Available online at www.elixirpublishers.com (Elixir International Journal)

Finance Management

Elixir Fin. Mgmt. 111 (2017) 48722-48729

ISSN: 2229-712X

An Assessment of the Effect of Differentiation Strategy on Current Performance of Equity Bank, Homa Bay Branch

David obonyo Mreri and Christopher Ngacho

Kisii University.

ARTICLE INFO

Article history:

Received: 26 August 2017;

Received in revised form:

2 October 2017;

Accepted: 12 October 2017;

Keywords

Differentiation,

Competitive advantage,

Strategy,

Strategic assets.

ABSTRACT

Banks often drive their profitability by focusing on cost minimization through investments in efficient-scale facilities and effectiveness, while seeking to expand their revenue streams and gaining large market share. Thus, seeking a competitively valuable way to reduce cost of supply and production, producing superior products and services that meet, attract and satisfy client demands and doing so to the right market segment is central to banks strategic formulation and execution. Banks therefore must strive to effectively and efficiently manage every expense and find new sources of potential cost reduction along its production and supply chain, increase its market share and divest its revenue channels so as to remain profitable and relevant, grow and survive in a competitive market environment. The main objective of this study was to assess the effect of differentiation strategy on the performance of Equity Bank, Homa Bay Branch. The findings of this study will contribute both practically and academically to knowledge on competitive strategies formulation and implementation both to the banking fraternity and researchers at large. The secondary data was derived from Equity Bank data for a period of 1999 to 2017. The study that targeted 75 respondents was conducted in Equity Bank, Homa Bay Branch and the researcher employed a descriptive research design and used questionnaires as a research tool to collect data. The researcher with the help of two supervisors and a research assistant was able to use the Content Valid Index (CVI) to measure the validity of the research instrument. The analysis of data was conducted through both descriptive and inferential statistics specifically percentages, likert scale analysis, frequencies and simple regression analysis. The data was presented using figures, frequency tables and Charts and then findings were interpreted. The findings of this study revealed that differentiation strategy positively affect the performance of Equity Bank, with a recommendation that the bank should adopt differentiation strategies, while integrating cost cutting technologies for a sustainable competitive advantage.

Introduction

A company's competitive strategy is a set of or pattern of actions that are employed by its management so as to create a condition that gives the company a competitive advantage over its rivals, while maximizing stakeholder's values and economic performance. It defines a firm's ability to compete productively, its efforts to satisfy customers, and its ability to put up an offensive and counter offensive moves against the rivals and its conscious attempt to secure market dominance against the competitors (Bintiomari, 2010). An organization is said to have achieved competitive advantage if it has some kind of edge over its competitors in persuading and pulling clients while at the same time putting up with the environmental disruptive forces. Firms can pursue many courses to gaining competitive edge, but all involve generating a product or service value that can gratify customers and sustain the perceived higher value than the ones offered by rival companies.

Organization's ability to augment its profits is dependent on its capability to outwit, out deceive and out maneuver its rivals. To accomplish this it needs the thought of game theory which deals with the course of action of competitive dealings whereby the firm seeks to settle on a competitors most valuable defensive strategy to one's own offensive strategy and formulates the most desired counter strategy (Mintzberg, Quinn, & Ghoshal, 2009). Also necessary is the concept of strategic conflict model which depict competition as war between rival firms. Central to this loom according to Burnes (2009) is the view that a firm can accomplish increased profits by swaying in the actions of and behavior of its rivals and thus in outcome, manipulate the market environment. Therefore, the model integrates the role of strategic signaling as a significant mechanism for influencing or menacing rivals.

In Kenya today, competition in the banking industry has become so stiff that banks are straining for business survival, growth and profitability. These are due to customers getting more affluent, more informed and as a result, more financially sophisticated. The banking environment has changed significantly due to liberalization of the sector creating threats of new entrants and substitutes like telecoms and SACCOS, well-organized information flow and political instability.

Tele:

E-mail address: ochiengobby@gmail.com

Technology has also revolutionized the banking industry and provided the banks with the opportunity to not only disrupt the market, but also disrupt itself. With the overture of e-banking, mobile banking, agency banking, e-statements and automated teller machines and finally equitel products, the bank with the most efficient technology may not only differentiate itself but also implement cost advantages provided by technological economies of scale. These new advancement have taken customers out of banking halls to the rural unbanked or under banked areas. Banks in Kenya are working in a volatile background with unpredictable circumstances. The major test facing the Banking sector today according to PwC Kenya report of 2014 includes; new regulations which requires banks and mortgage firms to build a minimum core capital of KShs 1 billion, the effect global financial crisis experienced in late 2008 which is still being felt by the banking industry in Kenya especially in regard to deposits mobilization, reduction in trade volumes and the performance of assets.

