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Competitive Advantage Practices and Performance of Commercial Banks in Nairobi County Kenya

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Research Article

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ABSTRACT

Due to rising rivalry in the Kenyan banking sector in recent years, some banks have modified important procedures to strengthen their competitive edge. As a result, this study concentrated on the performance and competitive advantage strategies of commercial banks in Nairobi County, Kenya, using Equity Bank, Kenya Commercial Bank, Absa, and Family Bank as examples. In the recent past, a number of issues, including operating cost efficiency, capital deficiency, and liquidity, have affected the performance of commercial banks. Finding out how differentiation strategy, innovation, focus strategy, and cost leadership work was the aim of the research. Among the theories used are the balanced scorecard model, resource-based perspective, stakeholder, and Porter's Five Forces. Using a case study methodology, the study asked respondents about the procedures that Nairobi County's commercial banks followed. It also looked at how these approaches improve county performance. The dependency between the independent variables—differentiation, focus strategy, cost leadership, and innovation—and the dependent variable—performance—is explained by the regression model correlation coefficient summary. With an emphasis on branch managers, regional managers, and departmental managers, the study's primary respondents were staff members and clients of the commercial banks in Nairobi County that were sampled. Open-ended questions on surveys were used to gather data. A reliability test was conducted, and multiple regression and inferential statistics were used for analysis. It is anticipated that the government, future scholars, and Equity Bank management would find the four primary practices beneficial. According to the study's findings, commercial banks use differentiation approach to provide their clients something special, unusual, and different from what their rivals could sell. In order to add originality to current product lines or processes and boost market share, revenue, and customer happiness, innovation is essential. The focus strategy pinpoints the market niches in which the bank can successfully compete. Every product and sector has a varied market size when the cost leadership strategy is used. According to the survey, commercial banks should develop or generate really original or distinctive goods or services that provide value for customers. In addition to establishing cooperative ties with their business partners

and allocating resources for training and development, commercial banks should make sure that they have a thorough understanding of the demands of their clients. In order to create an appropriate focus strategy, commercial banks should take into account the demographics of their present clientele as well as the customer satisfaction ratings from previous months to determine what contributed to high scores and what may be improved.

Key Words: *Competitive Advantage Practices, Differentiation Strategy, Innovation, Focuses Strategy, Cost Leadership*

Introduction : Background of the Study The creation and execution of the organization's vision, purpose, and strategy are all part of strategic management techniques. Senior management is in charge of creating and overseeing major projects while taking the resources at hand, the external environment, and the internal organizational environment into account. An organization's strategy for allocating resources and making sure they achieve all of their objectives is known as strategic management performance (Waititu, 2016). Therefore, in order to accomplish their objectives, firms use tactics that provide them a competitive edge while also boosting their profitability and productivity. Four primary elements impact Kenyan commercial banks' performance. Commercial banks use differentiation by providing products that set them apart from their rivals. Additionally, the banks make sure that the marketing staff maintains a tight relationship with the clients. Commercial banks enhance their performance by focusing on innovation and making sure they consistently generate fresh concepts for raising product quality and cutting expenses. Additionally, the banks concentrate on places where they are expected to see an increase in clientele. Therefore, the bank assets—credit portfolio, current asset, fixed asset, and capital—are used to analyze the performance of commercial banks.

A number of ideas have been created to assist companies in achieving their predetermined goals. Porter's Five Forces theory focuses on how a competitive system uses both offensive and defensive tactics to create a position that can be defended against the five forces of competition (Porter, 1985). It makes the assumption that an institution's strategic growth is influenced by its external environment. The ethics, values, and morals of all parties involved in an organization's activities are addressed by the stakeholder theory. Customers, staff members, upper management, and shareholders are all considered stakeholders in a business's activities. Freeman et al. (2010) state that the theory aims to clarify the relationships between the stakeholders in order to improve the efficacy and efficiency of operations. The impact of external resources on an institution's performance is explained by resource dependence theory (Hillman, Withers, & Collins, 2009). It highlights that in order to acquire resources, an organization has to interact with other people or businesses in the surrounding area. As a result, businesses create plans to strengthen their negotiating position and reduce resource-related transactions.

