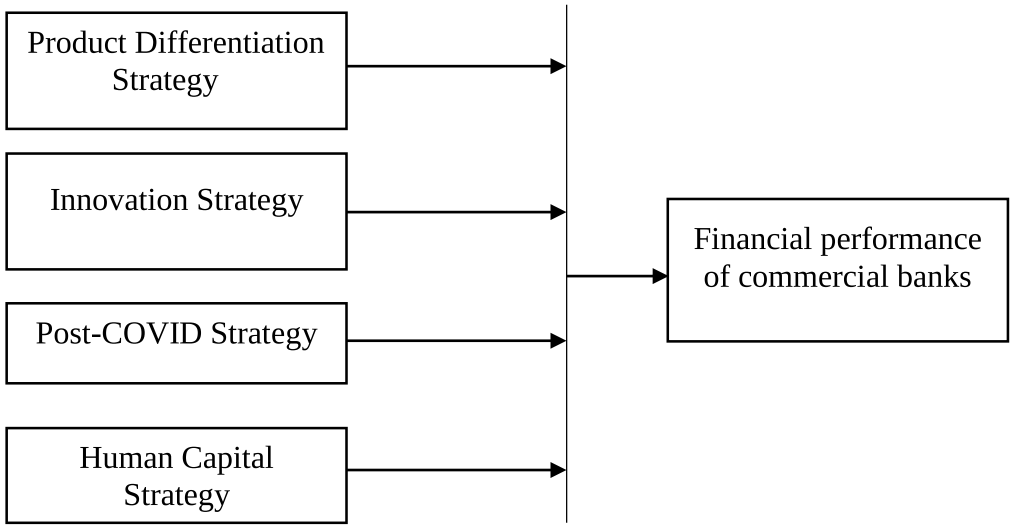
Also, limited studies were conducted to establish the impact of post-COVID-19 strategy on financial performance. The studies conducted in Kenya focused on determining the impact of COVID-19 on the firm's financial performance. The review of human capital showed that most of the studies were conducted outside the banking sector. The study filled this gap by researching the four overlooked competitive strategies and the financial performance of commercial banks in the Kenyan context.

2.5 Conceptual Framework

The dependent variable was financial performance as described on the right side of Figure 2.1. Further, the independent variables on the left were product differentiation strategy, innovation strategy, post-covid-19 strategy, and human capital strategy. Figure 2.1 describes the conceptual framework.

Figure 2.1

Conceptual framework



2.5.1 Commercial Banks Financial performance

As a personal finance institution and as a bank in general, the financial performance of a commercial bank can offer important clues as to its financial health and to its ability to achieve its objectives and is typically measured through a combination of financial and non-financial metrics (Navaretti et al., 2020). In this study, the profitability will be used as a financial measure. The non-financial measures will also be used. Non-financial measures are important in assessing commercial banks' financial performance because they provide valuable insights that go beyond financial metrics, offering a more comprehensive view of the bank's overall health and effectiveness (Liu & Li, 2022). Although the financial metrics provided by a bank are essential for understanding the bank's profitability, liquidity, and capital adequacy. However, non-financial metrics complement this information, providing a more comprehensive view of the bank (Kinyungu & Ogollah, 2017).

2.5.2 Product Differentiation

A product differentiation strategy refers to ensuring that a product or service is unique and different from the products and services offered by competitors in a particular market (Mwalili, 2020). A bank's goal when offering products or services that are perceived as superior or tailored to a specific segment of their customer base is to gain a competitive edge, boost customer satisfaction, and ultimately increase its financial performance. Banks can, through product differentiation, be able to create offerings that meet the specific needs and preferences of their target customers (Kibithe & Chebii, 2019). By providing tailored solutions, banks are able to improve their overall value proposition for customers. In a competitive banking landscape, product differentiation can offer a unique selling proposition that sets a bank apart from its competitors, thus providing it with a competitive advantage.

Therefore, through successfully differentiating their products from one another, banks will gain a competitive advantage, attracting new customers and capturing a larger market share than their competitors (Enad et al., 2022). A higher share of the market can mean a higher revenue generation and higher profitability for the bank, which will in turn contribute to its financial performance overall. As a result of product differentiation, banks are able to offer a variety of products and services, thereby maximizing their revenue streams. Banks can reduce their dependence on one or more products or services by catering to the needs of different segments and customer segments, which can reduce the risk associated with concentrating revenue.

When economic downturns or market conditions change, diversification can greatly enhance the financial stability of a bank and help it remain resilient (Dadzie & Ferrari, 2019). A product differentiation strategy can increase market share, customer loyalty, and reputation, ultimately contributing to a bank's overall financial success and performance, as well as its reputation among customers (Kibithe & Chebii, 2019). In addition, product differentiation promotes a culture of innovation and adaptability, which is necessary for banks to be able to respond to market changes in a timely manner and ensure long-term sustainability and resilience. Thus, for banks seeking to optimize their competitive strategies and achieve superior financial results, it is essential to understand the relationship between product differentiation and bank financial performance in order to maximize the effectiveness of their strategies (Mwalili, 2020).

2.5.3 Innovation Strategy

An innovation strategy is one which an organization uses to facilitate creativity, generate new ideas, and develop new products, services, or processes (Kijkasiwat & Phuensane, 2020). It comprises of s a systematic approach that encourages creativity, generating new ideas, and developing revolutionary products, services, and processes. As a commercial bank, staying competitive in a rapidly changing financial market is extremely important for its long-term survival. Using it, banks have the ability to leverage technology, data, and customer insights to deliver innovative solutions that address the needs of their customers and drive new business growth therein in a rapidly changing financial environment (Das, 2020).

An organization's innovation strategy must be accompanied by a culture in which creativity, experimentation, and continuous improvement are valued. Employees should be entrusted with sharing ideas, taking calculated risks, and challenging conventional thinking (Chipeta & Muthinja, 2018). As a key component of creating a culture of innovation that supports and rewards innovation, open communication, cross-functional collaboration, and recognition of innovative efforts are necessary. As part of an innovation strategy in banking, the bank should have a deep understanding of the customer and their needs.

During the process of conducting market research and listening to customer feedback, banks can identify opportunities for developing customer-centric solutions that are effective. Using this approach, innovation efforts are aligned with customer needs and deliver value to the end users (Mwawasaa & Ali, 2020). In order to support innovation initiatives, banks are able to invest in robust IT infrastructure, data management systems, and digital platforms that enable them to harness cutting-edge technology and advanced data analytics. By leveraging cloud computing, artificial intelligence, machine learning, and big data analytics, banks can use data-driven insights and make informed decisions based on that data.

In summary, the competitive and dynamic nature of the financial industry makes it imperative that commercial banks develop a comprehensive innovation strategy in order to thrive. In order for banks to deliver value to their customers and grow their businesses, they need to foster an innovative culture of innovation, prioritizing customer needs, leveraging technology, and collaborating with Fintechs. With an effective innovation strategy, banks are able to remain relevant in an ever-changing marketplace, seize new strategic opportunities, and create sustainable competitive advantage by capturing and leveraging new opportunities (Das, 2020).