Purpose of the study

Competition in the banking industry in Kenya has become so stiff that banks are in maximum strain in doing business and survival. Customers are becoming more demanding, more affluent, more informed and as a result, more financially sophisticated. The economic environment has changed significantly due to liberalization of the banking businesses, well-organized information flow, political instability and more stringent regulatory environment (Banking Amendment Bill, 2015). The interest rates capping in Kenya is slowly sinking on banks board room decisions. It is worth noting that nearly all the tier one banks that have announced their 2017 quarter one and quarter two results have reported a dip of 5% to 8% in comparison to 2016 same time results. Barclays bank Kenya Limited has already taken a lead by announcing its intentions to close 7 of its local branch net work, a move that can be directly linked to the negative consequences of interest rate capping and stringent controls and attention to corporate governance by the central bank. A midst these myriad set of challenges, Equity bank has remained defiant and has continued to demonstrate resilience.

Equity bank Homa bay has been formed by the generic characteristics of the branch which have striking resemblance to that of the Equity bank limited. The branch which came into operation in 2008, had by the year 2012 made a cumulative lose of up to Kshs.45million, with a deposit base of Kshs.178 million, asset base of kshs.280 million and continued to perform at the second bottom last position for a long of four and half years (Equity Bank, Homa Bay Annual Report, 2012). Today, the branch has become one of the top 5 branches of Equity Bank in Kenya, achieving a profitability target of up to 90%, asset base of up to 90%, while surpassing its targets in all the key performance indicators.

Theoretical Underpinning of the Study

Resource Based View

Resource based view`s` approach to understanding the concept of competitive advantage and how it is deployed within firms, centers its tenets on a firm`s internal organization in terms of capabilities and resources` strategic value (Wernerfelt, 2014). The RBV as a theory therefore answers the critical question as to what makes some organizations special and how the sustainability of competitive advantage is derived within firms leading to above industry economic performance (Kostopoulos et al, 2012).

The RBV as a theory dwells on the principle of an organization as a grouping of resources and capabilities and the concept of economic rent (Kay, 2000). Whereas the traditional strategic thinkers build on the forces external to the firms` competitive environment, the Resource based theorists concentrates on the fit between the exogenous market environment within which the organization plays and its endogenous resources and capabilities. Based on this approach, the internal capabilities and resources lead a firm to its choice of a strategic action (Hint et al, 2004). Penrose (1959), was the first strategic thinker to view a firm as a bundle of resources and capabilities and according to him, it is the heterogeneity of the strategic productive assets and services that makes each company unique in character as opposed to the homogeneity of its productive assets and services. .

This aspect resource heterogeneity is the key pillar around which the RBV theory was built and was advanced by Wernerfelt (2014), who suggested that the assessment of a firm with respect to resources available within it may lead to new thinking divergent to the traditional paradigms that sees competitive advantage as a derivative of the external conditions and reasons that the alignment of a firm to its external environment is the key determinant of its economic performance (Andrews, 1987, Porter, 1985). Accordingly, Barney (1991) designed an approach used to determine the requirements that qualifies a firm`s resources to be able to generate a sustainable competitive advantage. A sustainable competitive advantage will therefore, be created if the organization`s resources are; immutable, valuable, rare and flexibility. With the embedment of such properties and characteristics the firm`s resources can be said to be of strategic value. This view has been accepted among other scholars (Amit &Schoemaker, 2010; Peteraf, 2010), who expanded the properties to include the properties of resource robustness, non-tradability, and distinctive character of resources.

The Resource Based View is an “inside out” process of strategy formulation, which belabors on the centrality of core competencies of strategic assets, which can be used to generate and develop superior new products and services in the foreseeable or unforeseeable future (Connor, 2002). In fact the importance of organization`s resource strategic capabilities as a basis of a firm`s superiority in decision making as opposed to a perfect environmental fit cannot be over emphasized.

A firm`s resources include among others, the human capital, physical materials like cash, land, buildings motor vehicles and other organizational assets that can be relied on to generate strategies that add value hence leading to more advantage to the firm. Capabilities present the capacity for a team of resources to perform a task or activity (Grant, 1991).