According to Lilly and Juma (2014), Kenya's commercial banking industry is constantly evolving due to its high level of dynamism. Additionally, Equity Bank Limited is always searching for innovative ways to increase efficiency in order to preserve their competitive edge. The Bank employs a number of strategies, such as Equitel line, Eazzy Pay, Eazzy Business, and mobile banking. By providing a range of services, including standing orders, bankers' checks, M-pesa services, cash backs, check clearing, fixed deposits, share purchases,

PayPal withdrawals, equity direct, agency banking, and stockbroking services, Equity Bank has also transformed its banking hall into a one-stop shop. These strategies enable it to successfully compete with other Kenyan commercial banks that provide almost identical services; for instance, KCB launched the Cub's Account, which enables customers to save for their children. The Chama accounts, which assist different groups in saving and obtaining loans, were also established by Barclays Bank, which is now ABSA. Family Bank created a number of accounts, including the Mwanainchi, Maestro, and Extra Cool visionary accounts, to strengthen its competitive edge. Because of these competitive advantages, commercial banks have been able to retain a lucrative and lasting edge.

1.1.1 Organizational Performance

Assessing an organization's performance entails comparing its accomplishments to its predetermined goals and objectives. As a consequence, the version entails comparing the user inputs with the outcomes. Accordingly, the most important component in making any firm successful is strategic management (Smith, Kemp, & Duff, 2017). Setting up and weighing the performance levels is also beneficial. To achieve their desired level of performance, organizations use a variety of competitive advantage strategies. One of the strategies used by commercial banks to enhance their performance is leadership, in which staff members are designated to exercise their degrees of experience and competence. Nairobi County's commercial banks seek for leaders who can bring about change in the contemporary day by making tough choices and providing assistance to their juniors (Veliu et al., 2017). Commercial banks have been using incentives and reinforcement to boost performance in recent years. The banks improve organizational tactics and working conditions while also using contextual elements and raising staff remuneration (Jyoti & Rani, 2017). To gather, arrange, and distribute knowledge in the form of people, resources, and skills, an organization uses the knowledge management factor (Singh, Kumar, & Singh, 2018). Through the development of contemporary operational instruments and technical advancements, commercial banks enhance their performance. It also guarantees the existence of operational frameworks. A company's processes and operations are also impacted by its organizational culture. It centers on the members' common values, traditions, and practices. For example, Equity Bank and KCB make sure that its members understand the fundamental ideas that may be used to resolve issues and carry out internal integrations. Accordingly, organizational culture helps employees perform well and achieve their objectives (Al-Omari & Okasheh, 2017).
Commercial banks assess their performance using a variety of methods. For instance, they use the yearly profits made by banks throughout many regions—in this case, Nairobi County—to gauge performance. Returns on assets, returns on earnings, shareholder returns, and product sales are further metrics they use to assess success. The following tactics are used by Nairobi County's commercial banks to boost performance: first, they hire more staff members to lighten workloads (Jyoti & Rani, 2017). Secondly, they promote collaboration among the staff members in the different departments. Third, they regularly improve their systems and provide staff training. Lastly, raise the sales rate to expand into new areas.

1.1.2 Competitive Advantage Practices

A competitive advantage practice helps an organization to outperform the competitors. Also, a company can quickly achieve more significant margins than the competitors and generate profits for the shareholders. Before setting up a competitive advantage, the main areas should focus on the target market, benefits, and competitors (Kamukama, Kyomuhangi, Akisimire, & Orobia, 2017). The target market are the people likely to purchase from the company. The benefit is the advantage gained from the company's products or services.

The three strategies for setting up a competitive advantage in an industry are focus, differentiation and cost leadership. Focus strategy, a company, concentrates on a specific section of the market (Murray, 1988). It becomes successful if it can fully meet customer needs by creating products and services that fully meet their desires. Differentiation is whereby the company makes products that are different from the customer through innovation, branding or quality improvement. High-quality products attract more customers, and hence the organization can set up a premium price for the products and services (Porter, 1985). Finally, the company's cost leadership strategy can be achieved by becoming a low-cost producer (Murray, 1988). Organizations achieve this through large-scale production, where they exploit the economies of scale. Innovation has become helpful in the Kenyan banking sector. Equity bank, for instance, keeps on undertaking financial innovation, an action that has enabled it to keep the high performance and productivity (Das, 2020).

1.1.3 Commercial Banks in Nairobi County

In these days of rapid internalization and globalization, only the commercial banks can perfectly create and sustain a competitive advantage in the current market. The rapid environmental changes lead to increased customer expectation and the bank therefore strives to gain and maintain high performance rates. Competitive advantage might also come from the banks capability to come up with good strategy choices and execute them. In Nairobi county for instance, there exists forty commercial banks, and eight representatives of the foreign banks. Due to high rivalry and competition in the Kenyan Banking Industry, this research narrows down to the four main commercial banks in Nairobi County; Equity Bank, Kenya Commercial Bank, Absa Bank and Family Bank.

