COMPETITIVE BUSINESS STRATEGIES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA: CASE STUDY OF EQUITY BANK LIMITED

Caroline Muthoni Ndung'u

Masters Student, Jomo Kenyatta University of Agriculture and Technology, Kenya

Wicliffe Otieno

Jomo Kenyatta University of Agriculture and Technology, Kenya

Dr. Gladys Rotich

Jomo Kenyatta University of Agriculture and Technology, Kenya

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ABSTRACT

Competitive strategies which enable a firm to survive in a fierce competitive business environment and emerge stronger are the most valuable assets possessed by businesses as sources to competitive success are usually hard to determine and imitate. The relationship between the growing competitive business strategies and commercial bank's financial performance in Kenya needs to be studied and establish whether these have contributed to their growth. The main objective of the study was to assess the effect of competitive strategies on financial performance of commercial banks. To meet this objective, a case study of Equity Bank Limited was carried out. The specific objectives were to establish the effect of differentiation, cost leadership, focus and organizational capabilities and innovation on financial performance of commercial banks. The target population was branch managers, credit managers, operations managers and senior managers based at Equity bank headoffice. A sample size of 128 was drawn using stratified sampling. Primary data was collected by use of questionnaires. 95 respondents participated in the survey translating to a response rate of 74%. A reliability test was done by carrying out a pilot survey using Crobanch Alpha method. Analysis was done by both quantitative and qualitative techniques. Quantitative technique involved use of tables. Data was analyzed using descriptive statistics and inferential statistics with the aid of Statistical Package of Social Sciences (SPSS). Correlation and regression analysis were utilized to study the nature and strength of the relationship between the independent and dependent variables. The findings revealed positive significance relationships between the variables all set at $p<0.05$. All the variables were statistically significant with organizational capabilities being the most significant at 0.0011. The study noted that competitive strategies adopted by banks have an effect on its financial performance. By collaborating with other institutions to increase uptake of the bank products and has been able to invest in innovative technologies not only aimed at improving their performance but also to maintain a strong brand/ image identification. The bank has also been able to improve on its financial performance over the years by developing new products/ services to meet customer needs. Based on the findings, the study concluded that differentiation, focus, cost leadership, organizational capabilities and innovation have a significant positive effect on financial performance of commercial banks. The study recommended that commercial banks should collaborate with other institutions to increase uptake of their products and also commercial banks should put more emphasis on development of skills continually and prioritize on innovation.

Key Words: *competitive business strategies, financial performance, commercial banks, Kenya, Equity Bank Limited*

INTRODUCTION

In recent years, there has been a great increase in the level of competition in virtually all areas of business and that of commercial banks is not an exception. The ability to outperform competitors and to achieve above average profits lies in the pursuit and execution of an appropriate business strategy (Oyedijo, 2013). Porter (1980) defines competitive business strategy as how an organization exploits available resources resulting in a distinctive position compared to its competitors. Competitive strategies search for a favorable competitive position in an industry which is both profitable and sustainable against forces of competition. Strategy can be seen as the balancing act performed by the firm as it straddles between external environment and internal capabilities of the firm (Porter, 1996). The critical task for management is to create an organization capable of infusing products with irresistible functionality or better yet, creating products that customers need but have not yet imagined. The management in a firm will identify sources of competition and develop strategies to withstand competitive pressure, attract customers and improve its market position (Doppelt, 2010).

During the 1980s, top executives were judged on their ability to restructure, declutch and delayer their corporations. In the 1990s, they were judged on their ability to identify, cultivate and exploit the core competencies that make growth possible (Khan, 2008). When the issue of business strategy is raised, the first thing that comes to mind is Strengths, weaknesses, opportunities and threats (SWOT). Performing SWOT analysis involves describing and analyzing a firm's internal capability (its strengths and weaknesses) relative to the external opportunities and threats of the competitive market place (Barney, 2000). Organizations are advised to take strategic actions to preserve or sustain strengths, offset weaknesses, mitigate threats and capitalize on opportunities (Costa, 2007).