2.5.4 Post-COVID-19 Strategy

A post-COVID-19 strategy is a package of actions taken by individuals, businesses, organizations, and governments in response to the COVID-19 pandemic that is intended to enable them to recover, rebuild, and adapt (Business Daily, 2022). In the aftermath of COVID, many sectors have been impacted by diverse challenges and disruptions, and the goal of a post-COVID strategy is to respond to these challenges while incorporating the lessons we have learned from this crisis (Puriwat & Tripopsakul, 2021). As a result, a post-COVID strategy can, in its essence, be described as a comprehensive plan that covers all aspects of health and safety measures, digital transformation, supply chain resilience, talent management, customer engagement, financial resilience, sustainability, government support, risk management, and collaboration (Kiwara, 2021). With the adoption of a holistic, adaptable approach, businesses and individuals are not only able to cope with the effects of the pandemic, but also thrive in a fast-changing world by being prepared to face future challenges with resilience and innovation, particularly in response to the current situation (Bose et al., 2022).

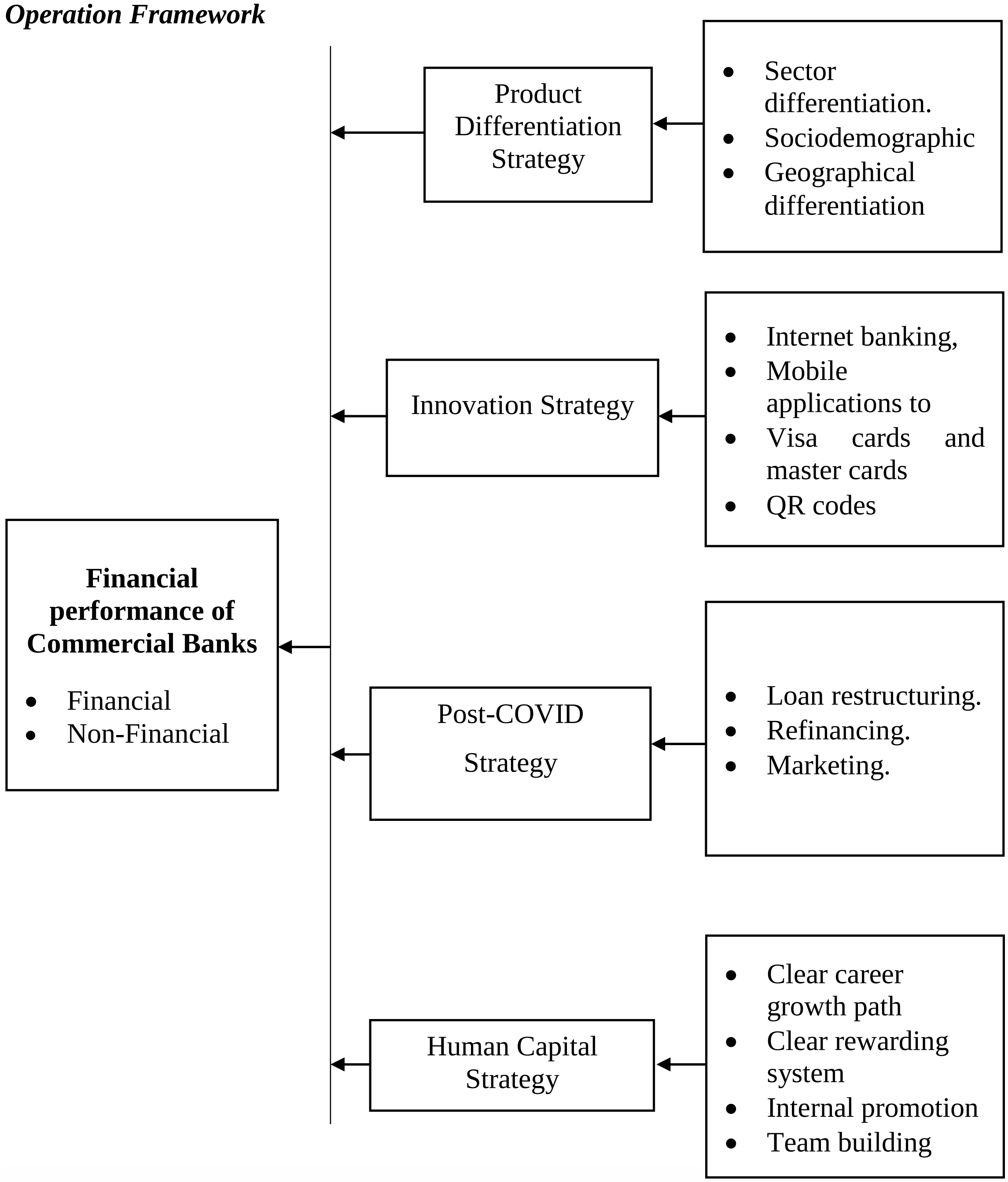
2.5.5 Human Capital Strategy

A human capital strategy is a comprehensive plan undertaken by an organization for the purpose of attracting, developing, retaining, and optimizing their workforce to achieve its business objectives and maximize efficiency (Rahman & Akhter, 2021). As it pertains to the success of an organization, human capital refers to the collective knowledge, skills, abilities, and experience of all of its employees. To remain competitive, adapt to changing environments, and drive sustainable growth, businesses must have a well-defined human capital strategy. Developing a human capital strategy begins with understanding the organization's workforce and the organization's strategic objectives (Barbosa, 2020).

Workforce planning entails identifying the gaps in skill levels as well as assessing current and future talent requirements based on business objectives. Afterwards, talent acquisition strategies are devised in an effort to attract candidates who are qualified and culturally fit to contribute to the organization's success (Mkongo & Macha, 2022). It is crucial that organizations invest in employee learning and development in order to increase their skills, knowledge, and competencies. It is imperative that an organization creates a culture of continuous learning, promotes career progression, and addresses the needs of individuals and the organization through a comprehensive training program (Aman-Ullah et al., 2022). It is equally important to ensure that the workforce is upskilling and reskilling so that it remains able to respond to emerging technological developments and business trends as they grow.

Figure 2.2

Operation Framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter describes the research methodology used in the study. The research aimed to determine the effect of competitive strategy on the financial performance of commercial banks in Kenya. The topics covered in this chapter are research design, target population, sampling procedure, instrumentalization, data collection methods, operational definition of variables, data analysis, and ethical consideration.

3.2 Research Design

Research design is the procedures and methods for collecting and analyzing data on the study variables (Ranganathan & Aggarwal, 2018). The study used a cross-sectional design. The cross-sectional research design involves collecting data at a single time (Cooper et al., 2019). The approach was suitable because it allowed data collection on the research variables without influencing the research subjects. The method was also appropriate because it enabled measuring the influence of the exposure variables (competitive strategy) on the outcome variables (financial performance). Additionally, the approach enabled correlation, characterization, estimation, and translation of information using descriptive and inferential statistics (Little, 2014) therefore, it allowed the information to be presented in a format understandable by the target audience.

