COMPETITIVE STRATEGIES AND PERFORMANCE OF FINANCIAL SECTOR COMPANIES LISTED IN THE NAIROBI SECURITIES EXCHANGE

BY:

JANET K. WACHIRA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,

UNIVERSITY OF NAIROBI

DECLARATION

This research project is my original work and has not been submitted for the award of any degree in any other university.

Signed……………………………………………… Date ………………………….

Janet Kirigo Wachira

D61 / 63367 / 2010

This research project has been submitted for examination with my approval as the University supervisor.

Signed……………………………………. Date ………………………………….

Dr Vincent Machuki

Lecturer

Department of Business Administration

School of Business

University of Nairobi.

ACKNOWLEDGEMENT

I wish to express my gratitude firstly to my supervisor Dr. Vincent Machuki who devoted much of his time to supervise the writing of this project. Through his expert guidance, encouragement and constructive criticisms I was able to complete this demanding task.

Secondly, my gratitude goes to my husband for his moral support and understanding without which my goal to achieve my Master Degree in Business Administration would have been an uphill task. My acknowledgement also goes to my children for sacrificing ‘our’ time and being supportive as I was pursued this degree.

I thank all the respondents who spend their precious time and participated in the research and answered my questions in the questionnaire. I thank my friends who volunteered to drop and pick the questionnaires selflessly.

Finally, I am greatly indebted to my classmates and workmates for their moral support. God bless you all.

DEDICATION

I dedicate this project to the following people for their love and sacrifice: To my dear Husband, Stephen Wambua and my adorable children Mitchel Wambua and Nicole Kanini.

TABLE OF CONTENTS

LIST OF TABLES

ABSTRACT

Competitive strategies in essence are designed to exploit an organization's competitive advantage. A competitive strategy consists of business approaches to attract customers by fulfilling their expectations, withstand competitive pressures and strengthen market position. It is noted that the choice of competitive strategy to a larger extent affects the performance of a firm either financially or non-financially. The Kenyan financial system is well-developed and comprises of a wide variety of institutions which have been listed in the Nairobi Securities Exchange. However, there has been increased competition for the investors' funds from other companies outside the NSE including mobile financial services, unlisted local banks as well as international banks, some of which are new players in the country. The objective of this study was to conduct an assessment of the relationship between performance of financial sector firms listed in the Nairobi Securities Exchange and competitive strategies they have adopted in the last 3 years. A questionnaire was the major instrument used to gather primary data while past records from the NSE and CMA library were also used to supplement the major instrument and findings analysed using regression analysis. The study found that the firms have achieved improvement along the terms of organisation performance which is measured along various indicators. Performance was guided by both financial and non-financial performance measurements and the determinants were scattered along various competitive strategies. The study concluded that performance was determined to an extent by various strategies each firm adopted in its operations for the last 3 years and that there was no specific strategy rather mostly it was a combination of many competitive strategies across the board. The study recommends that in order for firms to maintain their competitiveness in the industry they should be cost focused as well as expanding their market coverage with different products. The Government also needs to protect the financial sector firms listed in the NSE from stiff competition from international firms through policies. Further research is recommended for the firms listed in the NSE to facilitate generalisation of the findings and conclusively identify the relationship between competitive strategies and performance of firms listed in the NSE.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Firms operate within an environment that influences its operations either positively or negatively depending on the nature of its business. The environment comprises of a combination of internal and external factors that influence a company's operating situation among them being competition. Competition is the process of rivalry between firms striving to gain sales and make profits; it is the driving force behind markets. As documented by Lewis (2004), for economic growth and development in any industry, efficient and fair markets are essential. The nature of the competitive strategy and firm performance relationships can be associated with industrial organization framework of industry behavior, whereby firm profitability is viewed primarily as a function of industry structure. Barney (1986) noted that characteristics of any industry are the key influences on organizational performance. According to Porter (1980), a business can maximize performance either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market.

Business strategy typologies used for identifying several generic strategic approaches as identified by Besanko et al (2006), concludes that various competitive strategies influence firm performance in different ways. Game theoretic concept applies in strategy choice whenever the actions of several strategies are interdependent. The concepts of game theory provide an avenue to formulate structure, analyze, and understand strategic scenarios. According to Porter (1980), a business attempting to combine the two approaches invariably ends up stuck in the middle. He argued that the low cost and differentiation strategies are based on incompatible assumptions and thereby create trade-offs within the organization. Game theory can be applied to successfully combine low costs and differentiation strategies to create synergies within a firm that will overcome any trade-offs that may be associated with the combination. As Thompson and Stickler (2007) put it, a strategy reflects a managerial choice among alternatives and signals organization commitment to particular product using the market competitive approaches and outlines ways of operating them. Further, the organizational economics views top management as a key resource to be attracted, developed, and harvested.

Kenya has a well-developed financial system comprising of a wide variety of institutions, markets, instruments and services. The financial sector plays an important catalytic role of facilitating the growth of all other sectors of the economy. The key players in Kenya's financial sector include commercial banks Non-Bank financial institutions and the capital markets that provide various financial instruments for debt and equity financing. These players raise their capital in the Nairobi Stock Exchange (NSE) which was established in 1954. The process of raising capital in the NSE allows for competition amongst listed companies to improve the bourse performance and attract attention and activities to push the share prices. However, there has been increased competition for the investors' funds from other companies outside the NSE including mobile financial services, unlisted local banks as well as international banks, some of which are new players in the country. This has served as a wake-up call to the listed financial institutions to put strategies to improve their performance it terms of profits and dividends to increase investors' wealth and also gain public confidence and loyalty.

1.1.1 Concept of Competitive Strategy

Dess et al (2006) explains that a competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices. Competitive advantages give a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage. Barney (1991) points out that competitive advantage can classified into two main types, comparative advantage and differential advantage. Comparative advantage, or cost advantage, is a firm's ability to produce a good or service at a lower cost than its competitors, which gives the firm the ability sell its goods or services at a lower price than its competitors or to generate a larger margin on sales. A differential advantage is created when a firm's products or services differ from its competitors and are seen as better than a competitor's products by customers.

Competitive strategies in essence are designed to exploit an organization's competitive advantage. A competitive strategy consists of business approaches to attract customers by fulfilling their expectations, withstand competitive pressures and strengthen market position. Cook et al. (2007) notes that this is achieved by finding ways to use resources and capabilities to set a firm apart from competitors. There are different types of strategies that firms use, these are strategic alliances, differentiation, cost focus, market penetration, and diversification. Porter's generic competitive strategies build on the themes of competitive advantage and competitive scope to achieve one of four primary competitive models.

Pearce et al. (2003) points out that industries strategize to engage creativity and intellectual capital as a competitive advantage to create new wealth through innovative offering, often joining services, products and customer interaction ideally into constellations that are distinct and difficult to imitate for competitors. New, old and reinvented ideas are bundled together to design novel business models and opportunities, fueled by new ways of working and collaborating in complex ecosystems. Organizations adoption of competitive strategies tend to show a growing trend towards the utilization of cross-functional new product development or differentiation to enable them capture both new and existing markets. Weidinger and Platts (2012) noted that non-financially many companies are embarking on various corporate responsibility efforts in order to legitimate themselves and align themselves with stakeholders, which now increasingly incorporate issues pertaining to corporate responsibility. It should be noted that the competitive strategies adopted contribute to both financial and non-financial outcomes.

1.1.2 Organizational Performance

An organizational performance as explained by Dess et al (2006) captures organizational effectiveness as the myriad of internal performance outcomes normally associated with more efficient or effective operations and other external measures that relate to considerations that are broader than those simply associated with economic valuation either by shareholders, managers, or customers such as corporate social responsibility. In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as, financial performance, customer service, social responsibility, employee stewardship. Measuring the performance of an organization as pointed out by Huber (2004) ensures that strategic activities are aligned to the strategic plan further improving the bottom line by reducing process cost and improving productivity and mission effectiveness.

Performance measurement as defined by Richard et al. (2009) is the process of quantifying the efficiency and effectiveness of past actions or the process of evaluating how well organizations are managed and the value they deliver for customers and other stakeholders. To measure performance, Weidinger and Platts (2012) explains that it involves a process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organization, system or component. Lewis (2004) summarized key performance indicators in the financial sector into the following sub-categories; quantitative indicators which can be presented with a number of outlets, branches, qualitative indicators which can't be presented as a number and can be used to measure intangible performance of an organization, leading indicators which can be used to predict the future outcome of a process and financial indicators used in performance measurement and when looking at an operating index.

Thompson et al, (2007) notes that, the success with which a firm's business strategy effectively addresses its industry's key success factors will determine its strategic performance; therefore, performance is an outcome of strategy especially competitive strategies. Strategic performance is measured in terms of both financial and market success. Financial performance is essential for continued business operations as well as financial capabilities which are critical in supporting functional strategies and making required infrastructure investments. Kotler et al (1999), says that market share demonstrates a firm's ability to create and hold customers, which determines the long term success of a firm.