Commercial banks play an important role in economic development of any country. They encourage savings by mobilizing deposits and increase investments by lending to industrialists and businessmen (Ndungu, 2013). In the last two decades, there has been a rapid increase in the number of local and foreign owned banks globally. Competition is growing by the day and banks are exerting their best efforts for the purpose of achieving profits that help in covering their expenses, ensuring their survivals, and maximizing their values (Kumar, Jones, Venkatesan, & Leone, 2011). Identification of competitive business strategies has become a priority to the banks' management since these have become an integral component of any business venture, in order for it to survive within an industry (Goetzmann, 2009). Some commercial banks have managed to secure an advantageous competitive position while others have not (Maina & Manyara, 2004).

Globally, different banks have adopted different strategies in order to remain competitive amidst the stiff competition. Citigroup and HSBC have an extensive network of retail affiliates compared to other financial institutions worldwide (Grosse, 2004). The economic crisis of 1990 caused by the Gulf war and other financial crises in many Asia countries affected Citigroup's performance (Timmers, 2009). This made Citibank to change its corporate, business and marketing strategies in order to ensure sustainability of the bank and also to beat its competitors. It also engaged in the introduction of e-commerce and e-business strategies to introduce new products into the markets and expanded its operations to other areas such as wealth management, stock broking and financial trading services.

Citigroup and Goldman Sachs have built competitive advantage in the USA and Europe by offering superior service to corporate clients. They are a leading provider of corporate financial services (Grosse, 2004). A core competence of HSBC which distinguishes it from competitors is unique culture in managerial practices with thrift being an important aspect (Grosse, 2004). Deutshce bank also has a wide knowledge in investment banking and risk management where it has a competitive edge.

Barclays Bank is one of the third largest financial institutions in the United Kingdom and the seventh global bank with high capitalization, customer base, and good geographical positioning in the world. The implementation of e-business technologies has advanced the bank to become the top five global banks with strategic implementations of web based applications. In 2004, Barclays bank was the first bank in the united Kingdom to launch an online banking system where customers have access to their accounts, manage them while also paying and receiving money. Since 2004, it has applied continuous improvement and new development in its Information and communication technology to build an enabling e-business environment (Barclays bank reports, 2013).

Banking industry in Kenya is regulated by Central Bank of Kenya (CBK). The industry is dominated by a few large banks most of which are foreign-owned, though some are partially locally owned. Commercial banks offer corporate and retail banking services though recently they have diversified to other services including insurance services, custodial services, investment banking (Dikken & Hoeksema, 2001) and in 2014, telecommunication services.

The banking sector plays a significant role in the implementation of government monetary policies. They together with other financial and non- financial institutions support the economic pillar of vision 2030 which is to maintain a sustained economic growth of 10% per annum for 25 years (Ndungu, 2013). According to the CBK (2011), the banking sector has recorded a very fast growth rate and huge profits recently. There's a global trend to deregulate the industry coupled with technological developments like internet banking, mobile banking, Automated Teller Machines (ATM) which have opened up many new businesses to the banks in Kenya.

There has been substantial growth in the number of banks and branches country wide. Kenyans are increasingly becoming aware of the different services offered by financial institutions including saving, borrowing and financial advisory services. This has in turn led to increased number of account holders as well as the number of banks listed in the Nairobi Stock Exchange all which are growth indicators (Katua, Mukulu & Gachunga, 2014). Share prices of listed banks have continuously gained value showing the current growth trend in the sector. The sector has also reported growth in profits with most banks reporting very high profits after tax.

STATEMENT OF THE PROBLEM

In the face of constantly changing business environment, developing a competitive strategy is not sufficient to improve performance. Rather organizational competencies do provide additional value to organizational performance. During the last one decade, banking has captured the interest of both academics and policy makers (Sinah, 2010). The industry has been growing at a significant rate despite the ever present challenges including competition amongst themselves and with other institutions that offer banking services, increased regulation by the government, and increase in the number of licensed Microfinance Banks (MFBs) (Sinah, 2010). Despite these challenges, performance of commercial banks has continued to grow. Between years 2001 to 2015 profit before tax grew from Kshs 2.7 billion in 2001 to Kshs 125.8 billion in 2015. During the same period, total income grew from Kshs 61 billion to Kshs 362.2 billion while total assets grew from Kshs 425 billion to Kshs 2.7 trillion. Mobile banking transactions grew from 3.77 billion in 2007 to 152.5 billion in 2013 (CBK, 2013).