According to Collis (1994) capabilities are always prone to strong competitors and can be competed away due to erosion and substitution, duplication among others. The Resource Based view of a firm and with respect to gaining competitive advantage cannot be complete without understanding the intangibility of the resources as a requirement to make the assets valuable, rare, non tradable and non substitutable. This is in comparison to physical assets which may not have the properties o being strategic asset. Hall (1992) further observes that such intangible assets necessary for the creation of superior value include; experience, know-how, product reputation, culture and networks, strategies and structure. Hence, the heterogeneous firms experience asymmetric performance due to the availability of intangible strategic assets within them.

Pursuant to this notion, it then appears that firms that achieve above market profits and performance must balance and develop a synergy between exploitation and creation of human capital as intangible assets in order to obtain better competitive gain over their rivals. Accordingly, Grant designed a matrix for a resource-based approach to strategy formulation detailing the resources and capabilities identification, their possibility of realizing competitive advantage with expected outcome, the choice of strategy and the subsequent resource gap identification

Competitive Strategy

Thompson, Strickland and Gamble, (2008) define competitive strategy as fretful with particulars of management's game plan for contending productivity and securing a competitive advance over competitors. Porter (1985) also defined competitive strategies as the exploration for an encouraging competitive arrangement in an industry, the essential arena in which competition occurs. It aims to set up a profitable and sustainable point against the forces that resolve industry competition.

An effective competitive strategy is necessary for an organization to survive, grow and sustain its profitability in a market where there are strong competitive forces. The determination of competitive strategies that are value adding and will bring competitive advantage to the organization is an inexact course of action (Capon, 2008). Furthermore, Capon (2008) also argues that the accomplishment of competitive advantage and hence superior profits are essential to the strategy of any organization. Also flourishing achievement of competitive advantage is likely to result if a company is apparent about its competitive strategy.

As the competition gets more vigorous, the attractiveness of the industry and its eventual profits becomes diminished and unsustainable in the long run. Consequently, this puts up more pressure on organizations to innovatively come up with both offensive and defensive sustainable strategies which will not only ensure its profitability but also its survival in the highly competitive and ever changing market (Johnson & Scholes, 2002). Gaining a competitive advantage will therefore enable the banks to effectively respond to and efficiently compete in the market environment. This they do by identifying and leveraging on their core competences, organizational capabilities and strategic assets to create value adding strategies and provide a competitive advantage (Pearce &Robinson, 2005). According to Johnson and Scholes (2008), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains.

Drucker (2008) noted that the primary aim of management is to continuously develop and improve the organization and its employees. The needs and the demands of the environment keep on changing hence the need for the management to constantly keep adjusting and realigning the firm`s objectives and philosophies to the environmental demands and pressures. One of the environmental influences to a business normally arises from competition (Pearce & Robinson, 2005). A solid strategy of an organization requires the matching of its corporate objectives to the internally available resources and capabilities. In this case, one of the key roles of a manger is to reconcile the objectives of a business entity with the resources allocated Porter, (2004). According to Drucker (2001), strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving these goals, stated in such a way as to define what business the company is in or to be in and the kind of company it is or is to be.

A competitive strategy consists of all those moves and approaches that a firm has and is taking to attract buyers to withstand competitive pressure and improve its market position, Thompson & Strickland, (1993). It entails all those that a business does so as to obtain competitive advantage within the business environment and therefore a firm gains competitive advantage if it has some superiority edge to the disadvantage of the rival firms.

Gaining an edge over rival firms depends on the existence of core competence within the firm which Prahalad and Hamel, (1990), define as an area of specialized expertise which is as a result of harmonized complex streams of technology and work activity. The core competence, they add, has three unique characteristics. First it increases perceived customer benefits. Secondly, it is hard for competitors to imitate and finally it provides access to a wide variety of markets.

According to Thompson & Strickland, (1993) a competitive advantage has a three stage life cycle which begin with the buildup period where by strategic moves are successful in producing competitive advantage. Secondly, there is the benefit period during which the fruits of competitive advantage lead to greater profits and the firm earn dividend for investing in such strategies. Finally there is erosion period during which the competitive advantage gained by the firm is competed a way due to imitation, duplication, new technology and attacks by rivals. A successful competitive advantage therefore must be sustainable and aims to produce both services and products that clients perceive to be of superior value.