1.1.3 Financial Sector in Kenya

Financial sector refers to a category of firms that provide financial services to commercial and retail customers. Kenya's financial sector is segmented and dualistic (formal and informal) in structure. Formal financial sector comprises of banking, pension, insurance, capital markets, SACCOs Societies, and Development Finance Institutions like Kenya Post Office Savings Bank (KPOSB) and the Agricultural Finance Corporation). It also consists of financial infrastructure to facilitate trading, payments and settlements systems. In Kenya, this sector can further be classified to include banks, investment funds, insurance companies and real estate which play a very significant role in the economy. In Kenya, there are 44 commercial banks, 10 Development Financial Institutions, 5 Building Societies, 39 insurance companies, 13 Forex Bureaus, 2,670 Saccos among others.

The critical importance of an efficient and well-functioning financial system to a country's economic development today is widely recognized. This was made even clearer during the recent financial crisis that made the world's largest economy and other countries to undertake collective actions to safeguard the sector and bolster public confidence. According to Peng (2000), the financial system plays an important role in the development process, particularly through the financial intermediation process. Improved economic conditions usually leads to more capital projects and increased personal investing and new projects require financing, which usually leads to a larger number of loans leading to a symbiotic relationship in the financial sector. In recent years, the sector's performance has improved as manifested in increased profitability and financial deepening. Cook et al (2007) noted that in order to achieve and sustain the competitive advantages enjoyed by the organizations, many have opted to use different strategies including product diversification to reduce the high interest risks; others have opted for product differentiation to cater for niche markets.

Lewis (2004) highlights that the way in which a business relates to its environment has two aspects; the business must both match and be adapted to its environment and it must at the same time compete with other firms that are also adapting to the same environment. This dual character of the relationship between the firm and its performance has its analog in the aspect of strategic choice. The Kenya's financial sector firms have witnessed a mixed fortune in their performance over the last decade which has been attributed to various reasons among them competition for limited investors in the securities exchange (www.nse.co.ke). The finance sector companies in Kenya need to develop competitive strategies to address the issue of improving and sustaining positive performance to rally investor's interest in their shares. These requirements pose a new challenge to managers of the financial sector firms because they have to implement strategies to ensure they remain afloat and record impressive performance.

1.1.4 Financial Sector Companies listed in NSE

The Nairobi Securities Exchange was constituted as a voluntary association of stock brokers registered under the societies Act in 1954 and in 1991 the Nairobi Securities Exchange was incorporated under the companies Act of Kenya as a company limited by guarantee and without a share capital. Subsequent development of the market has seen an increase in the number of stockbrokers, introduction of investment banks, establishment of custodial institutions and credit rating agencies and the number of listed companies increase over time. Securities traded include, equities, bonds and preference shares (www.nse.co.ke).The Nairobi Securities Exchange has classified listed companies into eleven sectors. These are; agricultural, commercial and services, telecommunication and technology, automobiles and accessories, banking, insurance, investment, manufacturing and allied, construction and allied, energy and petroleum, growth and enterprise market segment.(NSE, 2013).

The listed firms have their ownership structure in terms of shares which are traded at the securities market; the shares can be preferential or ordinary shares. Weidinger and Platts (2012) point out that an increase in share price denotes an increase in both a company's value and shareholders wealth. The NSE market Capitalization as at end of December 2012 was Kes. 1,731.97 billion Where the Kenyan banking sector remained sound in consideration that the Kenyan financial sector is developing and deepening faster than the overall economy. As at December 2012, the portion of total market capitalization held by the banking sector stood at 36.5per cent being the highest among the sectors while listed insurance firms accounted for 5.6 per cent only (www.nse.co.ke).This difference is attributed to rate of demand for shares of the respective firms. The demand is determined by a firm's performance mostly financial which pushes shares prices up and in turn increasing market capitalization. NSE (2013) defines market capitalization as an estimation of the value of a business that is obtained by multiplying the number of shares outstanding by the current price of a share. What baffles most investors in the NSE is the strategies that the firms adopt and how they are related to their impressive performance in the market.

The financial sector companies have for a long time competed for market share and this has led to the firms to incorporate many strategies including long working hours, agency networking and mobile application to effect transactions, hence no firm would want to be left behind. Cook et al (2007)notes that this has led to each firm outdoing the other in terms of product innovation, time taken to change the product, pricing on product which could be almost be similar to all, and it is in this respect that we have seen a cut throat and live competitive arena in the recent past. After listing in the NSE, companies in the financial sector are subject to more public scrutiny and for this reason they have to ensure that their choice of strategy and implementation will lead to nothing less but superior performance that will surely translate to more investors, growth in earning per share and at the same time create a name for the firm.

1.2 Research Problem

The financial systems operate in a dynamic and turbulent environment which has made firms expand on their products and borders with the motive of searching for markets, resources and achieve efficiency. Peng (2000) points out that competitive strategy is about identifying areas that will enhance efficiency and improve on its performance while creating uniqueness of a company within an industry. The quest for the firms to attain leading positions in terms of performance has led to vigorous search for markets which has led to stiff competition among firms offering the same products in the same industry, both locally and internationally. Thompson et al, (2007) concludes that the overall objective of firms is to increase their market share through market growth for profitability and increase its attractiveness for investors due to the expected returns. Consequently, heightened competition has been witnessed in the 21st century that no firm can find comfort in lagging behind. Changes in the environment such as customer preferences and choices has put the companies on toes with each firm fighting for its survival and all this is based on strategy choice and their implementation. Globalisation has brought competition closer to home and this has brought with it too much pressure on the management of such firms to develop competitive strategies that will enable the firm to achieve effective and efficient operations that will have a positive implication on their performance.

In the Kenyan economy banks and insurance firms play a pivotal role, in the growth of the economy in that the growth of the two set of companies have a great impact on the economy. Publicly listed companies' need to be competitive enough to ensure growth and retention of market share in the industry because this would certainly translate to increased sales and profits. Increased profits have a systemic effect on the firm's perceived performance in terms of increasing shareholders wealth through increased demand for shares thus increase of share prices, increased returns for investors through large dividend payments and engagement in non-financial benefits to the shareholders and public through use of surplus funds.

A number of studies have been done in this line, for example Wambugu (2012), studied competitive strategies and performance of NGOS in Nairobi; Oyeila (2011), dwelt on competitive strategies and performance of commercial banks and observed that strategies adopted such as agency banking, mobile banking has led to increased networking and customer base; Karanja (2010), focused on competitive strategies adopted by Standard ltd; Adhiambo (2009) studied competitive positioning and performance of commercial banks and observed that firms must repackage their products, be innovative and move with technology for survival in the so dynamic world of business; Obiero (2008) focused on competitive strategies adopted by cement manufacturing firms in Kenya and observed that pricing of products , low cost of materials and proximity to customers were among the key strategies.

The above mentioned studies were done on competitive strategies and their relationship to performance. However, these studies were focused on specific firms which operate in different industries and not necessarily listed in the NSE. In general, the studies were meant to establish the relationship between various strategies and performance of the firms that adopted them. However, a study to establish the relationship between competitive strategies and their influence on the performance targeting the financial sector companies listed in the NSE has not been done. Therefore, this study will seek to answer the question, is there a relationship between competitive strategies adopted and the performance of firms notably within the financial sector companies listed in the NSE?

1.3 Research Objective

The objectives of this research were to:

i. Establish the competitive strategies adopted by financial sector firms listed in the NSE.
ii. Establish the influence of competitive strategies on performance of financial sector firms listed in the NSE.

1.4 Value of Study

The findings from the study will have value to scholars intending to do further research on strategies adopted by the financial sector player's during theory building. This paper has presented strategies that different players used to position themselves to compete effectively and their effect on performance. The study findings can form a premise to identify competitive strategies adopted by part of the financial sector players in the process of studying the entire financial sector.

The financial sector plays an important role in the country's economy. The research findings can assist government policy makers in the respective specialty departments in putting in place appropriate policies which support the financial sector firms listed in the NSE as a way of increasing their contribution to the economy. The relevant authorities will rely on the research findings to set policies aimed to protect the industry from the dynamic and competitive operating environment brought about by globalization and rise in technological advancements.

The management of the various firms in the financial sector can benefit immensely from the findings when strategizing for their firm. The study findings have shown that the best competitive strategies are skill-based and involve strategic thinking. This can help the managements in hiring of strategists and when strategizing on how to handle competition in their respective industries, the management will have to rely on the research findings from this study to explore the best strategies to compete and perform effectively.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature which is related to the study based on the key thematic areas; the theoretical underpinnings of the study, competitive strategies and their effect on the performance. The chapter will delve in depth on the concept of competitive strategies and the various competitive strategy theories advanced. This chapter will further discuss the various outcomes that are achieved through the various strategy choices and attempt to show the relationship that exists between competitive strategies and performance.