There is need to establish how competitive strategies have contributed to the improved financial performance of commercial banks in Kenya. With the onset of liberalization and globalization of business operations, the banking industry in Kenya, just like the other sectors in the economy, has witnessed increased competition among operators. Porter (1998) acknowledged that competition is at the core of success or failure of organizations. This study therefore sought to identify these strategies that commercial banks have adopted in order to remain relevant in the market. Large international commercial banks have advanced technology that enables them to offer their products online at the convenience of customers (Ngumi, 2013). These banks are able to update their systems with new developments and the changing needs of their customers. Financial innovations have led to a revolution in the way the banking business is conducted. In India, Pooja and Singh (2009) concluded that internet banks were larger, more profitable, had higher asset quality, lower administrative expenses and were more efficient compared to the non-internet banks. Most local commercial banks lack the capabilities to continuously update their core systems, mobile banking and financial services offered to corporates due to resource constraints which hiders them from competitively competing globally (Ngumi, 2013).

Researches on various aspects of strategic management by Kenyan companies have been carried out in the past. Mutua (2008) studied response strategies of Family Bank to competition in the Kenyan banking industry and identified the challenges facing the bank and its responses to those challenges. Technological advancement as well as more educated and discerning customers has also compounded the challenges that impact on banks. To adapt to the changed environment and attain competitive advantage, commercial banks have to come up with competitive strategy in search of favourable competitive positions in the industry. This is the gap the present study sought to fill.

OBJECTIVES OF THE STUDY

1. To find out the extent to which cost leadership affects financial performance of commercial banks.
2. To establish the impact of differentiation on financial performance of commercial banks.
3. To determine the extent to which focus affects financial performance of commercial banks.
4. To assess the effects of organizational capabilities and innovation on financial performance of commercial banks.

LITERATURE REVIEW

Cost leadership and Financial Performance

Munyiri (2014) studied competitive strategies and customer retention among commercial banks in Kenya and found a significant relationship between cost leadership strategies and customer retention. The study was conducted amidst the stiff competition banks face amongst one another as a result of technology growth and infrastructure that has led to growth of most banks. Customers in the banking industry had very many choices of products and services and customer retention was a challenge facing banks as they sought to retain and increase their numbers in the industry. The study was conducted on all registered commercial banks in Kenya with cost leadership, differentiation and focus being used as the variables. By 30th June, 2014, there were 44 financial institutions in the banking industry in Kenya. Data was collected through questionnaire and later analyzed using content analysis and descriptive statistics.

The findings indicated that cost leadership strategy helps the bank to gain competitive advantage by reducing economic costs below competitors. The study also indicated that cost leadership offers a broad market for the various services. From the findings, the study concluded that there was a significant relationship between cost leadership strategies and customer retention. The study concluded that banks use low prices to target average customers and also develop new products that meet market demands. The study also concluded that the cost leadership strategy had enabled banks to offer services in a broader market at the lowest prices.

This supports earlier findings by Allen (2006), Thompson (2008) and Datta (2009) who contends that Generic strategies can successfully be linked to organizational performance through the use of key strategic practices. Also, from the data analysis and interpretation, a positive relationship between generic strategies and performance was found. The study concluded that generic strategies have a strong predictive effect on performance of commercial banks with cost leadership having the greatest effect. Therefore cost leadership strategy can help a bank to realize the most statistically significant superior performance when compared to banks pursuing differentiation or focus strategies.

Differentiation and Financial Performance

Basher and Tarabieh (2011) examined the relationship between customer orientation, innovation differentiation, market differentiation and organizational performance in the banking industry in Jordan. The survey targeted executive management of 16 Jordanian banks since banking was one area that had experienced rapid transformation due to market deregulation and increasing global competition. The whole target population of 227 managers was used in the study with an 82% response rate. Questionnaires were administered to all managers and the four latent constructs were examined using structural equation and confirmatory factor analysis.

The findings showed that customer orientation contributes positively to organizational performance by providing innovation differentiation and market differentiation. Another finding of this study was that the impact of innovation differentiation on organizational performance was greater than market differentiation. In addition, doing both innovation differentiation and market differentiation simultaneously achieves greater competitive advantage that leads to best results in organizational performance.