In his hypothesis on why some nations are more competitive and successful than others, Porter (1990) was able to identify that the foundation high competence lay in the diamond of home advantage. In Porter's observation, certain competitive forces are responsible for industry`s below average performance. They include; threat from new entrants and substitutes, buyer power, supplier power and increasing rivalry among competitors. In systems, barriers to new entrants can exist as well as barriers to international competitiveness. Barriers to international competitiveness can express themselves inform of technical characteristics of products such as perish ability, bulkiness, and production characteristics such as economies of scale, laws, rules and quality and standards. To process and produce industrial products with global competitive edge, a number of factors are usually taken into consideration. Such factors include but not limited to; demand and the income levels of the destination market, culture and preferences of the expected clients, inflation rate, availability of raw materials, lab our, investment laws and policies physical and social infrastructure, technological penetration among others.

Differentiation Strategy

Differentiation strategy calls for strong distinctiveness in products and services in a precise market in such a way that the concerned firm is able to position its services and products as unique and superior in quality. Differentiation will enable a bank to innovatively set a part its products and services under the same name as that of competitors using superior design, improved quality, improved tastes, after sale service and superior customer care so as to increase the emotional bonding between the customers and the firms` products and services. As a strategy, differentiation can also be explained as positioning a brand in such a way as to uniquely differentiate it from the competition and institute an image that is exclusive (Davison 2011).

Differentiation strategy is an advancement through which a bank aims to expand and market exclusive services and products for various client sections. The strategy is best deployed when a bank enjoys a strong competitive advantage arising from superior technological and innovative capabilities and can manage the sales and promotion costs. It is one of three general marketing strategies that can be adopted by any bank to gain customer loyalty. For the strategy to be sustainable the banks should have: strong research and development team, strong services and products engineering skills, strong imagination skills, strong digitization platform supported by innovative and technological leadership, strong marketing skills, and incentives based largely on subjective measures, be able to communicate the importance of the differentiated services and products characteristics, stress continuous development and innovation and attract highly skilled, creative personnel. (Prescott, 2008), concludes that services and product differentiation is an ordinary way of distinguishing the banks' offerings from those of its competitors.

A differentiation strategy underscores the development of products and services that are so unique and posses exclusive design, quality, brand, customer service, etc that the customers can perceive to be of superior value as compared to the competitor`s products and services. The worth added by the exclusivity of the services and products may allow the banks to charge a premium price for it. The banks hopes that the higher price will more than cover the extra costs brought upon it by creating the uniqueness of services and products. Because of the services and products' unique attributes, if suppliers increase their prices the banks may be able to pass over the costs to its customers who cannot find substitute services and products easily (Porter, 1998).

Organizations that successfully execute differentiation strategy usually invest heavily in superior cost cutting technology, highly skilled and innovative man power, excellent communication strategy, relevant staff trainings, and research and development department among other considerations. According to Prescott, (1998) such a firm must have a powerful corporate commitment and reputation for quality and standards. This may require that the firm conducts consumer behavior survey with the view to determine customer needs and preferences and this should be able to see product and service quality and value from the clients eye view.The aspirations and needs of the customers then is used to reengineer and redesign the product and service offer age and the fact that customers` expectations are captured in the products will create superior value as per the expectation of the market. This therefore is the deriver of competitive advantage and is likely to spur high turnovers, increased revenues and create high demand for the products. However, designing and creating superior and high net worth products means more expenses incurred by the company and therefore, it is anticipated that a profitable differentiation strategy should charge a premium on top of the cost incurred. Since in the short run, there will be no substitutes for the service or product offered, the customers who value the exclusivity will be more than willing to buy from the firm. This view is supported by (Grant, 2002),who argued that Profitable differentiation obtained when the cost of creating it is held below the price premium of the product or by increasing volumes of sales so as to offset the lower margins of profits.

Product and service differentiation strategy can gain competitive advantage which can be adopted by firms so as to create products and services that satisfies individual customers` needs. However, satisfaction of customer needs will depend on the superiority, value and quality generated by the differentiating attributes. Quality therefore is a panacea to the understanding of customer need satisfaction and is a major element to differentiation of products and services (Shammot, 2011). Consequently, the market will be persuaded to pay a premium for the goods and services that meet their quality specifications.