3.3 Target Population

A target population is a group of individuals, objects, organizations or events from which the research aims to study and draw conclusions (Little, 2014). The target population for the study was the branch managers of licensed commercial banks operating in Nairobi County. The targeting of the branch managers is appropriate because they had detailed information on the competitive strategies used in their respective branches. Specifically, the branch managers are tasked with strategic planning duties to increase the branch's competitiveness. They have an understanding of product differentiation strategy, innovation strategy, post-COVID strategy and human capital strategy. According to CBK (2022), there are 564 commercial bank branches operating in Nairobi County, as indicated in appendix III.

3.4 Sampling Technique

This is the method used to select representatives from the target population. The study used simple random sampling which enabled the capturing of the population to meet the desired characteristics and proportionally represents the population size. Therefore, for the population of 564 branch managers, the study used Yamane (1967) formula which is as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n= Sample size

N=Target population

e= Proportion of the study (0.05)

$$n = \frac{564}{1 + 564(0.05)^2}$$

$$n = \frac{564}{1 + 564(0.0025)}$$

$$= \frac{564}{1 + 1.41}$$

= 234 branch managers

The 234 branch managers in each stratum bank in Nairobi County are distributed as described in appendix III.

3.5 Data Collection Instruments

The primary data is used. The primary data was collected using self-administered questionnaires; comprising closed-ended questions. The questionnaires were grouped according to the research questions to meet the research objectives. The use of questionnaires was justifiable because it allowed the collection of large amounts of data in a short period. The questionnaires also allowed the collection of data without requiring the physical presence of the researcher because they enabled the use of various methods such as online platforms, pick and drop and research methods for administration. The method also enhanced the anonymity of the subjects because of the exclusion of their names (Ebert et al., 2018). The questionnaire contained 5 sections. Section 1 collected data on demographic information, section 2 on product differentiation, section 3 on innovation, section 4 on post-COVID strategy and section 5 on human capital.

3.6 Piloting of Research Instruments

The pilot study was conducted before the study to assess strategies and research techniques. The specific elements assessed are research protocols, data collection instruments and procedures and the strategies for obtaining the research sample (Little, 2014). The pilot study was conducted in Muranga County using 23 operations managers in commercial banks, which according to Mugenda and Mugenda (2003) should be 10% of the sampled population. Among the issues assessed during the pilot study include the capability of the subjects to comprehend the questions, instrument reliability, and research question sequence.

3.6.1 Reliability

Reliability assesses if the instrument yields the same results if repeated in multiple trials. The Cronbach Alpha was used to assess internal consistency. The appreciable range of the alpha is between 0.7 to 1, as Little (2014) recommends. If the alpha is not within these levels, the addition or deletion of items was conducted to increase or reduce the alpha levels. Further, according to Taber (2018), Cronbach Alpha has a range from 0-7 whereby reliability in research instruments should be determined once the report generated falls in between 0.7 to 1 and anything less than that reflects unreliability. In the case where the questionnaires proved unreliable, the study either restructured the questionnaires or simplify the language used depending on the overall range.

3.6.2 Validity

The instrument validity assesses whether the research instrument achieves its intended purposes; or measures what it is supposed to measure. Detailed questionnaire questions grouped according to the research objectives ensured content validity. Analysis of the content of the questions by the research supervisors and other experts determined assessed the content validity. Their inputs assisted in enhancing the content validity. The convergent and discriminant validity correlations was tested to assess if the questionnaire results are negatively or positively related to other validated tests.

3.7 Data Collection Procedure

The researcher sought permission from the university, NACOSTI and the respective commercial banks. After obtaining this permission, the researcher emailed the chosen participants requesting them to participate in the research. The email contained the informed consent form, informing the participants on the purpose of the research, their roles, the contact information of the research, research procedures, and benefits of the research, how the information from the research was used, confidentiality, and voluntary participation. After signing the informed consent, a link containing the e-questionnaire was sent. The link to the questionnaire was closed after 2 weeks to allow the analysis. The use of an e-questionnaire was appropriate because it is cheaper due to the reduction of transport costs and allows quick cleaning and compilation of data.

3.8 Data Analysis and Presentation

Data was cleaned and checked for consistency, errors and omissions. The data was then be imported into the SPSS for analysis. The SPSS analysed descriptive statistics for the survey questions, demographic questionnaire, and inferential statistics to make inferences based on the hypothesis. The result of the inferential statistics confirmed or rejected the hypothesis and allow answering research questions. The study also used parameter estimate to analyse and equate values to the model of the study. The model of the study was as follows:

$$Y = C + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$$

Where:

Y = Financial performance

βi = Coefficients to be estimated

C= Constant

X1=Product Differentiation Strategy

X2=Innovation Strategy

X3=Covid-19 Recovery Strategy

X4= Human Capital

e=error

3.9 Ethical Considerations

The permission to carry out the research was obtained from the Kenya Methodist University before commencing the process of data collection. The introduction letter and the consent form were used to inform the participants about the purpose of the research, their roles, the research contact information, research procedures, the research benefits, how the information from the research was used, confidentiality, and voluntary participation. The research was voluntary, and all information safeguarded to ensure confidentiality. The research permit from NACOSTI was obtained, and permission sought from the research sites. The researcher abided by the APA guidelines of ethical research.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents the results and descriptive and inferential discussion. The results are discussed and related to the literature to indicate the agreement or disagreement with other studies. The first part contains the information that presents the descriptive statistics comprising the mean, frequencies and standard deviation and the second part presents the results of inferential statistics and their associated discussion and linking to the literature.

4.2 Response Rate

The study distributed 234 questionnaires to the respondents using online survey method and the response rate is indicated in Table 4.1.

Table 4.1

Response Rate

Respondents	Sampled	Response	Percentage
Questionnaires	234	203	87

According to Table 4.1, were returned signifying an 87% response rate. Considering that the questionnaires were administered online, the response rate is within 59.3% ± 18.9% recommended by Meyer et al. (2022), 55% to 90% by Menon and Muraleedharan (2020) and over 60% by (Wu et al., 2022). Further, according to Gustavson et al. (2019), pointed that when the response rate is at 70% it indicated that there was high response hence the study had excellent feedback. Therefore, the response rate was within the acceptable rate for the online surveys.

4.3 Reliability Results

The study conducted a pilot study in 20 commercial banks in Murang'a County and the reliability statistics is indicated in Table 4.2.

Table 4.2

Reliability Results

	No. of items	Cronbach's Alpha
Product Differentiation	6	0.920
Innovation Strategy	4	0.882
COVID-19 Recovery Strategy	4	0.737
Human Capital Strategy	5	0.722
Financial Performance	4	0.844
Overall	20	0.821

From the Table 4.2, the Cronbach alpha is within the acceptable level of 0.7 to 1. According to Taber (2018), when the Cronbach Alpha's value ranges from 0.7 to 1, it indicates reliability and anything less than 0.7 reflects unreliability. Based on this insight, the results proved that the data collection instruments were reliable hence could be re-used over and over to give an accurate and similar results.