The results of the analysis of the conceptual model concur with previous research, which states that customer orientation achieves competitive advantage through innovation differentiation and market differentiation, which, in turn, improve organizational performance as agreed by Zhou (2009). The customer orientation has almost similar impacts on innovation differentiation and market differentiation. On the other hand, the impact on organizational performance differs. Innovation differentiation has a greater impact on organizational performance than market differentiation does. Thus, in order to enhance organizational performance, innovation differentiation is relatively more important rather than focusing on market differentiation in the organizational processes and structures. In addition, doing both simultaneously achieves competitive advantage that leads to greater organizational performance.

Capabilities and Financial Performance

Ngumi (2013) studied effects of bank innovations on financial performance of commercial banks in Kenya. The study focused on automated teller machines, debit and credit cards, internet banking, mobile banking, electronic funds transfers and point of sale terminals as the independent variables. The target study units were senior managers from 20 conveniently selected commercial banks including listed and private owned commercial banks. Descriptive research design was used to collect data and simple random sampling technique was used to distribute questionnaires.

The study findings revealed that the combined effect of bank innovations influenced bank performance positively. These findings further indicated that commercial banks in Kenya invest in ATMs because they believe that such investments yield better incomes for the banks either directly or indirectly. Debit and credit cards and mobile banking were seen to influence commission fee income. Internet banking was viewed to be used by banks as a convenience platform to enable customers to transact as opposed to it being an avenue for banks to make more revenue. These findings were inconsistent with previous studies done by Pooja and and Singh (2009) and Costa (2007) where they all concluded that internet banking improved bank incomes and profitability.

Contradictory results were found by Iftekhar, Schmiedel and Song (2009) who assert that if a bank joins in an ATM network, it can generate income from other banks' customers that use its ATM machines or from third parties that cooperate with it. Further contradictory results were reported by Kemppainen (2003 & 2008) in a study done among the European Union where the study concluded that relationship between innovations is stronger in countries with more retail payment transaction equipment, like ATMs and POS terminals. Nofie (2011) also has contrary findings and reveal that impact of retail payment innovations like ATM, POS and cards led to growth of bank fee income.

Focus and Financial Performance

In their assessment on the effectiveness of competitive strategies adopted by commercial banks, Ndungu (2013) found out that focus on core business activities contributed to growth in performance. This was indicated by an 83% response compared to other factors. The study targeted 44 staff from Equity Bank Head Office staff selected using stratified sampling technique with customer focused planning, competitor benchmarking, innovativeness and differentiation strategies being used as variables. Other focus techniques applied to improve financial performance and enhance competitiveness included focus on particular customers, change in target market segment, focus in particular geographic areas, expansion in scale and focus in particular services lines.

The respondents agreed that the focus strategy employed by banks involves targeting a particular market segment. The findings also established that focus strategy is aimed towards a narrow, focused market. Focus strategy can be either a cost leadership or differentiation strategy aimed towards a narrow, focused market (Porter 1980).The respondents strongly agreed that banks adopt focus strategy to stay close to their customers and monitor their needs. One of the advantages of focus strategy is that it enables the firms to have a closer association with its customers. Grosse (2004) cited that this enables the firms to handle the complaints of the customers in a much faster and appropriate way. The study was consistent with the one done by Karanja (2002) which established that focus strategy is more effective in attracting new customers thus it is the most popular type of competitive advantage.

RESEARCH METHODOLOGY

The study employed a descriptive research design as this helps describe the state of affairs as it is at present. A descriptive survey is used to describe characteristics of variables; analyze their frequency, distribution, features and observable phenomena of the study population. A case study was conducted with a target population of all members of staff of Equity Bank Limited from Nairobi region including head office. There are 53 branches with 1840 members of staff including bank clerks, supervisors and managers. Nairobi region was selected because of accessibility, size and performance of the branches that can be generalized to the rural areas and the findings can be adopted by competitors. Stratified sampling was used to select respondents from the branches and head office which comprised of branch managers, operations managers, credit managers and heads of departments at head office. Slovin's formula was used to calculate an appropriate sample size from the population. This formula is applicable when the study knows nothing about the population behaviour.