1.1.3.1 Equity Bank Limited

Equity Bank is a financial services giver, and it has headquarters in Nairobi. The Bank started in 1984 as a building society, and over the years, it underwent various restructuring until 2004 when it became a fully registered commercial bank. In 2006, Equity Bank was listed in the Nairobi Securities Exchanges being the Bank with the largest capitalization and attracted many investors. Over the years, the Bank has maintained a competitive benefit over its challengers in branding, infrastructure, and creation of strategic partnerships (Onyimbo, 2018). Equity bank purposes of transforming the lives and livelihood of its customers by providing them with the most powerful brands in Africa (Mjomba, & Rugami, 2017). The research, therefore, focuses on the essential areas Equity bank major at to maintain its competitiveness in Kenya, Nairobi County. However, over the years, the Bank has extended its operation in other countries such as Uganda, Tanzania, DRC, Rwanda, and South Sudan.

Equity bank limited has also created good relations with the stakeholders and investors. Through differentiation strategy, the organization creates a long-term value for its customers

and increases its capital gains. In 2008 Equity Group Holding set up the Equity Group Foundation to transform their customers' lives by availing the current and financial services that add on the opportunities. EGF works using the recent technological and economic innovations to offer modern education and careers to women, youths and entrepreneurs. Equity bank Foundation's key areas of focus are health, agriculture, leadership and education, financial literacy, environment, and innovations (Sande, & Ragui, 2018). Therefore, this study analyses the competitive practices used by Equity bank in Kenya to add to its performance.

1.1.3.2 KCB Bank

KCB history began a while ago in the year 1896 where the Bank of India which was its predecessor set up a small branch in Mombasa. In 1956, the National Bank of India and the Grindlays Bank of Britain formed a merger, which would later be named as KCB. In 1970, the government of Kenya obtained about 60 percent of shares in the merger and named it as Kenya Commercial Bank. In 1970, the government then gained 100 percent of shares and had a full control of now the biggest commercial bank in the country. Currently, the government shareholdings have declined to 26 percent, leaving the 74 percent to the public.

Over the years, KCB has grown tremendously, with a total of 166 branches country wide. KCB bank also owns more than 220 automated teller machines. In the last years it was severally listed in the Nairobi Stock Exchange, Dareesalam Stock Exchange and also Uganda Securities exchange. Its advanced in different regions with the African continent has seen it improve in its performance to the second position nationally, after Equity Bank.

1.1.3.3 ABSA Bank

Absa Bank, which was initially known as Barclay Bank, is owned by Absa Group Limited. It history dates way back in 1916. As at 2020, the bank had 85 branches and 208 ATMs located in different parts of the country. Some of the products include; savings, insurance, mortgages, loans, credit cards and investments. As of 2019, the asset base of the firm stood at ksh 374.109 billion. Absa banks adopts some of these characteristics to improve on its performance include offering support to the management team, coming up with transformative partnerships and resistance to initiatives for resisting change.

On the differentiation strategy, Absa ensures that its product are of high quality and can reach a wide range of customers. Therefore, the focus strategy at Absa is aimed establishing new customer relationships and enlarging the market tactics.the On innovation matters, Absa adopts on modern technology, up to date banking methods and lending techniques. Cost leadership becomes evident too, since the management team is very supportive, and participation of shareholders is allowed, to improve on the bank’s performance.

1.1.3.4 Family Bank

Family Bank Limited, just like Equity Bank, started of as a building society in the year 1984. Throughout the period, the bank has purposed to offer financial services to both low level and middle income earners. However, currently it has started to join the corporate world. Family Bank Limited, since 2007 when it became a fully-fledged bank, has grown to over 93 branches country wide.

A close look at the bank’s performance over the recent past, indicates a clear establishment on cost leadership, differentiation, focus strategy and innovation on performance. The high

growth was as a result of growth in loan book, increased number of customers and also branch expansion. As at the year ended on 31 December 2021, Family Bank recorded ksh 3.3 billion profit increase, which was around 132 percent increase. Operating costs decreased to 7.5 billion from 7.7 billion, due to reduced loan loss provision and managing the costs of operation.

1.2 Statement of the Problem

The research's key motivation was based on how Commercial Banks in Nairobi County Kenya strives to maintain a competitive advantage in the dynamic environment. (Matheka 2019), states that the key intention of a strategy is to keep a competitive advantage for the company within its territory. Therefore, any approach set in a firm ensures its survival and prosperity by meeting the stakeholders' expectations.