4.4 Demographic Information of Respondents

The researcher sought to determine the socio demographics of the respondents. Determining the sociodemographic is appropriate because they enable determining the characteristics of the population. Table 4.3 describes the results.

Table 4.3

Demographic Information

Age	**Frequency**	**Percent**	**Cumulative Percent**
20 to 30	2	1	1
31 to 41	26	12.8	13.8
42 to 52	89	43.8	57.6
Above 52	86	42.4	100.0
Total	203	100.0	
Educational level	**Frequency**	**Percent**	**Cumulative Percent**
Post graduate	111	54.7	54.7
Undergraduate	86	42.4	97.1
Diploma	6	2.9	100.0
Total	203	100.0	
Work experience	**Frequency**	**Percent**	**Cumulative Percent**
Less than 5 years	3	1.4	1.4
5 to 10 years	73	36.0	37.4
11 to 16 years	107	52.7	90.1
Above 17 years	20	9.9	100
Total	203	100.0	

According to Table 4.3, 89(43.8%) of the respondents were aged 42 to 52 years followed by 86(42.4%) who indicated they had above 52 years. Notably, 26(12.8%) had 31 to 41 years, while 2(1%) had 20 to 30 years. In terms of education level, 111(54.7%) had postgraduate qualification followed by 86(42.4%) with undergraduate and 6(2.9%) with diploma qualifications. These results indicate that the commercial banks prefer managers with the postgraduate qualifications.

The reason for choosing the respondents possessing the postgraduate qualification could be that postgraduates have more knowledge and expertise in the specific areas such as management and leadership, and understanding of investment strategies, risk management and financial markets. Another reason could be attributed professional credibility demonstrated by the postgraduates. In terms working experience, 107(52.7%) had 11 to 16 years, followed by73(36.0%) who had worked for 5 to 10 years. Additionally, 20(9.9%) had over 17 years working experience and 3(1.4%) had less than 5 years. Therefore, the results indicate that branch managers have a substantial working experience.

4.5 Descriptive Statistics of Product Differentiation

The study sought to establish the extent of the respondent's agreement with the various particular of the product differentiation. The assessment was done in a scale of 1 strongly disagree to 5, strongly agree. The results of the descriptive statistics are indicated in the Table 4.4.

Table 4.4

Descriptive Statistics of Product Differentiation

Statements	N	Mean	Std. Deviation
The bank has more services than the major competitors.	203	3.23	1.175
The products are differentiated based on sociodemographic such as age, gender and income levels.	203	3.25	1.314
The bank products are differentiated based on the operating region.	203	3.02	1.380
The banks have rebranded most of the products to achieve competitive advantage.	203	3.24	1.354
The banks activities are aligned with the product development process.	203	3.15	1.424
The banks promote product credibility and transparency.	203	3.27	1.266
The product quality, and reliability is better than the competitors.	203	2.93	1.317
The pricing model for the products is unique.	203	2.87	1.290
The customer interactions initiatives are different from the competitors.	203	3.22	1.498
Products are customized according to the customer requirements.	203	2.94	1.312

Table 4.4 indicates that most of the respondents had a neutral view on most of statement regarding the product differentiation. Specifically, they indicated neutral views on their banks having more services that the competitors, differentiation of products based on the sociodemographic, differentiation based on the operating region, rebranding to achieve competitive advantage, product credibility and transparency and different customer interaction initiatives than the competitors. The neutral view on this item means that there no strong inclination towards either agreement or disagreement.

It could also mean that based on the assessed element, the respondents view that the banks have no competitive edge. The participants disagreed that their banks have netter product quality and reliability than competitors, unique pricing model, and customization of products according to the customer's requirements. As indicated by Kireru et al. (2016) the disagreement in the various statement could be attributed by the feeling that the managers perceive the differentiation strategies taken by the banks are inadequate to enhance competitive advantage.

4.6 Descriptive Statistics on the Innovation

The questionnaires contained question to assess the participant views on the innovation practises or strategies adopted by their banks. They were assessed on a scale of 1; strongly disagree to 5; strongly disagree. The results of the descriptive statistics are indicated in Table 4.5.

Table 4.5

Descriptive Statistics on Innovation

Statements	N	Mean	Std. Deviation
The bank has strategy for adopting the latest technological innovations.	203	3.06	1.377
The bank has adopted data driven product solutions.	203	3.15	1.238
The bank has implemented the digital currencies to increase the competition.	203	3.14	1.266
The bank uses contemporary technologies such as big data, artificial intelligence and internet of things (IoT)	203	3.32	1.470
The bank has implemented contactless payment systems.	203	3.17	1.297
The bank has developed platform for collaboration with other institutions such as government agencies, technology providers, and SMEs.	203	3.27	1.385

According to Table 4.5, the responses indicate that the responses were indifferent or neutral on the all aspects of the innovation. The neutral opinion on the various aspects of innovation could be attributed to ambivalence. Specifically, the respondents may be unwilling to voice unfavorable opinion regarding the banks' innovation (Dagnino, 2015). Overall, there is a lack of agreement or disagreement on adoption of the latest technological innovation, data driven solutions, digital currencies, contemporary technologies, contactless payment systems, and collaboration with technological providers and SMEs.

This indicates that the participants did not show a clear preference or bias towards these aspects. It implies that there is no strong inclination or opposition towards these innovations among the target population.

4.7 Descriptive Statistics of COVID-19 Recovery Strategy

The participants were asked to rate their level of agreement with the various particulars of the banks adoption of the COVID-19 strategy based on a scale of 1 strongly disagree to 5, strongly agree. The assessment of this information is important because it provides the insight on how the participants perceive and evaluate the strategy. The results are indicated in Table 4.6.

Table 4.6

Descriptive statistics of COVID-19 Recovery Strategy

Statements	N	Mean	Std. Deviation
The bank has restructured for the customers who defaulted due to COVID-19	203	4.31	.692
The bank has refinanced some customer loans rather than initiating recovery option such as foreclosures	203	4.62	.530
The bank uses more aggressive marketing campaigns to advertise its products compare to the pre-COVID 19 period.	203	3.52	1.024
The bank has consisted and transparent collaborations with other institutions in banking and other sectors	203	4.63	.579
The bank operations are centered to ensuring long-term survival.	203	3.47	1.056
There is mechanism for collecting views from the customers on various issues such as quality of service and satisfaction with the products	203	3.99	.955
There is a plan for dealing with the future disruptions caused by unexpected events.	203	3.06	1.265
There is increased reliance on technology for decision making.	203	4.04	.940
There is increased spending on the research and development	203	3.42	1.253

The results on Table 4.6 indicate that the respondents agreed that bank has restructured loans for the customers and refinanced loans for the customers. They also agreed that the banks have established elaborate mechanism for collecting views on various issues, and increased reliance of technology in the decision making. The findings indicate that the banks established the strategies for dealing with the COVID-19, as indicated by The (FSDK, 2021; Kiwara, 2021). The respondents had indifferent view on use of aggressive marketing campaigns, centering operations on the long-term survival, and plans for dealing with the disruptions.