Slovin's formula: $n = \frac{N}{1 + N\varepsilon^2}$

Where: n= number of samples; N=Total Population; ε= Error term

In this study, 189 managers from the selected branches and head office comprised the population. 95 per cent confidence was sought giving an error term of 0.05. Thus sample size was:

$$n = \frac{189}{1 + 189 \times 0.05^2} = 128$$

In this study the main data collection instruments were questionnaires containing closed ended questions. Both descriptive and inferential statistics were used to analyze the data collected. Descriptive statistics includes measures of central tendency and dispersion. Inferential statistics utilized included correlation and regression analysis. Correlation analysis was utilized to study the nature and strength of relationship among study variables. Multiple regression attempts to determine whether a group of variables together predict a given dependent variable (Babbie, 2004). Since there were four independent variables in this study, the multiple regression model assumed the following equation;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where: Y = Financial performance; β_0 = Constant Term; β_1, β_2, β_3 and β_4 = Beta coefficients; X_1= Differentiation; X_2= Cost leadership; X_3= Focus; X_4= organizational capabilities and innovation; ε = Error term. The Pearson correlation analysis was used determine the linear relationship between the variables. T-test was carried out to test the significance of the relationship.

RESEARCH RESULTS

Reliability test results

The cronbach's alpha reliability coefficients for the factor scales obtained are summarized below. Cost leadership had a mean of 0.731, differentiation 0.819, focus 0.674, organizational capabilities (0.877) and financial performance 0.751. Since alpha values of above 0.7 are considered to be an indication of reliable internal consistency, the scores calculated for this study were all above 0.7, an indication that the scales met threshold of a high stable measure of the variables of interest. The measurement instrument thus had internal consistency.

Table 1: Cronbach's Alpha Reliability Coefficients

Variables	No. of items	Cronbach Alpha
Cost leadership	4	0.731
Differentiation	5	0.819
Focus	8	0.674
Organizational capabilities	4	0.877
Financial performance	8	0.751

Effect of differentiation strategies on financial performance

On differential strategies, the study found that, Equity bank has strict product/service quality control procedures through Total Quality Management, the bank invests in innovation and creativity and that the bank strategically collaborates with other institutions to increase uptake of the bank products. The study also revealed that the bank has invested in innovative technologies aimed at improving their performance and maintain a strong brand/ image identification, the bank frequently develops new products/ services to meet customer needs. The results indicate that differential strategies affect the financial performance of Equity bank to a great extent with product/service quality control procedures through Total Quality Management having the greatest effect. These findings were consistent with those ones of Munyiri (2014) who studied competitive strategies and customer retention among commercial banks. The study concluded that banks adopt differentiation strategies by offering superior goods and services of high quality to their customers. The study also concluded that product differentiation insulates the bank from threats that determine the state of competition in the market.

Effect of organizational capabilities and innovation on financial performance

On organizational capability and innovation variable, the study established that the bank emphasizes on development of skills continually to improve performance, innovation on better ways of operation is encouraged and rewarded, the bank regularly launches new products not offered in other banks and has consistently come up with new products in the past years and decision making is fast in the bank. Further, the study established that use of ATM, POS and internet banking is intensified to reach the wide clientele, the bank is able to retain competent and committed staff and the bank regularly launches new products not offered in other banks. These findings corroborate with the ones by Ngumi (2013) in his study on bank innovation and financial performance which established that the combined effect on bank innovations influenced bank performance positively.

Effect of cost leadership on financial performance

Among the cost leadership indicators; product pricing, efficient distribution centers, economies of scale, development of cost effective and innovative products, emphasis on training and outsourcing of non-core products, the study established that Equity bank continuously develops cost effective and innovative products and refines existing ones, the bank prices its products/ services below competitors to outperform them and that the bank applies superior proprietary technology to offer products/ services fast and at an affordable rate. However 39% of the respondents disagreed on the bank's emphasis on training and institutional learning to avoid staff turnover and minimize wastage of resources. These findings confirm the ones by Gathoga (2001) in his study on competitive strategies applied by commercial banks which concluded that banks had adopted various competitive strategies including delivery of quality service at competitive prices and at appropriate locations.

Effect of focus on financial performance

The study also sought to find out whether the bank had adopted focus strategy. The study established that the bank concentrates on core business activities in order to give quality products to customers, the bank has special products and services for specific target markets, products and services are offered in low priced market and the bank serves a specific product market. Also, the study found out that the bank only serves a specific customer segment and also offers a narrow, limited range of products and services. These findings are consistent with Karanja (2002) who established that focus strategy is more effective in attracting new customers thus is the most popular type of competitive strategy.