Achievements of commercial banks in Kenya is largely affected by practices effected by each bank. Over the years, the banking sector has undergone several financial, structural and regulatory reforms. Also, several micro finance and SACCOS have been set up which has led to struggle in acquiring more customers and thus reduced profitability in the some of the products offered by commercial banks. Mobile money transfers have taken up much of the commercial banks domain which include loans, savings and storage. Hence, for the commercial banks to remain operational, they must constantly come up with strategies that ensure their businesses last long in the market. An effective competitive advantage practice will place the company on a competitive edge and improve its performance. Nyachwaya, & Rugami, (2020) conducted research on Competitive strategies and performance of commercial banks in Mombasa County, Kenya. However, their research did not include the issues of competitive advantage practices used by commercial banks today to improve their performance. The study by Nzioka, & Kariuki, (2021) on the Influence of Strategic Internal Factors on Competitive Advantage of Commercial Banks in Nairobi County, Kenya did not focus on the four key variables; differentiation, focus strategy, cost leadership and innovation. Finally, the study conducted by Waititu, (2016). Relationship between strategy implementation and performance in commercial banks in Nairobi County Kenya did not include the innovation and cost ledership variables. Also, it did not highlight the challenges facing the performance of commercial banks in Nairobi county.

Currently, Commercial banks in Kenya face the challenge of meeting the increased customer expectations and increased competition. To keep operating in the current environment, the banks developed various practices that increase its productivity. Some of the techniques include introducing mobile banking, electronic funds transfers, digital consumer lending, Biashara banking and micro-lending for consumer continuity.

Various studies conducted reflected a conceptual knowledge gap. For instance, Onyimbo (2015) linked performance to just one independent variable, which is strategic planning, Wakaba (2017) conducted research on the technological innovations used by Commercial Banks and did not focus on other innovations. Mjomba & Rugami (2017) conducted research on the competitive advantage and corporate social responsibility of commercial banks in Kenya where they used the following variables, education, financial literacy, agricultural training, and environmental conservation. These studies reflect a conceptual knowledge gap, due to variation in the competitive practices investigated. Therefore, it is clear that the

competitive advantage practices have not been investigated exhaustively. In the above studies, the context differs since they focus on various industries. Hence, a need to research more on the banking sector and make a comparison of the findings. A methodological gap existed since this study focused on a case study to come up with a detailed analysis of the study. A methodology is the rationale used in studying a project.

(Waititu 2016), focused on establishing a competitive advantage through agent banking in Nairobi County. However, the research focuses on the processes in general and creates a need to go deeper to create a link to its competitive advantages. Previous research shows that the researchers focused on all commercial banks in general. Also, they did not focus on their comparisons between the practices and performance. Thus, it left a contextual and conceptual knowledge gap. The study answers the question; what are the competitive advantage practices and performance used by commercial banks based in Nairobi County, Kenya today?

1.3 Research Objective

To investigate the effect of competitive advantage practices on performance of Commercial Banks in Nairobi County.

The specific objectives of the dtudy were;

i. To analyze how differentiation strategy affects the performance of Commercial Banks in Nairobi County

ii. To establish the effect of innovation on the performance of commercial Banks in Nairobi County

iii. To examine the extent to which focus strategy influences the performance of commercial banks in Nairobi County

iv. To determine how cost leadership influences the performance of Commercial Banks in Nairobi County

2.0 Literature Review 2.1 Theoretical Framework

2.1.1 Porter Five Competitive Forces

Organizations use the framework to analyze their competitive advantage. Therefore, it creates the industrial organization economics to develop the competitive intensity and make the industrial attractiveness in general profitability. According to Porter (2008), competition in an industry relies on five fundamental competitive forces: bargaining power of buyers, threats of new entrants, bargaining power of suppliers, threats of substitute products and services, and rivalry among existing firms. Thus, the stability of these forces determines the eventual profit of an organization (Murray, 1988). The study hence, focus on how Equity Bank Limited, specifically Nairobi County, applies the five forces to maintain a competitive advantage.

The rivals in the industry greatly influence the operations of the company as they strive to offer the best quality products or services. The buyers and suppliers will also affect a company's competitive levels if they can offer lower prices and good quality products and services (Porter 2008). However, if the competition deal is low, organizations can offer high prices for their products and better value their customers. New entrants, too, affect the power of an organization. The easier a new competitor enters a market, the higher the levels of

competition it will likely pose to the existing organization. However, if a company set up substantial barriers to entry, it will charge higher prices and thrive better in the environment.