4.8 Descriptive Statistics of Human Capital Strategy

The study sought to establish the participant agreement with the various aspects of the human capital strategy. The assessment was done in a scale of 1 strongly disagree to 5 strongly disagree. Table 4.7 indicates the results.

Table 4.7

Descriptive Statistics of Human Capital Strategy

Statements	N	Mean	Std. Deviation
The bank provides career growth opportunities.	203	4.20	.827
The bank has transparent promotions and compensation systems.	203	4.46	.685
There is opportunity for continuous education.	203	3.43	.919
The team building activities are regularly undertaken.	203	4.57	.552
The compensation benefits are based on the financial performance.	203	3.30	1.001
There is a sense of pride in financial performance of the assigned duties.	203	3.83	1.028
Motivation increases employees' productivity.	203	2.80	1.297
Both financial and non-financial motivators are used.	203	4.00	1.007
The criterion for productivity evaluation is not vague.	203	3.09	1.233
There is no mismatch between opportunities granted and managerial roles.	203	4.02	1.003
The responsibilities assigned are challenging, and flexible.	203	3.07	1.165

As indicated in Table 4.7, the participants agreed that the banks provided career growth opportunities, have transparent promotion and compensation system, team building activities, uses financial and non-financial motivators, and no mismatch between opportunities granted and managerial roles. These measures are aimed at improving the human capital, aimed at increasing the employee financial performance, engagement and motivation. The respondents had neutral views on opportunities for continuous education, pride when performing duties, clear product evaluation and challenging and flexible assignment of responsibilities.

However, they disagreed with the statement that motivation increases employee productivity. The disagreement can be associated with the lack of assessment and evaluation of the motivation initiatives; hence they are able to establish if it increases the employee productivity. Another probable reason is the ineffective employee motivation programs; hence they have no impact on the employee financial performance. Another probable reason is their belief that external factors, such as market conditions or regulatory constraints, have a more significant impact on employee productivity than motivation. They might perceive motivation as a relatively small contributor to overall financial performance compared to these external forces.

4.9 Descriptive Statistics of Financial Performance

The financial performance was the outcome variable for the study. The financial performance assessment was done on a scale of 1, very low to 5, very high. The financial performance was the outcome variable for the study. The assessment of the financial performance was done on a scale of 1, very low to 5, very high. The results are indicated in Table 4.8.

Table 4.8

Descriptive Statistics of Financial performance

	N	Mean	Std. Deviation
Financial liquidity	203	2.53	1.406
Asset growth	203	3.08	1.257
Liquidity	203	2.11	1.366
Public image	203	2.68	1.280
Customer complements	203	2.68	1.445
Operating income	203	3.01	1.198
Profitability	203	2.00	1.297
Return on equity	203	2.91	1.375
Customer numbers	203	1.92	1.228

The results on Table 4.8 show a moderate rating on asset growth and operating income. They rate low growth on the other elements of the financial performance. The results of the information from the literature (CBK, 2022) indicate the increased pattern of financial performance. There are possible reasons for this view. First, unlike the CBK reports that primarily use finance measures, the branch managers may focus on other key financial performance indicators (KPIs) that they consider more relevant to their specific banking institution, branch, or situation. For example, they may prioritize cost management, risk mitigation, or regulatory compliance over sales growth or customer loyalty.

4.10 Diagnostic Tests

The study also assessed the relationship between the overall strategies implemented and the financial performance of the banks. The data point for the financial performance was annual income of the banks based on the published financial statement for financial year 2021 to 2022. The assessment of the relationship was done using point biserial correlation. The test assesses the relationship between the categorical variable (perception of whether the banks strategies have contributed to the financial performance) and continuous variable (bank profitability). There are several assumptions of point biserial correlation. One is that one variable should be a dichotomous variable and the other one continuous. The data meets this assumption because the assessment of the overall strategy using the Likert scale is dichotomous (yes/no), and the financial performance is continuous. Also, the data is normally distributed as indicated by the Kolmogorov Smirnov test and Shapiro-Wilk test ($p>0.05$) in Table 4.9.

Table 4.9

Test for Normality for Financial Performance

	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	df	Sig.	Statistic	df	Sig.
Financial performance	.094	39	.200*	.969	39	.348

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

A point-biserial correlation was run to assess the relationship between the competitive strategies and the financial performance.

Table 4.10

Auto Correlation Test

		Financial performance
Overall strategies	Pearson Correlation	.180
	Sig. (2-tailed)	.272

As indicated in Table 4.10, there was a positive correlation between financial performance and overall strategies, r (39) = .180, p = .272. This suggests that there was a statistically significant relationship found between financial performance and overall strategies. The relationship may indicate that other factors such as technological advancements, customer preferences, management practices and economic conditions played a major role in influencing the financial performance.

4.11 Inferential Statistics

The non-parametric tests are suitable for assessing the independent and dependent variables. The regression model was used because the study aimed to establish the relationship between the variables. However, the most common regression method (linear regression) was not used because Likert scale data is ordinal; scale categories have a logical order but do not have equal intervals, hence violating the assumption of linear regression of continuous data, with equal intervals between the values (Schroeder et al., 2019). Also, when the data is treated as continuous by adding the Likert scale values and obtaining the average, the transformation treats each category as a numerical value, which disregards the ordinal nature of the scale, leading to misinterpretation and incorrect conclusions about the relationship between variables (Liu, 2016). Therefore, due to these limitations, ordinal logistic regression was used, establishing the relationship between the ordinal variables. The results are provided in Table 4.11 and 4.12.

Table 4.11

Model Fitting Information

Model	**-2 Log Likelihood**	**Chi-Square**	**df**	**Sig.**
Intercept Only	90.572			
Final	41.986	48.586	4	.000

Link function: Logit.

Table 4.11 indicates the ordinal regression model fit. The p-value associated with the Chi-Square test is 0.000, which indicates that the final model significantly improves the fit compared to the intercept-only model. The ordinal regression analysis revealed that the final model, which included predictor variables, provided a significantly better fit to the data compared to the intercept-only model ($\chi^2 = 48.586$, df = 4, $p < .001$).

Table 4.12

Goodness-of-fit

	Chi-Square	df	Sig.
Pearson	15.207	10	.125
Deviance	16.377	10	.089

Link function: Logit.

In Table, 4.12, the goof-of-fit is indicated. The good of fit indicates the how well the model fits the data. The goodness-of-fit tests indicated that both the Pearson ($\chi^2 = 15.207$, $df = 10$, $p = .125$) and Deviance ($\chi^2 = 16.377$, $df = 10$, $p = .089$) Chi-Square statistics did not show significant deviations from the expected frequencies.