2.2 Theoretical Underpinnings of the Study

Organizations make strategic choices that a manager will follow in every possible attainable situation in an industry to attain an advantage over his firms competitors. In times of uncertainty, Weidinger and Platts (2012) advises that a set of concepts aimed at decision making in situations of competition and conflict known as game theory to be used. A strategic game represents a situation where two or more participants are faced with choices of action, by which each may gain or lose, depending on what others choose to do or not to do. The final outcome of a game, therefore, is determined jointly by the strategies chosen by all participants. Huber (2004) advises that game theory can provide timely guidance to managers to develop a range of outcomes based on decisions and to present the advantages and disadvantages of each option. Canary and Lakey (2012) pointed out that the products of strategic decision making, all of which are necessary for enhanced organizational performance, do not peacefully coexist. Conflict seems to be the crux of this conundrum and as such, a better understanding of conflict's effects on strategic decision making is needed.

Substantive conflict is natural within top management teams as executives struggle with making high-stakes choices under conditions of ambiguity and uncertainty.

Lewis (2004) notes that top management teams make strategic decisions and the products of their decision making influence organizational performance, yet, many fail to sufficiently debate appropriate courses of action. However, a subtle paradox is embedded in this relationship, the conflicts in strategies arise due to the limited resources available for implementation of the strategies, however, a cost-benefit analysis is vital in resolving such conflicts. Reuer (2004) highlights the pervasive changes that are now the striking features, thus calling for firms to employ diverse competitive strategies to navigate the turbulent waters of institutional transitions. Peng (2000), notes that economics started out as the theory of competitive enterprise, and even today its most impressive theorems require the assumption of numerous small firms, each having a negligible influence on price. Strategic choices are therefore not static but rather dynamic and this relates to the fact that the company and its conditions are undergoing constant change such that strategic choices must be corrected. Pearce and Richard (2003), point out that a company's ability to adapt to changing surroundings influences the performance and competitive position of the industry sector and the company and this has proven to be an extremely important and demanding quality. The priority, therefore, is on enhanced knowledge about how the company competitive strategies are implemented in consideration of limited resources, along many dimensions, to record impressive performance, qualitative as well as quantitative.

2.3 Competitive Strategies

Strategy identification at the business level is a straightforward process and in essence, a business strategy is built on a set of functional strategies, representing the competitive weapons that a company employs to compete in a given industry. Olsen (2012) postulates that the way to identify a business strategy is simply to first go through each of the functional areas and identify what pattern of decisions have been made. Strategic analysis according to Dess et al (2006) is critical for analyzing the competitive context in which an organization operates and for making reasonable recommendations on how that organization should position itself and what actions should be taken to maximize value creation.

Today's dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as Total Quality Management, benchmarking, and reengineering. Reuer (2004) noticed that the tools have taken the place of strategy as managers push to improve on all fronts, they move further away from viable competitive positions. Porter (1988) argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. In contrast, the essence of a strategy is to choose a unique and valuable position rooted in systems of activities that are much more difficult to match and give an edge over the competitors. There are various competitive strategy typologies that have put forth by various scholars; these include; Porter’s (1985) generic competitive strategies, Ansoff’s (1985) Product market growth strategies, Pearce and Robinson’s grand strategies and Ambidextrous strategies.

2.3.1 Porter’s Generic Competitive Strategies

Porter (1985) describes a framework for competitive advantage and explains few of the focus issues that firms keep in mind while formulating strategies at the top level, these are cost leadership, differentiation, and focus or market segmentation strategies. Porter’s generic strategies form a business tool which helps the management understand how the position of a company within an industry can be directly related to the strategy it has chosen and implemented.

For a firm to adopt cost leadership strategies it appeals to cost-conscious or price-sensitive customers, this is achieved by having the lowest prices in the target market segment. To succeed at offering the lowest price while still achieving profitability and a high return on investment, the firm must be able to operate at a lower cost than its rivals, this could be possible through some fairly unique capabilities to achieve and sustain their low cost position. These include having secured suppliers of a scarce raw material, being in dominant market share position or having a high degree of capitalization (Pearce and Robinson 2011).Low cost producers usually excel at cost reductions and efficiencies, they maximize on economies of scale, implementing cost cutting technologies, stress reductions in overhead and administrative expenses.

Differentiation is aimed at the broad market that involves the creation of a product or services perceived to be unique throughout the industry (Pearce and Robinson, 2011). Organisation may differentiate in various methods such as new technology, brand image, design, dealers, network customer service or the number of features. With differentiation strategy is the limitation by competitors, changes in customer tastes and increase in selling price of products due to additional costs incurred in adding unique features on the product to achieve the differentiation (Lynch, 2003).

In a niche or focus strategy firms identify a segment/niche market in the industry which is unattended or where the is a gap and tailor make its strategies to suit/satisfy the needs of the market(Porter,1985).The firm seeks to gain competitive advantage through product innovation or brand marketing rather than efficiency(Lynch,2003).A firm pursuing a focus strategy should focus on market segments that are less vulnerable to substitute or areas where competition is weakest to earn above average returns on investment.

2.3.2 Ansoff's Product Market Growth Strategies

The business analyst Igor Ansoff outlined some important strategies for business growth. The output from the Ansoff product/market matrix is a series of suggested growth strategies which set the direction for the business strategy. The Ansoff Opportunity Matrix was created as a way to create growth strategies for corporations based on markets and products. Ansoff (1984) suggested that business owners' ability to grow their businesses comes down to how they market new or existing products in new or existing markets. Using Ansoff's matrix, business owners can evaluate each of the growth strategies in turn to assess which is likely to result in the best possible return. Companies can choose their growth strategies based on the type of market, new or old, they wish to pursue and the type of product, new or old, they wish to propagate. The four basic growth possibilities according the Ansoff Matrix are market penetration, market development, product development, and diversification

Church and Ware (1999) summarized the Ansoff matrix and pointed out that the market penetration is the easiest way to grow in an expanding market. However, it becomes more difficult as the market matures and competition increases. Market development is a riskier strategy and is most appropriate where the core competence of the business is the product or service. Developing new products for an existing market is also more risky than market penetration. It is often most appropriate where the strength of the business lies in its relationship with customers. Diversification is the most risky strategy since it involves two unknowns: new products with unknown development problems and new markets with unknown characteristics. But it can offer the best potential for growth. The most common way for a business to diversify is to develop new products that take advantage of the core competencies of the organization. The advantage of Ansoff's Matrix as put forward by Huber (2004), is that it helps business owners to analyse the potential for each of the growth strategies. A business that operates in an expanding market can grow through market penetration.

2.3.3 Pearce and Robinson's Grand Strategies

Grand strategies are also called master or business strategy and they provide basic direction for strategic actions (Robinson and Pearce 1997),they are the basis of coordinated and sustained efforts directed towards achieving long term business objective. The fourteen principal grand strategies are concentrated growth, market development product development, innovation, horizontal integration, vertical integration, concentric diversification and conglomerate diversification turn around divestiture, liquidation, joint ventures, strategic alliances and consortia (Pearce and Robinson, 1997).A firm can employ either one of these several grand strategies depending on the range of products it serves. Concentric (market penetration), market development, diversification have been discussed in the earlier models.

For horizontal integration a firm seeks to acquire one or more similar firms operating at the same stage of the production-marketing chain, such acquisition eliminate competition and provide the acquiring firm with access to new markets. Vertical integration strategy is to acquire firms that supply it with inputs or customers for its outputs such as warehouse for finished goods, a firm may choose either backward or forward integration depending on its particular objective. Divestiture strategy involves the sale of firm or a major component of the firm, when retrenchment fails to bring the desired turn around or when a non-integrated business activity achieve unusually high make value strategic managers often decide to sell the firm. Innovation strategy has been applied with the underlying rationale of creating a new product cycle making similar existing products obsolete (Pearce and Robinson, 1997) differing from product development strategy that seeks to extend the lifecycle of existing products.

Joint venture strategies are applied when two or more capable firms lack a necessary component for success in a particular competitive environment Strategic alliances are distinguishable from joint ventures because the companies involved do not take an equity position in one another, in most cases strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. Turnaround strategy is applied by a firm to survive and recover in order to fortify its distinctive competences when it starts experiencing declining profits as a result of economic recessions, production inefficiencies and innovative breakthroughs by competitors. Liquidation strategy involves a firm being sold in parts or occasionally as a whole for its tangible assets and not as a going concern. The managers of a firm may choose liquidation in order to minimize losses of all firms' stakeholders. Faced with bankruptcy the liquidating firms usually try to develop a planned orderly system that will result in the greatest possible return and cash conversion as the firm slowly relinquishes its market share (Pearce and Robinson, 1997).

2.4 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended goals and objectives. According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes namely financial performance, product market performance and shareholder return, in some cases; production capacity performance may be analyzed. Specialists in many fields are concerned with organizational performance including strategic planners, operations, finance, legal, and organizational development. As noted by Porter (1998) the traditional control-oriented performance measurement system in the industrial era is losing its relevance in today's fast changing environment where organizations are re-shaped into flat multi-functional hierarchies. The diversity and unique requirements of different enterprises have made performance measurement tougher and no one-size-fits-all approach will ever do the job. Several performance measurement systems that have been in use to determine how well an organization performs, these are shareholder wealth maximization, the balanced scorecard, the triple bottom line and the sustainable balanced scorecard.