The power of suppliers, too, can influence an organization's strategic competitiveness since it affects the cost of inputs. Suppliers affect the competitive levels through the uniqueness of Information and the ability of the vital company to switch to a different supplier. In instances where suppliers are few, a company can end up depending on one supplier. Murray, 1988, stated that the power of customers influences the competitive advantage of a company. Customers have to drive the prices of a product to either low or high levels. Also, the number of customers an organization has, its stability, and its ability to acquire new customers primarily affect its performance. Thus, a company opts for a small but high influential customer base since it can quickly increase the prices and increase profitability.

The threat of substitutes is another factor in the porters five forces, which impact the sustainability of an organization. Goods and services which can become used on behalf of a company’s products pose a significant threat. However, if an organization produces unique products, which have no close substitutes, they can easily regulate the prices to increase the levels of profitability (Miller, & Friesen, 1986). Thus, an organization should understand the porters five forces and how they influence their industry to adopt new strategies that increase profitability.

The Porters five forces can become linked directly to the differentiation strategy. Michael Porter explains that a firm can be unique from their competitors through establishing a differentiation strategy. A differentiation strategy helps an organization come up with a product or service with features which are different from their competitors. Also, it appeals to customers including the customer support, the functionality status and the quality of the product.

2.1.2 Stakeholder theory

According to Freeman et al., 2010, Stakeholder theory is a capitalist view that focus on the relationships between a business, its customers, employees, suppliers, communities, and investors. It states that the organization should address various individuals and parties directly or indirectly participate in its operations. The identification of the stakeholders who have the most considerable impact on the company is essential. Failure to consider the stakeholders' view will negatively impact the operations of the business. From the strategic management perspective, stakeholder theory means that an organization should consider all the parties interested in a specific project. In such an instance, the company can serve the stakeholders' interests as; the shareholders invest their capital in the project and expect high-profit returns (Phillips, 2011). The employees wish to work in a conducive environment and receive reasonable compensation. If the employer does not meet the needs of their employees, it will lead to increased turnover and thus a negative reputation of the company.

The customers, too, have a significant impact on the organization as they expect quality products and services that meet their changing daily needs. According to Freeman (1999), An organization should treat their suppliers fairly and ensure that they pay them on time. The company, too, must meet the mandates and policies set by the government, for instances, safety measures and emissions policies.

Some of the advantages of using this theory include increased returns and positive feedback from the stakeholders. Motivated employees will work smart and improve the quality of work. Satisfied clients will purchase more and make more referrals for the company, which will lead to an increased rate of growth. However, this theory has challenges as well, in that some critics argue that the needs of all stakeholders cannot be reconciled equally. Also, some stakeholders can take more power or even relax than others, hence creating discord. The challenges can be mitigated by establishing a plan that outlines the needs and expectations of every group. Also, the company can make priorities depending on the level of influence of every group.

The stakeholder theory can become directly linked to the cost leadership variable. The theory benefits the employees and the company through increasing the employee productivity and satisfaction. In turn, this will lead to the improvement of their mental health and lower the rates of staff turnover. The organization benefits through positive feedback from the regular customers. Also, the government offer incentives which lower the cost of products hence expansion in new business sectors.

2.1.3 Resource-based view theory

This focus on how the firm uses the available resources to influence its performance. A firm achieves a competitive advantage using the VRIO attributes. Barnley 1996, examined the properties using organization and resources using the framework VRIO, which was later revised by other schoolers to VRIO. VRIO, therefore, stands for; valuable, rare, imitable, and organized to capture value. According to this theory, it is easy for an organization to acquire new opportunities using the existing resources, other than developing new skills, functions, or traits. The two main types of resources used by the organization are tangible and intangible. Substantial resources are physical things such as buildings, property, and land. Intangible resources include trademarks, goodwill and reputation.

In the RBV theory, resources play a significant role in helping a company achieve a competitive advantage. The tangible resources are easily purchased within the market and thus offer a minimum competitive advantage since the competitors may end up buying similar assets. Intangible resources, such as brand reputation, are created over a long period and cannot be purchased (Colbert, 2004). Therefore, intangible assets offer the organization the highest competitive advantage. A company, therefore, should purpose to invest in the intangible assets more, to attract more customers and increase their sales.