CORRELATION ANALYSIS

The data presented before on cost leadership, differentiation, focus and organizational capabilities and innovation were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table 4.7 below indicates the correlation matrix between the factors (cost leadership, differentiation, focus and organizational capabilities) and financial performance. According to the table, there is a positive relationship between financial performance and cost leadership, differentiation, focus and organizational capabilities of magnitude 0.111, 0.306, 0.152 and 0.576 respectively. The positive relationship indicates that there is a correlation between the variables and financial performance.

Table 2: Correlation Analysis Matrix

	Cost leadership	Differentiation	Focus	Organisational capabilities	Financial performance
Cost leadership	1				
Differentiation	-.001	1			
Focus	.668**	-.060	1		
Organisational capabilities	.345	.245	.457	1	
Financial performance	.111	.306*	.152	.576	1

***. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).*

Regression Analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions.

Table 3: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**	**T**	**Sig.**
	B	**Std. Error**	**Beta**		
(Constant)	1.469	0.418		3.514	.001
Cost leadership	-1.010	0.604	-0.916	-1.517	.0023
Differentiation	0.921	0.476	1.061	2.229	.0214
Focus	0.289	0.107	0.369	3.449	.0077
Organisational capabilities	0.329	0.106	0.306	3.104	.0011

As per the SPSS generated in table 4.10 above, the equation ($\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$) becomes:

$$Y= 1.469 - 1.010X_1 + 0.921X_2 + 0.289X_3 + 0.329X_4$$

The regression equation above established that taking all factors into account (cost leadership, differentiation, focus and organizational capabilities) constant at zero, financial performance of Equity bank would be 1.469. The findings presented also showed that taking all other independent variables at zero, a unit increase in the cost leadership would lead to a 1.010 decrease in the scores of financial performance of Equity bank and a unit increase in the scores of differentiation would lead to a 0.921 increase in the scores of financial performance.

Further, the findings showed that a unit increase in the scores of focus would lead to a 0.289 increase in the scores of financial performance of Equity bank. Finally, the findings revealed that a unit increase in the scores of organisational capabilities and innovation would lead to a 0.329 increase in the scores of financial performance of Equity bank. This notwithstanding, all the variables were significant ($p<0.05$) with organizational capability being the most significant ($p = 0.0011$), followed by cost leadership ($p = 0.0023$) then focus ($p = 0.0077$) while differentiation was the least significant ($p = 0.0214$). This indicates that success in the bank financial performance was predicted to some degree by organisational capabilities and innovation.

The study builds upon past research by Datta (2009) providing the insight into the interplay between organisational capabilities and financial performance. These results corroborate with the theoretical model that argued that more specific personal characteristics are influencers of business success (Sinah, 2010). Datta (2009) also found that general competencies (organizational skill, opportunity recognition skill) had significant direct effects on business growth. Kemppainen (2008) argued that organizations must develop internal capability in order to deliver on their strategies and achieve superior performance.

Goetzmann (2009) established that performance can be well explained by intangible organizational elements among them managerial capabilities, human capital, culture , reputation and interactions among them. The study results conforms to assertions levelled by various scholars that organisational capabilities play an important role in gaining and sustaining competitive advantage hence improving performance (Wang, 2009). Competencies constitute the internal organizational environment which defines the context in which strategic decisions are implemented. It is argued that effective and successful strategy implementation require that organizational capabilities are in congruence with the strategy.

CONCLUSIONS

From the findings, the study concludes that organizational capabilities and innovation has a positive and significant effect on financial performance of Equity Bank Limited ($r= 0.329$; $p = 0.0011$). Based on the findings of the study, it can be concluded that bank innovations influence financial performance of commercial banks positively. The versatility of innovations has made their adoption rate to be high among the banks and their customers. Banks in Kenya have continued to perform well even when other sectors of economy show lagged economy. This can be explained by use of innovations such as use of ATM, POS and internet banking to reach the wide clientele.