Differentiation strategy calls for either a perceived or real brand uniqueness and exclusive characteristics that sets a part the firm`s products and services that will provide high value for customers other than the cost of generating it. Such firms will constantly seek to be immutable and valuable and must be willing to spend on product research and development as a means to continuously improve its offerings and meet its customer demands (Porter, 1980).

Differentiation can come in many ways which include but not limited to; technological leadership, unusual features, unique emotional bonding with customers, responsive customer service, rapid services and products innovations and engineering designs among others (Porter, 1998). Organizations practicing differentiation strategy need to pay attention to developing value creating products and services that clients can perceive to be superior and unique. Over ally, the critical success factor of differentiation can be seen on the level of creativity and innovativeness of product and service development as well as how deep the organization values its erudition curve.

Thus it should be emphasized that whatever banks can do to improve on buyer value and satisfaction provides a potential basis for differentiation. If the bank can determine the source of client value, then it must craft the necessary characteristics that will improve the quality as seen from the customers view and at an efficient cost. The added value should be able to enhance product or service performance and achieve the desired customer satisfaction. According to Hyatt (2011) an assessment of the activity cost chain may provide a perfect opportunity to deploy differentiation strategies.

According to Porter (1998) banks can achieve sustainable competitive advantage by investing in the generation of higher value for its clients than the cost of creating it, either by applying a low cost strategy or differentiation strategy. Banks focusing on a differentiation strategy will try to portray their uniqueness from their rivals using various tools like technological leadership and innovation, sales, marketing, brand image, quality of services and products, customer service. Differentiation defines the exclusivity and uniqueness of products and services with respect to other firms` offerings. The more the perception of brand exclusivity in terms of value superiority the better and more competitive edge created. Oakland (1999), observed that two types of differentiation strategy exist; one based on services and products innovation and the other based on brand image and marketing.

The major contributing factors leading to profitable differentiation strategy include creative flair, strong basic research services and products engineering (Malburg; 2000; Porter, 1998).

There has been a strong wave of disruption in the banking sector in the recent past that has seen the sector undergo a phenomenal revolution with respect to how the objectives and operations are aligned. The disintermediation, the emergence of advanced technologies, the strong and overbearing regulations set up by the regulators, the emergence of sophisticated and ever demanding consumers, along with the consolidation wave in the banking sector have been instrumental forcing differentiation through diversification strategies. As a result the banks are transcending their normal business operations and are venturing into insurance, investment, custodial services, telephony and other non-banking activities (Lepetit, 2005).

A bank can take advantage of differentiation generated by diversification to help deepen its geographical reach, service and product-process re-engineering, exploit both technological and managerial economies of scale and scope, open up more avenues of capital inflow and revenue streams from the nontraditional financial services into the business and diversify its risk portfolio. Acharya, et al, (2002) classified and identified various reasons for a bank to diversify which includes but not limited to; creating synergy or economic motive, economies of scale related to technological and managerial advantages, more market share, increased capitalization and risk portfolio diversification. All these motives of diversification can be categorized as either external determinants such as dynamics of market environment, economies of scale, globalization and the disintermediation expectations. The internal determinants of diversification include drop in revenue margins, risk management, technological needs, and high cost of production among others (Acharya, et al, 2002).

There are different headings through which diversification as a differentiation strategy can be categorized within the banking sector. The various categories can be achieved through; Direct Cross-Border Sales, implying conducting the banking services without the physical presence of brick and motor branch networks in the target markets. This is especially so in the retail banking where direct cross boarder sales of financial services and products can be realized through mobile banking, internet banking, agency distribution taking over the transactional banking services provided by the physical bank branch networks , telephone and mail marketing of the bank product and services. From this understanding of differentiation by use of technology as a disrupter, it can only be concluded that in future, whereas banking services will still continue to be needed, the banks as they exist in their physical presence today may not be required as due to technological disruptions of the traditional banking set ups.

Empirical review Many researchers have conducted various studies on competitive strategies touching on different sectors, public and private organizations both within and outside the republic of Kenya. Murage, (2011) dwelled did a study on the various strategies adopted by the petroleum sector and strikingly, he found out that majority of the petroleum service stations use and prefer differentiation strategy which they use to gain a competitive advantage over their rivals.

Gathoga, (2001) did a research on the strategies used by Kenyan commercial banks in order to achieve a favorable market standing a midst an increasingly unpredictable and complex circumstances. The study was able to depict that various strategies have been put in place by the banks in Kenya in order to obtain sustainable competitive progress and acquire superior performance, while diversification and strategic planned expansion by opening new branches has also remained key strategic options for banks.