RBV has two main assumptions that resources should either be heterogeneous or immobile. Heterogenous resources mean that the capabilities and skills used by an organization should be unique and different from other organizations. According to Wade & Hulland (2004), organizations that use a similar mix of resources will likely use the same strategies and cannot compete with each other. For instance, in perfectly competitive markets, they apply identical techniques; thus, no competitive advantage can be achieved. However, fundamental world markets have the same competitive forces but quickly do the implementation uniquely to outdo each other. For instance, RBV assumes that companies can apply different resource bundles to acquire a competitive advantage effectively. The other assumption is immobility, in that resources cannot be moved from one organization to another. Due to this assumption, organizations cannot duplicate resources from other organizations or use similar strategies.

Also, intangible assets such as intellectual property, knowledge and processes cannot be moved from one organization to another (Barney, 1996).

Heterogenous and immobile resources alone cannot sustain the competitive advantage of an organization. Therefore, the VRIN framework, which was later improved to VRIO, answers whether a company is fit to organize the available resources. The question of value applies where resources meet the value need of customers. An organization meets the value by either increasing the differentiation rates or decreasing the production costs (Barney, 2001). Question of rarity happens where resources can be obtained by one or few companies. Competition increases when several companies can receive similar resources. Question of imitability occurs whereby resources are costly to imitate by the rival company, thus increasing competitive advantage levels. Question of organization happens, where resources cannot help an organization achieve its competitiveness if not organized to meet its value. Therefore, a firm that successfully exploits the rare, valuable, and imitable resources will improve performance and increase its competitive advantage. Commercial banks acquire their resources by either decreasing or increasing their dependence on others.

The RBV theory is directly linked to the innovation variable. The innovation strategy makes it possible to manage the organization’s resources. Also, it improves the expertise in of making market analysis and taking up opportunities and managing informational access to markets and capital. Therefore, innovation has two key impacts; if it is used appropriately, it will facilitate the success of a business, while its viceversa leads to the failure of the business. A firm cannot rely on the use of resources to boost the innovation strategy.

2.1.4 Balanced Scorecard Model

David Norton and Rorbert Kaplan developed this model to change the organizations' vision and mission to actual actions (Stewart, & Carpenter-Hubin, 2001). A balanced scorecard can also provide Information for an organization by offering feedback and managing the learning and feedback processes. The four critical perspectives used in the balanced scorecard as beginning indicators are financial, customer, internal rotation, growth and learning. The financial perspective is essential for all the financial backers and shareholder, as it provides valuable Information about the sustainability of a given strategy. Also, it contributes to operational management and increases the value delivered to an organization. Thus, an increase in weight leads to a rise in profits in an organization. The customer perspective focuses on the market needs. According to Khomba (2011), customer largely influences the price, service, quality and margins of products and services. Also, the organization's purpose is to meet the customers changing tastes and preferences by adjusting the quality of the products. Companies uniquely brand their products to reduce competition, which has a powerful influence on the customers' expectations.

The internal business process focuses on adding values to an organization and the activities that an organization conducts to achieve a competitive advantage. The perspective primarily relies on innovation and operations—added value results from the maximum alignment of the organization’s decision, activities, and processes. The learning and growth strategy focuses on whether an organization can grow in a rapidly changing environment (Kim, Suh, & Hwang, 2003). It considers the capabilities of employees, motivation, and empowerment. Due to the ongoing dynamism, the company needs to keep changing to adapt to the environment quickly.

In general, a balanced scorecard aims at setting up a balance in the entire organizations long term and short-term goals, internal and external perspectives, financial and non-financial criteria (Wongrassamee, Simmons, & Gardiner, 2003). Therefore, when improvements occur in one cohesion, it should not affect the other one. Commercial Banks in Nairobi Kenya applies the BSC in determining the leading performance indicators, for example, by comparing the customer to account ratios. The banks can consider the data emerging from back-office applications such as ERPS, competitive reports, customer analytics and data mining. Balanced Score card can become directly linked to the focus variable. An organisation focuses on a specific region, or target group for it to achieve a balanced score card. Also, through utilizing the performance measurement, a firm purpose to monitor, assess, course-correct and align all the employees with the set objectives.

3.0 Research Methodology

It is a set of procedures applied by the researcher to gather data and analyze it, making a consideration on the specific variables within the stated problem of the research (Majid, 2018). Thus, the type of research design to be applied in each case, is determined by the type of questions and the existing resources. In this study, for instance, a descriptive research design was applied to determine the competitive advantage practices used by commercial banks to improve their performance within the Kenyan banking sector. Descriptive research design was effective for this study since it involves viewing and analyzing a behaviour without making any influence on it (Atmowardoyo, 2018). In this instance, the research design explained the real situation and help the research in formulating questions that are in line with the research purpose.

