International Journal of Scientific Research and Engineering Development-– Volume 7 Issue 1, Jan-Feb 2024

Available at www.ijsred.com

RESEARCH ARTICLE OPEN ACCESS

Exploring Porter's Generic Strategies on Performance of Commercial Banks in Kenya

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Abstract

The Kenyan banking industry contributes significant lyto the government revenues yet financial reports indicate that Kenya's listed banks recorded a negative EPS (earnings per share) indicating a decline in growth of the core earnings pershare. The study looked at the effects of Poter's generic strategies on performance of commercial banks in Kenya. The study focused on the 11 listed commercial banks in Kenya with one being used for pilot. The respondents comprised of 68 heads of departments, 11CEOs,29 regional heads, and 145 regional managers. The findings revealed that porter's generic strategies have an effect on performance of commercial banks(β=.645, p=.000) and accounted for 41.6% variance. It is concluded from the findings that porter's generic strategies has a positive effect on performance of commercial banks. It is recommended from the findings that companies improve more on the cost strategy to realize better performance.

Key words: **Generic Strategies, Performance, Commercial Banks**

Introduction

Porter's Generic Strategies

Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. There are three generic strategies, either lower cost, differentiated or focus. These are known as Porter's three generic strategies and can be applied to any size or form of business. (Porter.1980. Akan et al (2006) argues that using porter' model, an organization can choose how it wants to compete, based on the match between its type of competitive advantage. Porter's generic strategies describe how a company pursues competitive advantage across the chosen market scope.

According to Michael Porter, there are three fundamental ways in which firms might achieve sustainable competitive advantage. These are: cost leader ship strategy, differentiation strategy, and focus strategy. These three generic strategies are defined along two dimensions: strategic scope and strategic strength. Strategic scope is a demand side dimension and looks at the size and composition of the market you intend to target. Strategic strength is a supply side dimension and looks at the strength or core competency of the firm. In particular, he identified two competencies that he felt were most important product differentiation and product cost.(Porter,1985)

Out of the 253 questionnaires presented to the respondents, 243 questionnaires were filled and returned completely filled. The resulted to a 96.04% response return, which is adequate for making conclusion from the study.

Table 4.18: Summary Simple Effect of Porter's Generic Strategies on Performance of Commercial Banks

Model	R	R Square	Adjusted RSquare	Std.Errorofthe	ChangeStatistics: R SquareChange	F Change	df1	df2	Sig. FChange	Durbin-Watson
1	.645[a]	.416	.413	.57803	.416	168.043	1	236	.000	1.855

a. Predictors:(Constant), Meangeneric

b. Dependent Variable : Performance

The findings indicate that the simple correlation between porter's generic strategies' mean and performance of commercial banks subscale was mode rate(R=.645).Therefore, porter's generic strategies accounted for 41.6% (R square =0.416, multiplied by 100) and 41.3% (Adjusted R square=.413,multiplied by 100) after controlling for over estimation. The findings were highly significant, F (1, 236) =168.043, p=.000, implying that the model was not by chance and thus there is sufficient evidence to conclude that porter's generic strategies does have a significant effecton performance of commercial banks in Kenya.

From the foregoing results, the following can be adduced. Firstly, the finding of the current study has received enormous support from the oretical literature. For instance, Akanetal (2006) argues that using porter's model an organization can choose how it wants to compete based on the match between its type of competitive advantage and the market target pursued, as the key determinants of choice. Pretorius (2008) collaborate this by concluding that Porter's generic strategy typology remains one of the most notable in the strategic management literature. This affirms the proposition according to Michael Porter that there are three fundamental ways in which firms might achieve sustainable competitive advantage. These are: cost leader ship strategy, differentiation strategy and focus strategy.

The strive to pursue porter's generic strategies across the chosen market scope by banks emerges to yield significant results leading to the improvement of banks' performance with significant margins exceeding a quarter of performance indicators. These findings are backed by previous empirical evidence. For instance, Guinkpa (2013) found that low cost leadership strategy adopted impacted positively the overall performance of Liberian banks according to financial reports of 2011 and 2012.Kireru, Ombui, Omwenga (2016) empirical findings through equity banks supports an increase in market share and number of customers usingproductdifferentiationwhileMreri,andNgacho,(2017)confirmsthatfocusstrategyimprovesincreased market share, capital adequacy and management efficiency. Maina (2014) revealed that cost leadership, differentiation enhanced penetration by Bank of Africa into the highly competitive retail market and also enhanced brandimage.Kinyangu,Ogollah (2017) concluded that cost leadership and market focus strategies significantly influences performance. Okeyo,Luvisia (2017) concluded that cost leadership strategy and differentiation strategy were found to have an impact on competitive advantage and should be pursued by banks

However, the studies (Kireru, Ombuiand Ngacho 2017; Maina 2014) have all used small sizes thus limiting the generalizability of their result. Studies by Kinyungu, ogollah 2017, utilized convenience random sampling hence rendering their results unfit for generalization. Kireru, Ombui, Omwenga 2016 and Mreri, Ngacho 2017 overlook two strategies of porters generic strategies hence making these two aspects of porters generic strategies and its effects on performance unclear. Okeyo, Luvisia 2017,Kinyungu, Ogollah 2017, used descriptive statistics in their analysis which are regarded as not being a better way to establish cause and affect relationship.

The current study has made a major milestone towards new knowledge by investigating the effect on all porter's generic strategies and their impact on performance of the listed commercial banks.

Summary

The Study sought to establish the effect of Porter's generic strategies on the performance of the listed commercial banks in Kenya. The strategies analyzed included product differentiation, cost leadership and focus. The parameters considered under product differentiation were the range of products offered, development of new products; invest range of products, innovativeness and investment in research and development in order to improve on the products offered. Cost of leadership entailed aspects such as the nature of price charged, cost reduction strategies, technology adoption and improving the under performing areas for better performance. The third strategy was focus which sought to establish the market demands and customer satisfaction from different commercial banks.

Based on the findings, heavy investment in research and development was the best the best aspect of product differentiation which was adopted by most of the banks leading to improvement of their performance. Cost leadership strategy was mainly based on low cost of products as compared to competitors, tight cost control measures and identification and restructuring of underperforming areas. For the case of focus strategy, the findings revealed that banks serve a diverse market with main focus on specific geographical market as well as offering tailored products to meet customer demand. The banks also considered production of products for higher price segments and meeting customer needs more than their competitors. Finally the findings revealed that there was a positive relationship between porter's generic strategies and performance, with a positive effect.

The aforementioned results have indicated the importance of porter's generic strategies on performance of commercial banks. Intuitively, banks like any other company have come up with ways to pursue competitive advantage across market scopes. This is achieved through different models such as the porter's model. From the porter's model, product differentiation is the main actor in the in the progress of performance of commercial banks. Cost leadership and focus strategies have also large lyboosted customer base and share value of the banks while increasing the banks' profits. It is therefore clear that porter's generic strategy is a significant predictor of performance of commercial banks in Kenya.

The null hypothesis that porter's generic strategies do not have a significant effect on performance of commercial banks is therefore invalidated and an alternative hypothesis, which indicates with sufficient evidence the effect of these strategies adopted.

Recommendation

Based on this study, it is recommended that commercial banks in Kenya should seek to put a lot of emphasis on product differentiation since it is the main actor in the in the progress of performance of commercial banks as other Porters' generic strategies are improved. This could offer solutions lower number of customers and profit growth.

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