In the 1980s, the firm was viewed as belonging to the shareholders, so shareholder theory, which uses shareholder return to measure overall firm's performance, dominated organizational performance measurement systems. The traditional finance paradigm puts the shareholder wealth maximization as the primary goal of corporate management. Porter (1980) notes that this paradigm is built on the assumption that all participants who have transactions with a firm are seen as willing participants in free and competitive markets and are fully compensated at fair market prices for their services or supplies. During the early 1990s, a more stakeholder-based view prevailed; a view that matched that articulated by Porter (1998) when he advocated that environmental and social performance be aligned to support the company strategy. Kaplan and Atkinson (1992) concede that the Balanced Scorecard (BSC) began as a concept for measuring whether the smaller-scale operational activities of a company are aligned with its larger-scale objectives in terms of vision and strategy. Balanced scorecard is a tool to execute and monitor the organisational strategy by using a combination of financial and non-financial measures. It is designed to translate vision and strategy into objectives and measures across four balanced perspectives, these are financial, customers, internal business process and learning and growth. It gives a framework ensuring that the strategy is translated into a coherent set of performance measures.

The triple bottom line refers to an extension of the criteria used to measure organisational success. Triple bottom line reporting is becoming more widespread amongst both large and small organizations and it makes business decisions and actions more transparent and allows people to gain a thorough understanding of a business' level of corporate social responsibility. The triple bottom line takes into account three criteria for assessing organisational performance namely; economic, social and environmental. The emergence of the concepts of 'sustainable development' and 'sustainability' reflect a seminal change in global thinking, which is forcing firms to again re-evaluate their approach to measuring organizational performance. Kaplan and Norton (1992) acknowledge that measuring organizational performance is difficult, especially when what has to be measured keeps changing. Measuring sustainable performance has to be conceptually based but simplified to be practically useful. It proposed a stakeholder-based, Sustainable Balanced Scorecard (SBSC) conceptual framework coupled with a single-measure Organizational Sustainability Performance Index to integrate the measures in the SBSC. Bansal

(2002) points out that the most attractive approach to measuring organizational sustainability is to include social and environmental issues in the existing Balanced Scorecard to produce a Sustainable Balanced Scorecard that integrates the TBL and BSC frameworks.

2.5 Competitive Strategies and Organizational Performance

A creative and distinctive strategy that sets a company apart from its rivals and yields a competitive advantage is the company's most reliable ticket for earning above average performance. Thompson et al. (2007) stresses that without this, a company risks being out competed by stronger rivals and/or being locked into the mediocre financial performance. Organizations around the globe are bracing themselves for stiffer competition emerging in the market place fuelled by increasingly uncertain environments. As such there is need for establishing clear organizational strategy, focused on narrow objectives of what is at stake in the current moment, and aligning those strategies with the entire organization. Despite much debate in the strategy, there is little consensus as to whether organizational capabilities or market competition are more important in shaping firms' actions and performance. According to Huber (2004), reciprocal interactions at multiple levels of analysis between the market environment and firm capabilities shape business strategy and performance, while interactions between strategy and performance, in turn; shape both organizational capabilities and competitive environments.

In an effort to improve organizations profitability, and the overall performance, Barney (1986) notes that managers continuously make decision whether to launch new strategic initiatives as well as how to respond or counter other competitors' moves. He however points out that managers are able to make more effective decisions if they fully understand the firm's competitive environment. Kotler et al. (2008) noted that the quest for improved performance often leads managers to consider market entry opportunities. Such opportunities involve either pioneering a market or entering a market that is already occupied by others. High and comprehensive knowledge of the market is needed because there are many crucial factors to consider including whether a first move can create a competitive advantage. It is however noted by Thompson et al. (2007) that this does not create sustainable competitive advantage because second comers often perfect the product and erode the advantage earlier enjoyed by the pioneers. Specifically, sales and profits are enjoyed at an average period of 5 years, which is the reason why firm executives should develop thorough strategies that enhance performance of the firm in the competitive environment.

The concept of competition pointed out by Reuer (2004) is gaining popularity among firms in a bid to improve efficiency; this is through joint ventures, strategic alliances and organizational networks that enable an organization to avoid duplication of resources. However, cooperation exposes the firm to certain risks including loss of control over key operations and potential exploitive behaviors by partners. Therefore, focusing on competition with other firms avoid such risks and enables a firm to be innovative and efficiently manage resources.

Pearce et al. (2003) notes that the application by organizations of concepts such as strategic fit between resources and opportunities, generic strategies low cost versus differentiation versus focus and the strategy hierarchy of planning goals, strategies, and tactics often abets the process of competitive decline. There are two contrasting models of strategy which are meant to entrench a competitive advantage over firm's rivals; one is for maintaining strategic fit while the other focuses on leveraging resources. The two are not mutually exclusive, but they represent a significant difference in emphasis that deeply affects how competitive battles get played out over time. Porter (1998) acknowledges that both models recognize the problem of competing in a hostile environment with limited resources, but while the emphasis in the first is on trimming ambitions to match available resources, the emphasis in the second is on leveraging resources to reach seemingly unattainable goals. Both models recognize that relative competitive advantage determines relative profitability, the first emphasizes the search for advantages that are inherently sustainable; the second emphasizes the need to accelerate organizational learning to outpace competitors in building new advantages. It is therefore inevitable to conduct a research study of this magnitude to establish to what extent strategy choice and implementation affect the performance of todays' organizations and give recommendations on the findings.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter details how the study was be carried out. It covers the research design used to carry out the research and outlines the reasons for the choice, the population of study and the size and the tools used to collect and analyze data for this study. The choices herein were chosen to facilitate a complete synthesis and conclusion of the study in line with the research objectives.

3.2 Research Design

The research design was a blue print for fulfilling the research objective. It shows how the data was collected, measured and analyzed. The researcher employed descriptive cross sectional survey which enabled her to explain the relationships among many variables. Kothari (2004) observed that this method is best suited for gathering descriptive information where the researcher wants to describe the state of affairs as they existed.

The use of routinely collected data allows cross-sectional studies to be made at little or no expense. However, routinely collected data does not normally describe which variable is the cause and which the effect is. Cross-sectional studies using data originally collected for other purposes are often unable to include data on confounding factors, other variables that affect the relationship between the putative cause and effect. The major reason of choosing this type of research design is because it covers relationships that can be used for further experimental studies.

3.3 Population of the Study

The population of study consisted of all firms in the financial sector listed in the Nairobi Securities Exchange. These are commercial banks and insurance firms all in total were 17 firms as per the attached list downloaded from the Nairobi Securities Exchange website as at 31st July 2013 (AppendixII). Given that the population of study is small, a census survey was chosen where all the members of the population were considered for the study. A population census is in effect a 'bench mark' social survey in which all population members form the sample.

3.4 Data Collection

The study gathered both primary and secondary data. The primary data were collected by the use of a structured questionnaire with both open ended and closed questions. It was divided into three sub-sections, A, B and C Subsection. Sub-section A targeted data on the demographic aspects of the company, Sub-section B collected data on competitive strategies employed by the firms, while sub-section C collected data on the non-financial performance. The targeted respondents were the Marketing managers in each organization. Drop and pick later approach which is a variation of mail survey was used to administer the questionnaires.

Secondary data were extracted from the Nairobi Securities Exchange Library and Capital Markets Authority Library. This was the earnings per share, returns on investment in terms of dividends paid and changes in capitalization of the listed financial sector companies for a period of three years.

3.5 Data Analysis

Before analysis, the data were checked for completeness and consistency and the qualitative data coded quantitatively for ease of analysis. Regression analysis was used to test relationship between independent variables like competitive strategies and determine performance as the dependent variable. The general purpose of multiple regression is to learn more about the relationship between several independent or predictor variables and a dependent variable. In analyzing the relationship with more than one independent variable, the regression equation ($Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + e$) was used.

The unknown regression coefficients or graph slopes of the independent variables X1, X2, and X3, are represented by β0, β1, and β2. The study will consider different values of the independent variable vector X, after regression analysis a unique set of estimates for the three unknown parameters in β will be provided. The Y in the equation represented performance of listed financial sector companies and X represented the different competitive strategies.

Regression analysis is a statistical process for estimating the relationships among variables. More specifically, regression analysis helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. Kothari (2004) points out that, regression analysis is used to estimate the conditional expectation of the dependent variable given the independent variables, that is, the average value of the dependent variable when the independent variables are fixed. The advantage of this model is that the magnitudes of standardized partial regression coefficients will reveal the relative strengths of each independent variable on the dependent variable.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSION

4.1 Introduction

The purpose of this research was to investigate the relationship between competitive strategies and performance of financial companies listed in the Nairobi Securities Exchange. As such the study sought to establish the competitive strategies adopted by financial sector firms listed in the NSE and to establish the influence of competitive strategy on their performance. The data was gathered from questionnaire as the research instrument.