Target population is a group of individuals from which the researcher purposes to conduct aresearch in and come up with conclusions (Thomas, & Pencina, 2020). The characteristics of target population should thus be defined clearly in the study. Thus, this study used localities and consider Commercial banks, retail branches within Nairobi County, and the headquarters staff. The focus was the branch managers, operational managers and key staff in charge of marketing and retail outlets. There were close to 200 such branches within the four localities in Nairobi County. sampling. Census, is a sample survey method, used to study all the individuals of a stated population. A population is all the people placed under concern during a study. The key reason why the researcher chose this sampling technique is due to the size of the sample, which was 59. In an instance where the sample size is less than 200, a census technique can be applied best (Taherdoost, 2017). From the above population, no sample was taken, instead a couple of procedures and instruments became applied. Thus, in such an instance, every single individual will participate.

This study will use questionnaire method of data collection. The rationale behind this method of data collection is because data collected is primary. Primary data was collected from the key source, in this case, data will be collected from commercial banks branches within Nairobi County and also from the head offices. Primary data is the best since it is designed in a manner that meets the demand of that specific research (Clark, & Vealé, 2018). Thus, questionnaires were open ended, to enable the respondents give their views without any limitations. The questionnaires, applied Likert scale where responses are outlined in various sections, ranging from dependent variables, independent variables and also the research

background information (Mircioiu, & Atkinson, 2017). Some of the benefits of using questionnaire as a method of data collection is that it is easy to use, economical and uniform. The researcher, with the aid of research assistants, will investigate commercial Banks records, and also books of account to identify the uptake of their products in the market, and the profits made.

research instrument (Hopkins, 2017). If the research yields high validity test results, then it means that the results go in hand with the real characteristics and properties. Validity was measured in terms of is construct, content and face (Dennis, 2018). Also, since the validity score should be outlined towards what it should measure this case, the researcher will offer questionnaires to the relevant population, in matter of concept under the study. The questions covered should be appropriate and credible to help the researcher achieve the objectives of study set. In this study, construct validity, the research measured confirmatory factor analysis which involved correlation of the theoretical model and items in the questionnaire. If the correlation between the model and questionnaire items is close, then there is an assurance of the validity. Face validity was measured through asking the target population to rate the test validity as it appears to them superficially.

Reliability is the measure of consistency in test research (Mohajan, 2017). In case the research findings become replicated consistently, then it becomes clear that they are reliable. If the measures keep on differing, then the research becomes considered unreliable. Hence, a reliable test shows an increased positive correlation. Therefore, in this study, reliability was tailored towards consistency, through measuring just the factors it was designed to measure. In this study, reliability was keyed on Cronbach Alpha model used to measure how closely related are the set of items involved. The Cronbach Alpha model is considered reliable and acceptable if it gets to 0.7 in any research (Taber, 2018). If one increases the number of items, they increase the Cronbach Alpha, and when the inter correlation decrease, the alpha too decreases. In this study therefore, a test of not less than 0.7 should become adopted, to make the research reliable.

Data analysis is the process by which the researcher applies statistical procedures to explain, condense and evaluate data (Munch, 2017). Different analytical procedures can be used to draw analytical inferences through differentiating the available signal in the collected data. The study applied quantitative methods to evaluate information collected.

In instances where the questions are open-ended, the researcher used qualitative method of analysis. Thus, data was arranged thematically, and presentation done in prose method. Quantitative data became analysed using descriptive statistics and questions tabulated through mean, standard deviation, percentages and other frequencies (Mishra et al, 2019). Such statistical packages are effective since they can perfectly handle large data packages and also variety of packages. Ethical consideration is a code of conduct expected to be undertaken by the researchers while during the entire data collection process (Connelly, 2014). Some of the ethics to incorporate included honesty, respect, and confidentiality for personal information. Also, the researcher first sought the consent of management and ensure every individual participate willingly on the process.

4.0 Research Findings

The study used regression analysis to respond to the study research questions.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.611[a]	.806	.794	1.004

Source: Survey Data (2023)

The results from the model summary as presented in Table 1 show that the value of R was at 0.611 which is closer to 1. This means that the independent variables and the dependent variable were strongly related. The R square value was 0.806 which was closer to 1. Thus, the model's increased explanation of variability. The value of the adjusted R square was 0.794 which shows that there was a variation of 79.4% of the performance of Commercial Banks in Nairobi County which was due to changes in differentiation strategy, innovation, focus strategy and cost leadership strategy. This also indicates a gap of 20.6% that represent other variables not studied.