These findings corroborate those ones of Ngumi (2013) who studied effects of bank innovations on financial performance of commercial banks in Kenya. The study focused on ATM, debit and credit cards, POS and internet banking. The study findings revealed that the combined effect of bank innovations influenced financial performance positively. Based on the findings, it was concluded that the adoption of innovations by commercial banks had a high potential of improving financial performance and hence better returns to shareholders. However, contradictory results were reported by Kemppainen (2003 & 2008) in a study done among the European Union banks where it was concluded that relationship between innovations and performance is stronger in countries with more retail payment transaction equipment, like ATMs and POS terminals.

The study also concluded that differentiation had a positive and significant effect on financial performance of Equity Bank Limited ($r= 0.921$; $p = 0.0214$). The results indicate that differential strategies affect the financial performance of Equity bank to a great extent with product/service quality control procedures through Total Quality Management having the greatest effect.

These findings agree with the ones by Basher and Tarabieh (2011) who examined the relationship between customer orientation, innovation differentiation, market differentiation and organizational performance in the banking industry in Jordan. The findings showed that customer orientation contributes positively to organizational performance by providing innovation differentiation and market differentiation. Another finding of this study was that the impact of innovation differentiation on organizational performance was greater than market differentiation. In addition, doing both innovation differentiation and market differentiation simultaneously achieves greater competitive advantage that leads to best results in organizational performance.

The study further concluded that cost leadership strategies negatively but significantly affect financial performance of the bank ($r = -1.01$; $p = 0.0011$). In addition, the study concluded that through continuous development of cost effective and innovative products and refining existing ones, the bank has been able to improve on its financial performance. This supports earlier findings by Munyiri (2014) who studied competitive strategies and customer retention among commercial banks in Kenya and found a significant relationship between cost leadership strategies and customer retention. Customers in the banking industry had very many choices of products and services and customer retention was a challenge facing banks as they sought to retain and increase their numbers in the industry.

The findings indicated that cost leadership strategy helps the bank to gain competitive advantage by reducing economic costs below competitors. The study also indicated that cost leadership offers a broad market for the various services and products. From the findings, the study concluded that there was a significant relationship between cost leadership strategies and customer retention. The study also concluded that banks use low prices to target average customers and also develop new products that meet market demands.

The study finally concluded that focus strategies positively and significantly affect financial performance of the bank ($r = 0.289$; $p = 0.0077$). The study concluded that by serving a specific product market, offering a narrow limited range of products and services and offering products and services at lower prices, the bank's financial performance has been progressive over the years. The study further concluded that the profit of the bank has been increasing over the years which have enabled it to open more branches in other parts of the country.

These findings agreed with the ones by Ndungu (2013) in their assessment on the effectiveness of competitive strategies adopted by commercial banks. In their case study on Equity Bank, the results showed that focus on core business activities contributed to growth in performance, with customer focused planning, competitor benchmarking, innovativeness and differentiation strategies being used as variables.

The respondents agreed that the focus strategy employed by banks involves targeting a particular market segment. The findings also established that focus strategy is aimed towards a narrow, focused market. Focus strategy can be either a cost leadership or differentiation strategy aimed towards a narrow, focused market (Porter, 1980).The respondents strongly agreed that banks adopt focus strategy to stay close to their customers and monitor their needs.

RECOMMENDATIONS

The study recommends that commercial banks should collaborate with other institutions to increase uptake of the bank product. By investing in innovative technologies not only aimed at improving performance but also to maintain a strong brand/ image identification, commercial banks will be able to attract a large market base thus improving their financial performance. Banks should also be able to develop new products/ services to meet customer needs.

Commercial banks should put more emphasis on development of skills continually and prioritizing on innovation if they want to improve on their financial performance. The study also recommends that by developing new products not offered in other banks and consistently coming up with new products, commercial banks will be able to enjoy competitive advantage over their rivals thus improvement in financial performance.

By adopting cost leadership strategies such as pricing strategies, commercial banks can be able to improve on their financial performance. The study recommends that banks should continuously develop cost effective and innovative products and refine existing ones and also price its products/ services at affordable prices compared to their competitors to outperform them.

The study also recommends that commercial banks should focus on serving a specific product market by offering a narrow and limited range of products and services and if possible at lower prices. These will attract a large market base and in return they will be able to enjoy economies of scale. From the above research findings, it is recommended that banks should adopt dual strategy advantages as this has been shown to achieve higher performance than either single generic strategies of low cost leadership or differentiation.

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