The target respondents were the marketing managers or senior managers charged with the responsibilities enhancing their firm's performance and sustaining their positions in the market by suggesting strategies to the board for implementation. As such the study sampled 17 firms from the target population where one respondent was selected and served with a questionnaire to provide data in regard to the relationship between competitive strategies and performance of the financial companies listed in the Nairobi Securities Exchange. The questionnaire return rate results are shown in Table 4.1.

Table 4.1: Response Rate

Response	Frequency	Percentage
Responded	13	76.5
Not responded	4	23.5
Total	**17**	**100.0**

Source: Field Data (2013)

From the 17 questionnaires dispatched to the various firms under study, 13 of them were picked completely filled. This represents a turnout of 76.5 percent and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This commendable response rate was possible after several personal calls were made and visits to remind the respondent to fill-in and return the questionnaires as well as explaining the importance of their participation in this study. A complete return of the questionnaires from the target population could not be achieved due to tight work schedule for most of the marketing managers or senior managers and the junior staffs were reluctant to share the information.

The questionnaire employed was structured along the well-known models of competitive strategies used to give firms an edge over their competitors as well as improve their performance. The study employed various statistical tools for extracting information on the relationship between competitive strategies and performance of financial companies listed in the Nairobi Securities Exchange.

4.2 Organisation Demographics

The study found it crucial to ascertain the broad information of the respondents' firms. Accordingly, this section concerns itself with outlining and presentation of the findings obtained from the questionnaires distributed to the respondents. The study involved the marketing managers or senior managers since they are the ones conversant with the relationship between competitive strategies and performance of financial companies listed in the NSE. The NSE activities notable in the financial sector has undergone many changes in the recent past which are attributed to changes in the operating environment of the firms listed therein and in the investors' attitude.

Share prices of companies listed has been unpredictable with some firms recording an increase while others in the same industry posting negative performances in their books. In order to get the background information on the relationship between competitive strategies and performance of financial companies listed in the Nairobi Securities Exchange, the organisational bio-data was investigated in the first section of the questionnaire. They are presented in this section under name of the firms, year of firm listing in the NSE, categories the firms and scope of operations of the firms.

4.2.1 Years of Listing in the NSE

The number of years that the firms have been trading their shares is an important indicator of the growth trends in the industry. Some firms have traded their shares to an optimum thereby leveling and stagnating at a certain price for some time and changing at a minimum. Majority of the firms were found to have operated in the NSE for a period of more than five years as shown in table 4.2.

Table 4.2: Years of Listing

Period	Frequency	Percentage
Less than 1 year	0	0
Less than 2.5 years	3	23
Less than 5 years	3	23
More than 5 years	7	54
Total	**13**	**100.0**

Source: Field Data (2013)

4.2.2 Ownership Categories the Firms

Financial companies listed in the NSE are firms incorporated in Kenya with ownership structures of purely local, purely foreign or a mixture of both local and foreign owners. This ownership structure is a major determinant of the firms funding strategy towards their competitive strategies and hence a source of the firms competitiveness. The study therefore sought to establish the ownership status of the firms listed in the NSE. From the results shown in Table 4.3, majority of the firms are locally owned followed by a blend of both local and foreign ownership and the last category consist of those that are foreign owned.

Table 4.3: Ownership Category

Status	Frequency	Percentage
Locally Owned	9	69
Foreign Owned	0	0
Both Local and Foreign	4	31
Total	**13**	**100.0**

Source: Field Data (2013)

4.2.3 Scope of Operations

From the ownership Statuses of the firms that were studied, it is clear that there is a big population of firms listed in the NSE that operates beyond the Kenyan boarders. As such the study was interested in establishing the scope of operations of the firms involved in this study. The results are as shown in Table 4.4.

Table 4.4: Scope of Operations

Scope	Frequency	Percentage
Local	5	38.5
Regional	3	23.1
Continental	3	23.1
Global	2	15.4
Total	**13**	**100.0**

Source: Field Data (2013)

According to the results depicted in Table 4.4, 38.5% of the respondents reiterated that their firms' activities are done only locally, 23.1% of the firms operate within the East African Region, another 23.1% of the firms have operations running across the continent, while 15.4% of the firms have global operations. This is an indication that the financial firms listed in the NSE have operations spreading across various countries where the operating environments and the socio-economic characteristics of the customers are different hence calling for the firms to employ various competitive strategies to survive in the markets. It is therefore clear that the firms sampled are better placed to give information with regard to the relationship between competitive strategies and performance of financial companies listed in the Nairobi Securities Exchange.

4.3 Competitive Strategies Adopted by Respondent Organisations

The first objective of the study was to establish the competitive strategies adopted by financial sector firms listed in the NSE. Accordingly, various examples of strategies were provided and the respondents were required to indicate the extent to which their organisations adopted them. A scale of 1 to 5 was provided such that (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all.

Table 4.5: Extent to Which Various Strategies are Adopted by the Organizations

Strategies Adopted by the Organizations	**Mean**	**Std. Dev.**
Extended its market coverage to new areas	3.0071	1.6950
Grown its customer numbers in the market	3.5273	0.1 363
Improved its products / services to its customers	3.3714	.83703
Ventured from its traditional business to new / different	3.5489	1.1812
Reduction of operational costs and reflecting the same in consumer prices	3.3322	1.4923
Tailored its products to suit specific requirements of your clients	3.3725	1.2021
Introduced a new product to the market	3.5000	0.5933
Reviewed product / service prices to match or be lower than competitors	3.6875	1.2543
Rebranded its services / products to create market recognition	3.3322	1.4923

Source: Field Data (2013)

From the study presented in Table 4.5, majority of the respondents recapped that their firms reviewed product / service prices to match or be lower than competitors to a large extent as shown by a mean score of 3.6875, ventured from their traditional business to new / different to a large extent as shown by a mean score of 3.5489, grown their customer numbers in the market to a large extent as shown by a mean score of 3.5273 and introduced a new product to the market to a large extent as shown by a mean score of 3.5000. They further indicated that their firms tailored its products to suit specific requirements of their clients, improved its products / services to its customers, reduction of operational costs and reflecting the same in consumer prices, rebranded its services / products to create market recognition and extended its market coverage to new areas to moderate extents as shown by mean scores in Table 4.5.

From the results, the importance of the match between business strategy and marketing strategy has been empirically illustrated. It is clear that various strategies are designed for situations where partial information is available, whereas an optimal solution would require complete knowledge of all circumstances, or of the future.

The study further sought to ascertain the extent to which various approaches have been adopted by the firms to attain competitiveness. Table 4.6 shows the results.

Table 4.6: Various Approaches Adopted by Firms to Attain Competitiveness

Strategic Approaches	**Mean**	**Std. Dev.**
Integrated with other companies horizontally	3.5845	0.77251
Integrated with other companies vertically	3.6954	1.25435
Formed strategic alliances with other firms	3.2972	1.6102
Formed joint ventures with other firms	3.3322	1.4923
Sold off any of your operations to other operators to enable you concentrate on your core services or otherwise	3.5528	1.1843
Turned around its performance to positive	3.2972	1.6102
Engaged in charitable projects for the society	3.3322	1.4923
Engaged in the conservation of the environment	3.5423	1.1772

Source: Field Data (2013)

The study results in Table 4.6 shows the firms have integrated with other companies vertically to a great extent as shown by a mean score of 3.6954, integrated with other companies horizontally to a great extent as shown by a mean score of 3.5845, sold off any of their operations to other operators to enable them concentrate on their core services or otherwise to a great extent as shown by a mean score of 3.5528 and engaged in the conservation of the environment to a great extent as shown by a mean score of 3.5423.

In addition, the firms have formed joint ventures with other firms to a moderate extent as shown by a mean score of 3.3322, engaged in charitable projects for the society to a moderate extent as shown by a mean score of 3.3322, formed strategic alliances with other firms to a moderate extent as shown by a mean score of 3.3322 and turned around their performance to positive to a moderate extent as shown by a mean score of 3.2972. These strategies are more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare to ensure that the firms attain high performance, customer satisfaction, and increased competitiveness in the face of other rival businesses.

4.4 Competitive Strategy Influence on Performance

The study's second objective was to establish the influence of competitive strategy on performance of financial sector firms listed in the NSE. Accordingly, the study sought to establish the extent to which the firms achieved improvement along the terms of organisation performance which is measured along various indicators. As such a scale of 1 to 5 was provided where 5 was very large extent; 4 was large extent, 3 was moderate extent, 2 was less extent and 1 was not at all.