Table 4.13

Pseudo R-Square

Cox and Snell	.295
Nagelkerke	.418
McFadden	.285

Link function: Logit.

Table 4.13 shows the pseudo-R-square. "The ordinal regression model demonstrated a moderate fit to the data, as indicated by the Cox and Snell Pseudo R-Square of .295, the Nagelkerke Pseudo R-Square of .418, and the McFadden Pseudo R-Square of .285. The model utilized the logit link function to relate the linear regression model to the observed probabilities.

Table 4.14

Parameter Estimate

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
Threshold	[Financial performance]	5.524	1.133	23.758	1	.000	3.303	7.746
Location	Product differentiation	1.488	.534	7.768	1	.105	.442	2.535
	COVID-19 recovery	1.248	.540	5.335	1	.221	.189	2.307
	Human capital	.760	.489	2.422	1	.120	-.197	1.718
	Innovation	.447	.546	.670	1	.413	-.623	1.517

Link function: Logit.

The threshold parameter as shown in Table 4.14 indicates the effect of the predictor variable (financial performance) on the odds of achieving higher levels of the outcome variables. The estimate of 5.524 suggests that for each unit increase in the financial performance, the odds of moving to a higher level of the outcome variable increase by a factor of exponential of 5.524 or approximately 250 times. This effect is statistically significant (Wald = 23.758, $df = 1$, $p < .001$), with a 95% confidence interval.

For product differentiation the estimate of 1.488 suggested that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (1.488) or approximately 4.42 times. This effect was statistically significant (Wald = 7.768, df = 1, p = .105), at a 95% confidence interval. Therefore, the product differentiation had a statically significant effect on the commercial banks' financial performance. The findings are similar to Kireru et al. (2016) that the firms that implement the product differentiation strategy were likely to perform better. Also, the findings were similar to Mwalili (2020) study that established that the banks that bank differentiated its products uniquely to meet the customer experience, which led to competitive advantage. Overall, this result supported the numerous studies (Menga & Nyakwar, 2020; Mramba, 2013; Kibithe & Chebii, 2019) that indicated that the product differentiation led to increased financial performance.

For COVID-19 recovery strategy, the estimate of 1.248 indicated that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (1.248) or approximately 3.48 times. This effect was statistically significant (Wald = 5.335, df = 1, p = .221), at a 95% confidence interval. Therefore, the COVID-19 recovery strategy had a statistically significant effect on the commercial banks' financial performance. The findings were contrary to, Admasu (2021) research that established that the firms that had implemented the COVID-19 mitigation measures were less affected by the pandemic.

Further, the previous studies Shen et al. (2020), Bose et al. (2022) and Sun and Li (2021) did not establish if the COVID-19 recovery strategies were associated with increased financial performance. Therefore, this study provided new information on how the

COVID-19 recovery strategies assisted the banks to increase the financial performance, despite the adverse effect associated with the pandemic.

For innovation, the estimate of 0.447 for innovation indicated that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (0.447) or approximately 1.56 times. This effect was statistically significant (Wald = 0.670, df = 1, p = .413), at a 95% confidence interval. Therefore, there was a significant statically effect of innovation on the financial performance. The findings were in agreement with the studies indicating the positive relationship between innovation and financial performance such as (Kijkasiwat & Phuensane, 2020; Atalay et al., 2013). Nevertheless, it disagreed with the findings of Karabulut (2015) and Laforet (2021) that established that the innovation did not necessarily result into enhance financial performance. One of the reasons for this finding could be the implementation of the innovation that did not meet the bank's growth strategies and mission value.

For the human capital strategy, the estimate of 0.760 suggested that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (0.760) or approximately 2.14 times. This effect was statistically significant (Wald = 2.422, df = 1, p = .120), at a 95% confidence interval. Therefore, there was statically significant relationship between the human capital strategy and the financial performance of the commercial banks. The study was similar to Sutia et al. (2013) research that established that there was a positive impact on the human capital on the financial performance, however, the impact was insignificant.

It also agrees with other studies Fernando et al. (2020), Uysal (2020), Mkongo and Macha (2022) and Boon et al. (2019) that established that human capital strategy had the significant impact on the financial performance. In regards to the model of the study coefficients when equated with values, $Y = 5.524 + 1.488X1 + 1.248X2 + 0.760X3 + 0.447X4$, where X1 represents the variable "Product differentiation," X2 represented the variable "COVID-19 recovery," X3 represents the variable "Human capital," and X4 represents the variable "Innovation."

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study aimed at investigating the effect of competitive strategies on the financial performance of commercial banks in Kenya operating in Nairobi County, Kenya. The study specific objectives were to; determine the effect of product differentiation strategy, innovation, post-COVID-19 recovery strategy, human capital strategy on the financial performance of commercial banks in Nairobi Kenya. The study was guided by Porter's Generic Competitive Strategies Theory, Knowledge-based view and Agency Theory. The research adopted cross sectional design, with the sample size being 282 branch managers of the commercial banks operating in Nairobi County.

The sampling selection criteria was the stratified random sampling. The questionnaire comprising the closed ended questions was used to collect data. The secondary data was also collected from the published financial statements. The pilot study was conducted to assess the viability of the research instruments, and the overall research. Descriptive statistics was used to summarize the data, and the inferential statistics consisting of ordinal logistic regression and a point-biserial correlation were used.

5.2 Summary of Results

For product differentiation the estimate of 1.488 suggested that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (1.488) or approximately 4.42 times. This effect was statistically significant (Wald = 7.768, df = 1, p = .105), at a 95% confidence interval. Therefore, the product differentiation had a statically significant effect on the commercial banks' financial performance.

For COVID-19 recovery strategy, the estimate of 1.248 indicated that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (1.248) or approximately 3.48 times. This effect was statistically significant (Wald = 5.335, df = 1, p = .221), at a 95% confidence interval. Therefore, the COVID-19 recovery strategy had a statistically significant effect on the commercial banks' financial performance.

For innovation, the estimate of 0.447 for innovation indicated that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (0.447) or approximately 1.56 times. This effect was statistically significant (Wald = 0.670, df = 1, p = .413), at a 95% confidence interval. Therefore, there was a significant statically effect of innovation on the financial performance.

For the human capital strategy, the estimate of 0.760 suggested that for each unit increase in this predictor variable, the odds of moving to a higher level of the outcome variable increased by a factor of exp (0.760) or approximately 2.14 times. This effect was statistically significant (Wald = 2.422, df = 1, p = .120), at a 95% confidence interval. Therefore, there was statically significant relationship between the human capital strategy and the financial performance of the commercial banks.

5.3 Conclusions of the Study

On product differentiation strategy the study revealed that the respondents had a neutral view on the product differentiation strategy used by the commercial banks. They disagreed that banks have better product quality than the competitors, an indication that the branch managers perceive that the initiative taken by the banks to enhance the product quality are inadequate. The regression analysis indicated a positive statistical relationship between product differentiation strategy and the financial performance of the commercial banks. Therefore, the hypothesis that product differentiation strategy did not have a statistically significant effect on the financial performance of commercial banks is not supported.