Karanja, (2002) used Michael Porter’s generic model to assess the competitive strategies real estate firms have employed so as to gain a favorable market standing and found that such firms have espoused diverse strategic approaches taking cognizant of the unique situations in which the firms operate.

Owiye, (1999) conducted a study on the imperatives of competitive strategies to an organization. The outcome of the research revealed that while expansion is fundamental approach to obtaining competitive edge to a firm, its focus on cost leadership, differentiation, niche segmentation, the size or market position it plans to achieve, and its spotlight and method for expansion will determine its overall survival, growth and profitability.

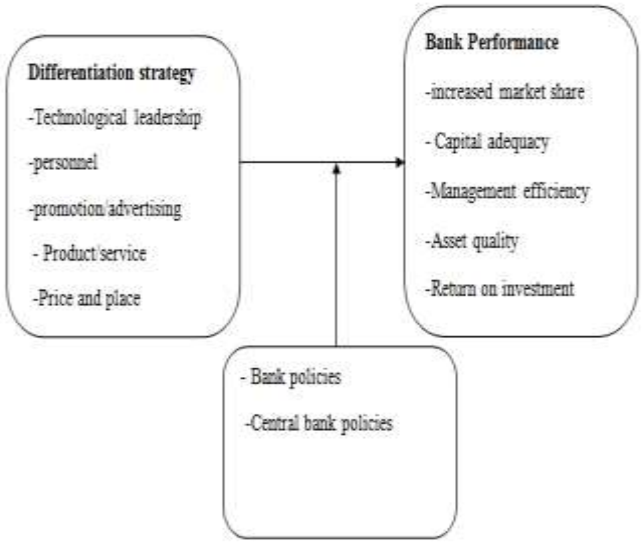
A study by Day and Wensley, (2008) narrowed on the two basics for creating a competitive strategy in an organization and concluded that superior skills and superior resources within a firm should result in a competitive benefit for such firms.

According to Porter, (2000), generic strategies at the disposal of a firm include; cost leadership, differentiation and focus, whose applications improved the performance of US firms and can be applied by organizations in Kenya including the commercial banks. The firms that have adopted either one or a combination of these strategies are most likely to experience better performance indicators as compared to the rival firms who have not. Therefore, the argument accentuated by Porter (2000), is that the generic competitive strategies if executed well will result to sustained competitive positioning hence superior organizational performance, customer satisfaction and increased global competitiveness.

In his assessment on the business case for sustainable development: making a difference toward the earth, Timberblake (2002), concluded that on the aspect of marketing sustainability, the part of competitive advantage are becoming the most stressed issues. Hitherto and for most organizations even today, legal and social pressures played a dominant significance for acting and realizing about the sustainability matters. Contemporarily, an increasing number of organizations recognize the need for execution of corporate sustainability to generate and sustain competitiveness. Sustainability concerns are increasingly integrated and harmonized within the broad company strategy, business units` strategy and within functional areas of the company; customer service, IT and innovation, purchasing, marketing, human resource management, and so on.

Competitions in the banking sector has been put into perspective by Resnahan (1982), Lau (1982), Bikker (2003) and Uchida and Tsuitsui (2005), who have all agreed that banks need to be aware of the market disruptors and position themselves in such a way that they gain from their interdependence via the demand equation and with respect to inputs, outputs and pricings. The industry players must however, note that the market environment is turbulent, complex and unpredictable hence consistent attention to possible change and disruptors is key to the survival of banks.

Conceptual framework



Source; Researcher (2017)

Study methodology

A descriptive research design was used to conduct the study. Descriptive design concerns itself with describing situations as they are and hence aims at providing a description that is as factual and as accurate as possible (Oso & Onen, 2005). The study was conducted at Equity bank, Homa Bay Branch in Homa Bay County, which is located south-western Kenya about 480 kilometers from Nairobi the capital city of Kenya. All the 75 staff of Equity bank, Homa Bay were issued with questionnaires and a personal follow up interview used by the researcher to ensure maximum response rate. A questionnaire as research tool was used by the researcher to collect data from the respondents. The researcher with the help of supervisor and research expert was able to measure and rate the relevance of the items in the instrument, checking their clarity and meaningfulness by use of Content Valid Index (CVI) which is a scale developed by computing or rating the relevant items in the questionnaire in line with all the objectives stated, dividing by the total number of items. The research instrument was considered reliable where α coefficient was above 0.82.The data collected was then edited in order to preempt any errors and omissions and commissions that might interfere with the consistency and accuracy of the information. The researcher then did data coding so as to transform it into quantitative form, making it easy for analysis. The coded data was then entered into computer statistical software, (Statistical Package for Social Sciences) for cleaning and analysis. SPSS was used to generate measures of central tendencies; relationship between variables and to what extent independent variable can predict the outcome of the dependent variable.