Table 4.7: Qualitative Aspects of Performance

Qualitative Aspect	Mean	Std. Dev.
Improvement of internal processes for increased efficiency	3.5423	1.177
The employee turnover has reduced due to satisfaction	3.6828	1.250
Customer loyalty has increased due to satisfaction	3.3322	1.4923
Brand recognition in the market has improved	3.0000	0.8401
Improvement of professionalism due to training of employees	3.5542	1.1833
Growth of employees in terms of career and education advancement	2.9000	1.7196
Increased engagement with the public through open days	3.2083	1.184

Source: Field Data (2013)

From the study presented in Table 4.7, majority of the respondents unanimously reiterated that the employee turnover has reduced due to satisfaction, improvement of professionalism due to training of employees and improvement of internal processes for increased efficiency to great extents as shown by mean scores of 3.6828, 3.5542 and 3.5423, while they indicated that customer loyalty has increased due to satisfactionto a moderate extent as shown by a mean score of 3.3322, increased engagement with the public through open daysto a moderate extent as shown by a mean score of 3.2083, brand recognition in the market has improvedto a moderate extent as shown by a mean score of 3.0000 and growth of employees in terms of career and education advancementto a moderate extent as shown by a mean score of 2.9000. This is a clear indication that the firms have realized benefits of the adopted competitive strategies. The goal of a competitive strategy for a business it to find a position in the industry where the company can best defend itself against competitive forces or can influence them in its favor.

4.5 Competitive Strategies and Performance of Listed Financial Firms

Inferential analysis is utilized in this study to determine if there is a relationship between an intervention and an outcome, as well as the strength of that relationship. The inferential statistics analysis aimed to reach conclusions that extend beyond the immediate data alone between the independent variables in this study and the dependent variables which involve a coefficient of determination The study the study conducted inferential analysis to establish the relationship between the in and a multiple regression analysis.

The study considers the dependent and independent variables where the dependent variables were the various strategies that different listed firms implemented in the last 3 years meaning 2012, 2011 and 2010. These strategies were based on the questionnaire that captured most aspects of Porter's Generic Competitive Strategies, Ansoff's Product Market Growth Strategies and Pearce and Robinson's Grand Strategies. The independent variables were based on performance captured in terms of finance and non-financial parameters. Financial performance of listed companies is determined by the following parameters, change in share prices where a positive change in share prices indicates good performance where else a decline is interpreted to indicate poor performance. The independent variables in this study included generic competitive strategies, product market growth strategies and grand strategies while the dependent variable was firm performance.

The coefficient of determination is a measure of how well a statistical model is likely to predict future outcomes. The coefficient of determination, r^2 is the square of the sample correlation coefficient between outcomes and predicted values. As such it explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (firm performance) that is explained by all the independent variables (generic competitive strategies, product market growth strategies and grand strategies),as shown in Table 4.8.

Table 4.8: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981(a)	0.863	0.691	0.752

Source: Field Data (2013)

a. Predictors: (Constant), generic competitive strategies, product market growth strategies and grand strategies.

b. Dependent variable: Firm performance

Table 4.8 presents the regression model goodness of fit statistics to determine whether firm performance has a linear dependence on generic competitive strategies, product market growth strategies and grand strategies. The study established a correlation value of 0.863. This depicts a very good linear dependence between the firm performance and the three independent variables namely generic competitive strategies, product market growth strategies and grand strategies. An R-squared value of 0.863 was established. The coefficient of determination depicts that the three independent variables contribute about 86.3% to the variation in firm performance while other factors not studied in this research contribute 13.7% of the performance of financial firms listed in the NSE.

Multiple regression is a statistical technique that allows us to predict a score of one variable on the basis of their scores on several other variables. The main purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable.

Table 4.9: ANOVA

	Sum of squares	**Df**	**Mean Square**	**F**	**Sig or P-value**
Regression	46.294	4	11.574	11.815	000(a)
Residual	97.953	45	980		
Total	144.248	49			

Source: Field Data (2013)

Predictors: (Constant), generic competitive strategies, product market growth strategies and grand strategies. Dependent Variable: Firm performance.

ANOVA findings as explained by the P-value of 0.000 which is less than 0.05 (significance level of 5%) confirms the existence of correlation between the independent and dependent variables. The model shows the model fitness i.e. how well the variables fit the regression model. From the results represented in Table 4.9, the F ratio of 11.815 and the significance of 0.000 shows that there was not much difference in means between dependent and independent variables.

Table 4.10: Multiple Regression Analysis

	Unstandardized Coefficients		Standardized Coefficients	t-Statistics	Sig.
	B	**Std. Error**	**Beta**		
(Constant)	1.224	0.3126		4.358	0.000
Generic competitive strategies	0.217	0.1440	0.185	0.776	0.0038
Product market growth	0.118	0.0847	0.023	0.1741	0.0046
Grand strategies	0.299	0.0715	0.235	0.9203	0.0044

Source: Field Data (2013)

Dependent Variable: Performance of finance companies listed in the NSE

The researcher conducted a multiple regression analysis so as to relationship between various dimensions of competitive strategies (independent variables) and the firm performance (dependent variable). The regression equation (**$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e$**) now becomes:

$$\mathbf{Y = 1.224 + 0.217\,X_1 + 0.118X_2 + 0.299X_3}$$

Whereby Y = Performance of finance companies listed in the NSE

X_1 = generic competitive strategies

X_2 = product market growth strategies

X_3 = grand strategies

According to the regression equation established, taking all factors (generic competitive strategies, product market growth strategies and grand strategies) constant at zero, the performance of finance companies listed in the NSE realized would be 1.224. The data findings analyzed also shows that taking all other independent variables at zero, a unit increase in generic competitive strategies lead to a 0.217

increase in performance of finance companies listed in the NSE. A unit increase in product market growth strategies will lead to a 0.118 increase in performance of finance companies listed in the NSE; whereas a unit increase in grand strategies will lead to a 0.299 increase in performance of finance companies listed in the NSE.

These results represented in Table 4.10, infer that grand strategies contributes more to performance of finance companies listed in the NSE, followed by generic competitive strategies, while product market growth strategies contributes the least to performance of finance companies listed in the NSE. At 5% level of significance and 95% level of confidence, generic competitive strategies had a 0.0038 level of significance; product market growth strategies had a 0.0046 level of significance; while grand strategies showed a 0.0044 level of significance hence generic competitive strategies is the most significant factor in influencing performance of finance companies listed in the NSE.

4.6 Discussion

The financial systems operate in a dynamic and turbulent environment which has made firms expand on their products and borders with the motive of searching for markets, resources and achieve efficiency. From the study the firms have engaged in various strategic approaches aimed at increasing their competitive edge in the industry. In this regard the firms have reviewed product / service prices to match or be lower than competitors, ventured from their traditional business to new / different, grown their customer numbers in the market and introduced a new product to the market. According to the research problem, competitive strategy is about identifying areas that will enhance efficiency and improve on its performance while creating uniqueness of a company within an industry (Peng, 2000).

The study has established that there is no particular strategy that can single handedly influence a firm's performance. Publicly listed companies' need to be competitive enough to ensure growth and retention of market share in the industry because this would certainly translate to increased sales and profits. The strategy choice varies according to the market and other competitors. The study established that there are common competitive strategies in an industry but implementation varies from firm to firm. However, some firms move a notch higher and modified the industry strategy in line with their client needs or implement completely different competitive strategies.

As established during the study, various competitive strategies influence firm performance in different ways and how they are combined might determine the overall effect. From the findings, different strategies exhibited different levels of significance and this implies that strategies have effect on a company's performance however the significance of the impact varies. The firms have integrated with other companies vertically and horizontally, sold off their operations to other operators to enable them concentrate on their core services or otherwise and engaged in the conservation of the environment, the firms have formed joint ventures with other firms, engaged in charitable projects for the society, formed strategic alliances with other firms and turned around their performance to positive.

The banking industry characteristics vary from the insurance industry even though they both fall under financial industry in the NSE. These characteristics play a role in deciding the competitive strategy to be adopted and due to the dynamic nature of the environment; firms adopt strategies from different approaches. This was established by the study where generic competitive strategies played a very significant role in determining performance of a firm. The study established that organization's competitive strategies are aimed at improving not only financial but also the social and environmental performance parameters. This is in line with Porter (1998) who advocated that environmental and social performance be aligned to support the company's strategy. Overall the social performance was based on employee turnover and the firm's participation in environmental issues. However the study found out that the ideal Sustainable Balanced Scorecard is not achievable due to the constraints faced by firms in Kenya.

The resources available for strategy implementation play a very big role in the choice of competitive strategy. The study found that the locally owned firms were more inclined to the financial performance aspect when choosing strategy. Most local firms choose cost lowering strategies and market expansion strategies where else, both foreign and local owned firms choose competitive strategies to achieve both financial and non-financial owing to financial support available from mother companies abroad.