On innovation, the responses indicated that the responses were indifferent or neutral on all aspects of the innovation. This indicates that the respondents did not exhibit any biases or preconceived notions, and their views were not swayed towards either positive or negative opinions about innovation. On the negative side, the neutral view on innovation may indicate that the respondents view motivation initiatives taken by the respective commercial banks as being inadequate or not important. The regression analysis effect of innovation on financial performance was statistically significant. Thus, the null hypothesis that there was no statistically significant effect of innovation on the financial performance of commercial banks in Kenya was rejected.

On post-COVID-19 recovery strategy, the respondents agreed that the bank has restructured loans for the customers and refinanced loans for the customers, established elaborate mechanisms for collecting views on various issues, and increased reliance on technology in the decision making. They had an indifferent view on the use of aggressive marketing campaigns, centering operations on long-term survival, and plans for dealing with the disruptions. The regression results indicate the effect of COVID-19 recovery strategy on financial performance was statistically significant. Therefore, the null hypothesis that post-COVID-19 recovery strategy did not have a statistically significant effect on the financial performance of commercial banks was rejected.

On human capital strategy, the participants agreed that the banks provided career growth opportunities, have transparent promotion and compensation system, team building activities, uses financial and non-financial motivators, and no mismatch between opportunities granted and managerial roles. They had neutral views on opportunities for continuous education, pride when performing duties, clear product evaluation and challenging and flexible assignment of responsibilities. However, they disagreed with the statement that motivation increases employee productivity. The regression analysis indicated a statistically significant relationship between innovation and financial performance. Therefore, the null hypothesis that human capital strategy did not have a statistically significant effect on the financial performance of commercial banks in Kenya was rejected.

5.4 Recommendations of the Study

On product differentiation, it is recommended that the banks should establish strategies aimed at improving the product quality. Specifically, the results show that the bank managers disagree that the banks have better product quality than their competitors; indicating insufficient strategies to enhance the product quality. Therefore, it is recommended that the bank should review strategies to improve product quality to meet the customers' expectations.

Some of the key steps of improving the product quality could involve market intelligence to understand the areas that require improvement, and implement the strategies based on the data obtained from the market intelligence. It is also recommended that the banks should continuously review the strategies for product differentiation to ensure that they comply with the market and employee expectations. The bank should also focus on the product differentiation as the financial performance driver. This action can be achieved through the various strategies such as encouraging innovation and experimentation among the employees, customization of the products to meet the customer needs and identifying unique selling points.

On innovation, it is also recommended that the banks establish elaborate mechanisms to collect the views on the effectiveness of innovations and technology solutions and implement the necessary actions to improve the effectiveness of technology. The respondents held an indifferent view on the use of aggressive marketing campaigns; therefore, it is suggested that banks should focus on using the aggressive marketing campaigns to increase the long-term customer relationship instead of focusing on the short-term goals.

On post-COVID-19 recovery strategy it is also recommended that the banks should establish more elaborate measures for dealing with the disruptions such as pandemics and communicate the contingency plan to the shareholders. Also, the banks should implement technology with other strategies for increasing financial performance such as customer satisfaction and operations efficiently.

On human capital strategy, it is recommended that the banks should focus on providing career growth opportunities and promotion systems that are fair and balanced. Also, it is recommended for the establishment of strategies for improving the motivation of the workers, team building initiatives, opportunities for continuous education, creating a culture of excellence and providing challenging opportunities.

5.5 Recommendation for Future Studies

The research recommends further research using qualitative research. The qualitative research would enable exploring the implementation of the competitive strategies used by the commercial banks, and how they contribute to the financial performance of the banks. Specifically, through the use of in-depth interviews, it would be possible to assess the views of the managers and bank employees of the various aspects of the implementation of the competitive strategies and financial performance. Also, the in-depth interviews and documental review would enable the depth examination of the competitive dynamics such as competitors' rivalry and legislation challenges.

It is also recommended that the research be conducted using other competitive strategies variables such as niche targeting, cost leadership, growth strategies and differentiation leadership strategy. Considering that the study was conducted in Nairobi County, it is important to conduct comparative analysis across different regions in Kenya to allow the broader understanding of competitive strategies and the effect of financial performance across different regions. For example, comparison between banks in Major cities such as Nairobi and Mombasa, or the banks operating in the rural and those of the rural areas, rural areas and resource deprived regions. Also, the longitudinal study can be conducted to investigate the long-term effect of competitive strategies on financial performance.

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APPENDICIES

Appendix I: Introduction Letter and Consent Form

Leon Njue Mugendi

P.O BOX 1532,

Embu, Kenya.

Dear Respondent

<u>RE: Request for Research Participation</u>

I am a Masters's student from Kenya Methodist University pursuing a Master of Science in Finance and Investment of Kenya Methodist University. The title of my research is ‘Effect of Competitive Strategy on the Financial Performance of Commercial Banks. A survey of commercial bank in Nairobi County’.

The research aims to analyze the effect of competitive strategies on the financial performance of commercial banks in Kenya. Attached to the letter is the questionnaire that will take approximately 15 minutes to complete. Kindly answer all the questions correctly. The information will be used for academic purposes only.

Kind regards,

Leon Njue Mugendi.

Appendix II: Questionnaire for Managers

PART ONE: BACKGROUND INFORMATION

Read the questionnaire carefully and click on your desired response.

Part 1: Demographic information

1. What is your gender?

- ☐ Male
- ☐ Female

2. What is your age

- ☐ 20-30
- ☐ 31-41
- ☐ 42-52
- ☐ Above 52

3. Education level

- ☐ Post graduate
- ☐ Undergraduate
- ☐ Diploma
- ☐ Others (specify)

4. Please indicate the bank that you work for-

5. Please indicate your work experience

- ☐ Less than 5 years
- ☐ 5-10 years
- ☐ 11-16 years

☐ Above 16 years

PART TWO: PRODUCT DIFFERENTIATION

Using a scale of 1 to 5, tick the appropriate answers in the provided boxes, based on a scale 1 to 5 you level of agreement with the following statements 1. Strongly Disagree 2. Disagree 3. Neither 4. Agree 5. Strongly Agree; on the following particulars of product differentiation strategies

No	Statement	5	4	3	2	1
1.	The bank has more services than the major competitors.					
2.	The products are differentiated based on sociodemographic such as age, gender and income levels.					
3.	The bank products are differentiated based on the operating region.					
4.	The bank has rebranded most of the products to achieve competitive advantage.					
5.	The banks activities are aligned with the product development process.					
6.	The bank promotes product credibility and transparency.					
7.	The product quality, and reliability is better than the competitors.					
8.	The pricing model for the products is unique.					
9.	The customer interactions initiatives are different from the competitors.					
10.	Products are customized according to the customer requirements.					