Table 2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	100.612	4	25.153	120.961	.001
	Residual	11.021	53	.2079		
	Total	111.633	57			

Source: Survey Data (2023)

The results as presented in Table 2 shows that model was statistically significant since the F statistical value was 120.961 which was greater than the statistical mean value of 25.153. In addition, the level of significance was 0.001 less than 0.05.

Table 3: Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	.612	.204		3.000	.001
Differentiation strategy	.699	.194	1.203	3.603	.000
Innovation	.715	.237	3.197	3.017	.000
Focus strategy	.788	.109	2.700	7.229	.001
Cost leadership	.607	.253	1.642	2.399	.000

Source: Survey Data (2023)

The results

as presented in Table 3 show that the performance commercial banks in Nairobi City County, Kenya would be at 0.612 without the influence of differentiation strategy, innovation, focus strategy and cost leadership. The regression coefficient of differentiation strategy was 0.699 meaning that the performance commercial banks in Nairobi City County, Kenya would increase by 0.699 factor if differentiation strategy is increased by 1 unit. A unit increase in innovation would to increase in commercial banks in Nairobi City County, Kenya by a factor of 0.715. A unit increase in focus strategy would to increase in commercial banks in Nairobi City County, Kenya by a factor of 0.788 and a unit increase in cost leadership would to increase in commercial banks in Nairobi City County, Kenya by a factor of 0.607.

5.0 Conclusions and Recommendations 5.1 Conclusions

The study concluded that commercial banks use differentiation strategy to provide customers with something unique, different and distinct from items their competitors may offer in the marketplace. The main objective of implementing a differentiation strategy is to increase competitive advantage of the commercial banks. A bank will usually accomplish this by analysing its strengths and weaknesses, the needs of its customers and the overall value it can provide. The study concluded that innovation plays a key role in introducing novelty to existing product lines or processes, leading to increased market share, revenue, and customer satisfaction. Innovation is used to upgrade the operating systems of the banks or to introduce modern technologies for automation. It is believed that the amalgamation of innovation and automation can help companies witness innumerable growth. Through innovation commercial banks' managers and executives are able to develop unique marketing campaigns to help them stand out. Also, formulate promotional and advertising strategies that will help in increasing market share and revenue, giving the company a competitive advantage.

The study concluded that focus strategy identifies the market segments where the bank can compete effectively. The strategy matches market characteristics with the banks' competitive advantages to select markets where a focus of the banks' resources is likely to lead to desired sales volumes, revenues and profits. A bank practicing this strategy caters to a specific segment. Moreover, a bank can either have a cost focus advantage in that segment or offer a differentiated product focus in the segment. The concluded that implementing Cost Leadership Strategy creates a different market size for each product and each industry. By implying Cost Leadership strategies, a company will not only gain profit, eventually, the market size for that particular product will also increase. The Cost Leadership method is mainly implemented to increase the profitability of a company. When the recognition and popularity of a product increase due to its low pricing, a company will earn a revenue more than expected.

5.2 Recommendations

The study recommended that the commercial banks need to produce or design extremely unique or distinctive products or services that create increased value for the consumer. The commercial banks need to decide what they want to be known for through assessing their strengths, weaknesses, opportunities and threats in order to provide a narrow differentiator to their customers. The commercial banks should also assess their target audience so as to align their business' offerings with the wants and needs of current and potential customers. The study recommended that commercial banks should ensure that they truly understand their

customers' needs; establish collaborative relationships with their business partners, allocate resources for training and development, create a culture for change and continuous improvement, model and reward the behaviour they want from others and incorporate good external business practices that align with organizational goals. Commercial banks should also make sure they have processes and events to capture ideas and create a supportive atmosphere in which their customers feel free to express their ideas without the risk of criticism or ridicule.

The study recommended that the commercial banks should use customer satisfaction ratings from past months what led to high scores, and what could use improvement so as to develop a proper focus strategy and also consider the demographics of their current clientele. The commercial banks should establish their target audience. Conduct a strengths, weaknesses, opportunities and threats so as to come up with a proper analysis of all aspects of the bank. The study recommended that cost leadership should be managed in an effective way that can bring in profits for a company and also a brand recognition in the market that will help in the long run of the bank. Before implementing the Cost Leadership marketing strategy a company should understand the requirement and functions of the changing market trend.

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