The findings in this study further concurred with the earlier findings of Wambugu (2012) whose research found that non-financial performance was to a larger extent affected by the strategy adopted though this was in a non-competitive environment. On financial performance, findings from earlier studies by Adhiambo (2009) and Obiero (2008) were confirmed after the research found out that different competitive strategies determined the performance of firms.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This is the final chapter in this study which gives the summary of the findings, the discussion, conclusions, recommendations of the study based on the objective of the study and suggestions for further findings. It comes after identifying the background, problem at hand and the objectives in chapter one, literature review was done in chapter two, chapter three set out the methodology that the study used to collect data and chapter four analyzed the data obtained from the study. The chapter finally presents the suggestions for further studies. The study sought to establish the competitive strategies adopted by financial sector firms listed in the NSE and to establish the influence of competitive strategy on performance of financial sector firms listed in the NSE. The chapter finally presents the suggestions for further studies.

5.2 Summary

This study found that most of the financial firms have been listed in the NSE for a period of more than 5 years. Majority of the firms are locally owned followed by a mixture of both local and foreign ownership and the last category consist of those that are foreign owned. From the study, 38.5% of the respondents reiterated that their firms' activities are done only locally.

The study further found that majority of the firms reviewed product / service prices to match or be lower than competitors, ventured from their traditional business to new / different, grown their customer numbers in the market and introduced a new product to the market to large extents, while firms tailored its products to suit specific requirements of their clients, improved its products / services to its customers, reduction of operational costs and reflecting the same in consumer prices, rebranded its services / products to create market recognition and extended its market coverage to new areas to moderate extents.

The study also found that the firms have integrated with other companies vertically, integrated with other companies horizontally, sold off any of their operations to other operators to enable them concentrate on their core services or otherwise and engaged in the conservation of the environment to great extents, while the firms have formed joint ventures with other firms, engaged in charitable projects for the society, formed strategic alliances with other firms and turned around their performance to positive to moderate extents.

The study concludes that the firms have achieved improvement along the terms of organisation performance which is measured along various indicators. Accordingly, the employee turnover has reduced due to satisfaction, improvement of professionalism due to training of employees and improvement of internal processes for increased efficiency to great extents, while customer loyalty has increased due to satisfaction, increased engagement with the public through open days, brand recognition in the market has improved and growth of employees in terms of career and education advancement to moderate extents.

The study finally found that the three independent variables contribute about 86.3% to the variation in firm performance depicting a very good linear dependence between the firm performance and the three independent variables namely generic competitive strategies, product market growth strategies and grand strategies. ANOVA findings as explained by the P-value of 0.000 which is less than 0.05 (significance level of 5%)

confirms the existence of correlation between the independent and dependent variables. From the regression analysis, taking all factors (generic competitive strategies, product market growth strategies and grand strategies) constant at zero, the performance of finance companies listed in the NSE realized would be 1.224. The results infer that grand strategies contributes more to performance of finance companies listed in the NSE, followed by generic competitive strategies, while product market growth strategies contributes the least to performance of finance companies listed in the NSE.

5.3 Conclusion

The financial firms listed in the NSE have operations spreading across various countries where the operating environments and the socio-economic characteristics of the customers are different hence calling for the firms to employ various competitive strategies to survive in the markets. As pointed out in the discussion, the competitive strategies adopted by financial firms listed in the NSE in the market were offering high quality services, providing superior customer service, offering services not offered by competitors, introducing new services to the market and use of latest technology, regular market surveys of customer needs, customized services to niche market, better service attributes to niche and also market segmentation, new service features in response to demand, keeping overheads same as industry, keeping charges lower than competition and staff reduction.

The study also concludes that the importance of the match between business strategy and marketing strategy has been empirically illustrated. It is clear from the discussions that various strategies are designed for situations where partial information is available, whereas an optimal solution would require complete knowledge of all circumstances, or of the future. For the financial firms, market development is one of the most important goals of growth and development. The various strategies used to the changing market in the financial industry in order to enhance performance include offering services not offered by competitors, use of latest technology, introducing new services in market and regular market surveys of customer needs.

The study also deduced that the various competitive strategies are more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare to ensure that the firms attain high performance, customer satisfaction, and increased competitiveness in the face of other rival businesses. According to Besanko et al (2006), various competitive strategies influence firm performance in different ways and how they are combined might determine the overall effect. The firms focus their efforts on providing a unique product or service, thus setting their offerings apart from other competitors.

The study deduced that the firms have realized benefits of the adopted competitive strategies. The goal of a competitive strategy for a business it to find a position in the industry where the company can best defend itself against competitive forces or can influence them in its favor. According to the findings and discussions, different strategies exhibited different levels of significance and this implies that each strategy has an effect on a company's performance however the significance of the impact varies. The application of various competitive strategies significantly affects the performance of the firms' performance. When using the strategies, the firms focus their efforts on providing a unique product or service, thus setting their offerings apart from other competitors.

The study found out that other studies done on the same concept realized the same output though the context was different. It concluded that all competitive strategies have impact on the performance of any firm that adopts it. However, there is variance on the competitive strategies impact magnitude and it largely depends on the industry and the implementation.

5.4 Recommendations

From the foregoing findings and conclusions, the following recommendations for policy and practice are suggested.

5.4.1 Recommendations for Policy

The study recommends that the government through its respective specialty departments should put in place appropriate policies which support the financial sector firms listed in the NSE as a way of increasing their contribution to the economy. It is clearly demonstrated in the results that it is the important to match the business strategy and marketing strategy and there are various strategies designed for situations where partial information is available, whereas an optimal solution would require complete knowledge of all circumstances. Accordingly, the relevant authorities should also work towards setting policies and standards governing the performance of the financial sector firms. This would be in an attempt to cushion them form the adverse effects of the dynamic and competitive operating environment brought about by globalization and rise in technological advancements.

5.4.2 Recommendations for Practice

The findings of the study made it clear that various competitive strategies are more skill-based and involving strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare to ensure that the firms attain high performance, customer satisfaction, and increased competitiveness in the face of other rival businesses. As such the firms should engage in more of the proactive strategies by coming up with new innovations in order to keep pace with the rivalry.

The study also recommends that, since the financial sector firms listed in the NSE are faced with various challenges brought about by competition in the industry, there is need for the financial firms to involve in innovative strategies to offer their products and services at a lower price than their competitors. In order to maintain their competitiveness in the industry, the study also recommends that since corporate growth and development strategies applied by the firms affect their performance, the firms should consider investing in more corporate growth and development including the opening of new branches to reach the market.

The firms should also engage in nationwide promotion and advocacy for their products and services in order to enhance market focus strategies. The study also recommends that since application of competitive strategies greatly affects the performance of the firms, the financial firms should seek to adopt more innovative product and services differentiations that make them a stand-alone in the market.

5.5 Limitations of the Study

The main limitation of study was its inability to include more organizations listed in the NSE or other firms across the Country. This was a study focusing on the financial sector firms listed in the NSE. The study could cover more organizations so as to provide a more broad based analysis. The study countered this problem by carrying a study across the head offices of the financial sector firms in Nairobi. This was in an effort to ensure that the information obtained would match a given industry where the dynamics of the operating environments are the same.

The respondents approached were likely to be reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their firms. Some respondents would even turn down the request to fill questionnaires posing a challenge in coming up with findings on the situation as regards the competitive strategies and performance of financial sector firms listed in the NSE. The study handled the problem by carrying an introduction letter from the University and assuring them that the information they give would be treated confidentially and it would be used purely for academic purposes.

The researcher was also likely to encounter problems in eliciting information from the respondents as the information required is subject to areas of feelings, emotions, attitudes and perceptions, which cannot be accurately quantified and/or verified objectively. This might have led to lack of response due to the veil of confidentiality surrounding the financial sector institutions. The researcher encouraged the respondents to participate without holding back the information they might be having as the research instruments would not bear their names.

5.6 Suggestions for Further Studies

The study has explored the relationship between competitive strategies and performance of financial companies listed in the NSE and established that Porter's Generic Competitive Strategies, Ansoff's Product Market Growth Strategies and Pearce and Robinson's Grand Strategies are the main competitive strategies that affect the performance of financial companies listed in the NSE. One of the limitations of this study was its inability to include more organizations listed in the NSE or other firms across the Country.

The financial sector in Kenya however is comprised of various companies not listed in the NSE which differ in their way of management and have different settings all together. The differences in their listing status, ownership structure and length of operation determine their competitiveness and thus their success in the financial sector in Kenya as evidenced in this study. This warrants the need for another study which would ensure generalization of the study findings for all the financial sector companies in Kenya and hence pave way for new policies.

The researcher, therefore, suggests that for effective conclusive study on competitive strategies adopted by firms to gain competitive advantage, a replicate study be carried out in another industry for comparison of results. Probably a case study/in-depth approach would uncover more. This would reduce the error that might have been encountered due to limitations in the number of respondents who might have compromised data due to emotions.

REFERENCES

Adhiambo, O. S. (2009). *Competitive Positioning and Performance of Commercial Banks in Kenya. (unpublished MBA project).* School of Business, University of Nairobi, Kenya.

Ansoff,H.I (1984). *Implanting Strategic Management.* New Jersey: Prentice Hall

Bansal, P. (2002). The Corporate Challenges of Sustainable Development. *Academy of Management Review.* 16(2): 122–131.