PART THREE: INNOVATION

Using a scale of 1 to 5, tick the appropriate answers in the provided boxes, based on a scale 1 to 5 (1. Strongly Disagree 2. Disagree 3. Neither 4. Agree 5. Strongly Agree;) on the following particulars of innovation.

No	Statement	5	4	3	2	1
1.	The bank has strategy for adopting the latest technological innovations.					
2.	The bank has adopted data driven product solutions.					
3.	The bank has implemented the digital currencies to increase the competition.					
4.	The bank uses contemporary technologies such as big data, artificial intelligence and internet of things (IoT)					
5.	The bank has implemented contactless payment systems.					
6.	The bank has developed platform for collaboration with other institutions such as government agencies, technology providers, and SMEs.					

PART FOUR: POST-COVID 19 RECOVERY STRATEGY

Using a scale of 1 to 5, tick the appropriate answers in the provided boxes, based on a scale 1 to 5 (1. Strongly Disagree 2. Disagree 3. Neither 4. Agree 5. Strongly Agree ;) on the following particulars of post COVID-19 strategy.

No	Statement	5	4	3	2	1
1.	The bank has restructured loans for the customers who defaulted due to COVID-19					
2.	The bank has refinanced some customer loans rather than initiating recovery option such as foreclosures					
3.	The bank uses more aggressive marketing campaigns to advertise its products compare to the pre-COVID 19 period.					
4.	The bank has consisted and transparent collaborations with other institutions in banking and other sectors					
5.	The bank operations are centered to ensuring long-term survival.					
6.	There is mechanism for collecting views from the customers on various issues such as quality of service and satisfaction with the products					
7.	There is a plan for dealing with the future disruptions caused by unexpected events.					
8.	There is increased reliance on technology for decision making.					
9.	There is increased spending on the research and development					

PART FIVE: HUMAN CAPITAL STRATEGY

Using a scale of 1 to 5, tick the appropriate answers in the provided boxes, based on a scale 1 to 5 (1. Strongly Disagree 2. Disagree 3. Neither 4. Agree 5. Strongly Agree;) on the following particulars of human capital strategy.

No	Statement	5	4	3	2	1
1.	The bank provides career growth opportunities.					
2.	The bank has transparent promotions and compensation systems.					
3.	There is opportunity for continuous education.					
4.	The team building activities are regularly undertaken.					
5.	The compensation benefits are based on the financial performance.					
6.	There is a sense of pride in financial performance of the assigned duties.					
7.	Motivation increases employees' productivity.					
8.	Both financial and non-financial motivators are used.					
9.	The criteria for productivity evaluation are not vague.					
10.	There is no mismatch between opportunities granted and managerial roles.					
11.	The responsibilities assigned are challenging, and flexible.					

PART SIX: FINANCIAL PERFORMANCE

Using a scale of 1 to 5, tick the appropriate answers in the provided boxes, based on a scale 1 to 5 (1. Very low. Low.2 Moderate 3 High 4. Very high 5) on the following particulars of bank's financial performance

No	Statement	5	4	3	2	1
1.	Financial liquidity					
2.	Asset growth					
3.	Sales growth rate					
4.	Public image					
5.	Customer complements					
6.	Operating income					
7.	Profitability					
8.	Return on investment					
9.	Customer numbers					

Thank for your responses

Appendix III: Target and Sampled Population

	Bank Name	Number of Branches	Stratum Size
1.	Equity Bank Ltd.	62	31
2.	Co-operative Bank of Kenya	39	24
3.	Kenya Commercial Bank	41	20
4.	Family Bank Ltd.	36	18
5.	ABC Bank	34	17
6.	Absa Bank Kenya Plc	28	14
7.	CfC Stanbic Bank Ltd.	17	9
8.	SBM Bank Kenya Limited	17	9
9.	NCBA Bank Ltd.	15	7
10.	United Bank of Africa	15	7
11.	Ecobank Limited	13	6
12.	Consolidated Bank of Kenya	11	5
13.	Sidian Bank Ltd.	11	5
14.	Spire Bank	11	5
15.	Bank of Africa Kenya Ltd.	22	4
16.	Fidelity Commercial Bank	19	4
17.	Prime Bank Ltd.	9	4
18.	Bank of India	6	3
19.	Diamond Trust Bank (K)	16	3
20.	Fina Bank Ltd.	6	3
21.	Guardian Bank Ltd.	6	3
22.	Housing Finance Kenya Ltd	16	3
23.	Jamii Bora Bank Ltd.	16	3
24.	Transnational Bank Ltd.	6	3
25.	Bank of Baroda (K) Ltd.	4	2
26.	Citibank N.A.	4	2
27.	Credit Bank Ltd.	14	2
28.	Development Bank (K) Ltd.	4	2
29.	Mayfair Bank	10	2
30.	First Community Bank Ltd.	8	2
31.	Gulf African Bank Ltd.	4	2
32.	Habib Bank A.G. Zurich	4	2
33.	I & M Bank Ltd.	14	2
34.	Victoria Commercial Bank	4	2
35.	Guaranty Trust Bank Kenya	6	1
36.	Middle East Bank (K) Ltd.	5	1
37.	Paramount Universal Bank	6	1
38.	Post Bank	5	1

Total	**564**	**234**

Appendix IV: Introduction letter from KeMU

KENYA METHODIST UNIVERSITY

P. O. Box 267 Meru - 60200, Kenya
Tel: 254-064-30301/31229/30367/31171

Fax: 254-64-30162
Email: deanrd@kemu.ac.ke

DIRECTORATE OF POSTGRADUATE STUDIES

April 20, 2023

Commission Secretary
National Commission for Science, Technology and Innovations
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: LEONARD MUGENDI NJUE (REG. NO. MFI-3-0142-1/2014)

This is to confirm that the above named is a bona fide student of Kenya Methodist University, in the Department of Business Administration, undertaking a Master's Degree in Finance and Investment. He is conducting research on; **"Effect of Competitive Strategy on Performance of Commercial Banks in Kenya. A Case Study of Nairobi County".**

We confirm that his research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a research license to enable him collect data.

Any assistance accorded to him will be highly appreciated.

Yours sincerely,

KENYA METHODIST UNIVERSITY
20 APR 2023
DIRECTORATE OF POSTGRADUATE STUDIES
P.O. Box 267-60200 MERU

Dr. John M. Muchiri (PhD)
Director, Postgraduate Studies

Cc: Dean SBUE
CoD, Business Administration
Postgraduate Coordinator
Supervisors

Appendix V: NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: **460922**

Date of Issue: **01/May/2023**

RESEARCH LICENSE

This is to Certify that Mr.. Leonard Mugendi Njue of Kenya Methodist University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: EFFECT OF COMPETITIVE STRATEGY ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA. A CASE STUDY OF NAIROBI COUNTY for the period ending : 01/May/2024.

License No: **NACOSTI/P/23/25681**

460922

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Verification QR Code

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