Barney, J. B. (1986). Strategic Factor Markets: Expectations, Luck, and Business Strategy. *Management Science.* 32; 1231-1241.

Barney, J. B. (1991). Firm Resources and Sustained Competitive Advantage, *Journal of Management.* 17, 99-120.

Besanko, D., Dranove, D., Shanley, M., and Schaefer, S. (2006). *Economics of Strategy.*(4th edition), UK: Wiley.

Canary J.D. and Lakey S.(2012). *Strategic Conflict.* UK: Routledge UK

Central Bank of Kenya, (December 2011). Joint Annual Report by Financial Sector Regulators, June 2012; *Kenya's Financial Sector Stability Report. 2011, 35-39*

Church, J. and Ware, R.(1999).*Industrial Organization: A strategic approach.* New York: McGraw-Hill.

Cook, S., Boekholt, P., and Todtling, F. (2007). *Competitive Advantage and Competition Policy in Developing Countries.* New Jersey: Prentice Hall.

Dess, G., Stadtler, T., and Whittington, E. (2006). *Strategic Management: Text and Cases.* Boston: McGraw-Hill Irwin.

Huber, G. P. (2004).*The Necessary Nature of Future Firms*: Attributes of Survivors in a Changing World. USA: Thousand Oaks, CA: Sage.

Kaplan, R. and Atkinson, A.(1998). *Advanced Management Accounting.* (2nd edition.) New Jersey: Prentince-Hall, Kaplan R. and Norton D. (1996). Linking the Balanced Scorecard to Strategy. *California Management Review*. 39(1); 53–79.

Kaplan, R. and Norton, D.(1992).*The Balanced Scorecard- Measures that drive Performance,* (3rd edition). USA: Harvard University Press.

Karanja, E. (2010). *Competitive Strategies Adopted by Standard (K) Limited. (unpublished MBA project).* School of Business, University of Nairobi, Kenya.

Kothari C.R. (2004). *Research Methodology*: *Methods and Techniques.* (2nd Edition). New Delhi: New Age International (P) Ltd Publishers.

Kotler, P. and Armstrong, G (2008).*Principles of Marketing*. (12th edition). Upper Saddle River, New Jersey: Prentice Hall.

Lewis, W. (2004). *The Power of Productivity*. USA: University of Chicago Press.

Mugenda M. and Mugenda G. (1999). *Research Methods: Quantitative and Qualitative Approaches. Kenya:* African Centre for Technology Studies.

Nairobi Securities Exchange.(2013, July 24). *NSE Hand book 2012*. Retrieved on July 24, 2013, from www.nse.org

Obiero, H. O. (2008). *Competitive Strategies Applied by Cement Manufacturing Firms in Kenya. (unpublished MBA project).* School of Business, University of Nairobi, Kenya.

Olsen E. (2012). *Strategic Planning Kit for Dummies*, (2nd Edition.). UK: John Wiley and Sons, Inc

Oyeila, B. (2011). *Completive Strategies and Performance of Commercial Banks an Kenya. (unpublished MBA project).* School of Business, University of Nairobi, Kenya.

Pearce A. J and Robinson R. B. (2003). *Strategic Management: formulation, implementation, and control.* New York: McGraw-Hill/Irwin

Peng, M. W. (2000). *Business Strategies in Transforming Economies*. USA: Thousand Oaks, CA: Sage.

Porter, M.E. (1998). *Competitive Strategy: Creating and Sustaining Superior performance*. New York: The Free Press.

Porter, M.E. (1980).*Competitive Strategy: Techniques for analyzing industries and competitors*. New York: The Free Press.

Reuer J. J. (2004). *Strategic Alliances: Theory and Evidence*. USA: Oxford University Press.

Richard, P. J., Devinney, Y., and Johnson, G. (2009). Measuring Organizational Performance: Towards Methodological Best Practice. *Journal of Management*. 35, 1, 113-133.

Thompson, A., Strickland, A. J., and Gamble, J. (2007). *Crafting and Executing Strategy: The Quest for Competitive Advantage: Concepts and Cases*. McGraw-Hill

Wambugu, I. M. (2012). *Competitive Strategies and Performance of International Non-Governmental Organizations in Nairobi. (unpublished MBA project).* School of Business, University of Nairobi, Kenya.

Weidinger, C. and Platts,K. (2012). Evaluating the Effectiveness of Performance Measurement Systems. *Seventeenth International Working Seminar on Production Economics*. Austria :Innsbruck.

APPENDICES

Appendix I: Questionnaire

A STUDY ON COMPETITIVE STRATEGIES AND PERFORMANCE OF FINANCIAL COMPANIES LISTED IN THE NAIROBI SECURITIES EXCHANGE

The answers provided for this questionnaire will solely be used for academic purposes and they will be treated with the highest level of confidentiality.

Section A: Organisation Bio-Data (Optional)

1. Name of the Firm ___________________________________

2. When was the firm listed in the NSE? ____________________________

3. In which of the following categories is your firm?

a) Locally Owned ( )

b) Foreign Owned ( )

c) Both Local and Foreign ( )

4. What is your scope of operations?

a) Local ( )

b) Regional

b) Continental ( )

c) Global ( )

Section B: Strategies Adopted in the last 3 years

5. The following are examples of strategies; please indicate the extent to which your Organisation adopts them. Please tick in consideration of the key provided below.

Key: (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all

	5	4	3	2	1
Extended its market coverage to new areas					
Grown its customer numbers in the market					
Improved its products / services to its customers					
Ventured from its traditional business to new / different					
Reduction of operational costs and reflecting the same in consumer prices					
Tailored its products to suit specific requirements of your clients					
Introduced a new product to the market					
Reviewed product / service prices to match or be lower than competitors					
Rebranded its services / products to create market recognition					

6. In the last three years, the firms has; (tick as appropriate)

Key: (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all

	5	4	3	2	1
Integrated with other companies horizontally					
Integrated with other companies vertically					
Formed strategic alliances with other firms					
Formed joint ventures with other firms					
Sold off any of your operations to enable you concentrate on your core services or otherwise					
Turned around its performance to positive					
Engaged in charitable projects for the society					
Engaged in the conservation of the environment					

Section C: Organization Performance

7. Organisation performance can be measured along various indicators; to what extend has your Organisation achieved improvement along the terms;

Key: (5) Very large extent (4) large extent (3) moderate extent (2) less extent (1) not at all

	5	4	3	2	1
Improvement of internal processes for increased efficiency					
The employee turnover has reduced due to satisfaction					
Customer loyalty has increased due to satisfaction					
Brand recognition in the market has improved					
Improvement of professionalism due to training of employees					
Growth of employees in terms of career and education advancement					
Increased engagement with the public through open days					

Appendix II – Introduction Letter from University of Nairobi

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE......09/09/2013

TO WHOM IT MAY CONCERN

The bearer of this letter ......JANET KIRIGO WACHIRA..................

Registration No.......D61/63367/2010..................

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
09 SEP 2013
MBA OFFICE
P.O. Box 30197 – 00100, NAIROBI

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

Appendix III – Introduction letter to the Respondents

6th September, 2013.

To: In-charge of Marketing,

Dear Sir / Madam,

<u>INTRODUCTION AND REQUEST FOR ASSISTANCE.</u>

I am a bona fide continuing student in the Master of Business Administration (MBA) degree program in the University of Nairobi. I have successfully completed the course work which is a mandatory requirement before one can advance to the second part (project phase).

As per the university's requirements and to enable me complete my studies and to qualify for the award of the degree, I am required to identify and undertake a research project report on a management problem.

MBA students are required to undertake projects on real problems affecting firms in Kenya. My approved research concentration is thus on Strategic Management and the broad objective of the study is on "Competitive Strategies and Performance of Financial Sector Companies Listed in the Nairobi securities Exchange".

It is in light of this that I request for your assistance in filling the questionnaire submitted to your offices. The results of the report will be used solely for academic purposes and a copy of the same will be availed to your organisation upon request.

Attached please find the questionnaire.

Yours faithfully,

Janet K. Wachira

Appendix IV: Financial Sector Companies Listed in the Nairobi Securities Exchange

1. Barclays Bank Ltd
2. CFC Stanbic Holdings Ltd
3. I&M Holdings Ltd
4. Diamond Trust Bank Kenya Ltd
5. Housing Finance Co Ltd
6. Kenya Commercial Bank Ltd
7. National Bank of Kenya Ltd
8. NIC Bank Ltd
9. Standard Chartered Bank Ltd
10. Equity Bank Ltd
11. The Co-operative Bank of Kenya Ltd
12. Jubilee Holdings Ltd
13. Pan Africa Insurance Holdings Ltd
14. Kenya Re-Insurance Corporation Ltd
15. Liberty Kenya Holdings Ltd
16. British-American Investments Company (Kenya) Ltd
17. CIC Insurance Group Ltd

Source: Nairobi Securities Exchange Website (31st July, 2013)