Response Rate

A questionnaire was given out to all the 75 respondents at the Equity bank Homa Bay for purpose of data collection. At the end of data collection period, a total of 71 responses had been received duly filled. This constitutes 94.7% response rate. The researcher was able to achieve this high response rate because all the respondents were within the same branch and personal interview method was used for follow up purposes.

Study Findings

The study sought to find out whether differentiation strategy affects the performance of Equity Bank as indicated in table 1; below.

Table 1. Differentiation Strategy affects the performance of Equity Bank.

Response	Frequency	Percentage
Yes	46	65
No	23	32
Not aware	2	3
Total	71	100

This finding can be summarized in the distribution in figure 2 below.

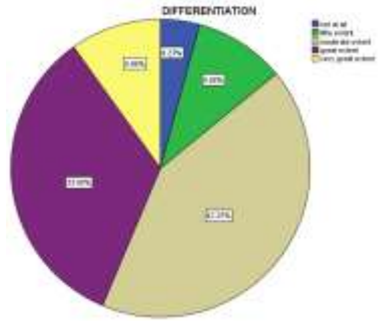


Figure 1. Differentiation Strategy.

Figure 1 above shows that 42.25% of the employees interviewed moderately agree that differentiation impacts on the bank performance while 33.80% to a greater extent agree that differentiation affects the bank performance. From the findings above, 9.86% of the respondents, to a very great extent agree that differentiation affects the performance of the bank. However, only 9.86% and 4.23% of the bank employees, to a little extent and totally disagreed that differentiation affects the bank performance respectively.

The effect of differentiation strategies on Equity bank performance

The study sought to find out the extent to which attributes of differentiation affect performance of the Bank and the respondents were requested to indicate their appropriate response to the statements given by ticking in the correct box; Very great extent (5), Great extent (4) Moderate extent (3) Little extent (2) Not at all (1) and the results are presented in table 2 bellow

The results in Table 2 indicate that the respondents moderately agreed that differentiation based on technological leadership, differentiation based on product/service transformational leadership and differentiation based on price as indicated by a score of 3.43, 3.28 and 3.21 respectively. Differentiation based on promotion/ advertising campaign had a score of 2.97, differentiation based on personnel had a score of 2.91 differentiation based on place was indicated by 2.74. This shows that most of the respondents moderately agree that differentiation affect performance in Equity Bank

Table 2. Contribution of differentiation strategies on Equity bank performance.

	VGE 5	GE 4	ME 3	LE 2	NA 1	∑fi	∑fiwi	∑fiwi ∑fi
Differentiation based on product/service	12	20	22	10	7	71	233	3.28
Differentiation based on price	13	8	40	1	9	71	228	3.21
Differentiation based on place	5	20	15	20	5	6	195	2.74
Differentiation based on promotion/ advertising campaign	10	20	10	20	11	71	211	2.97
Differentiation based on personnel	15	10	20	6	20	71	207	2.91
Differentiation based on technological leadership	20	21	10	10	10	71	244	3.43

and this concurred with Porter, (1998) who observed that a differentiation strategy calls for the growth of a services and products or service that offers exclusive attributes that are valued by customers and that customers perceive to be better than or diverse from the services and products of the competition. The lead taken by the role of technology and innovations with respect to segmentation underscores Prescott`s, (1998) reasoning that that firms that successfully gain differential advantages usually deploy superior cutting edge technology, highly creative and skilled man power, strong research and development team, excellent communication strategy, and a corporate flayer for high quality and taste.

The banks then charges a premium price on the value added so as to cover the extra costs brought upon by offering the exclusive attributes. It is envisaged that should the suppliers increase prices, the banks may be able to pass along the costs to its customers who values the quality services and products and do not have alternatives (Porter, 1998).

Regression Analysis

In order to ascertain statistically how differentiation strategy relates to the performance of the bank and further, predict the outcome, a simple regression analysis was conducted by the researcher. The regression model is considered appropriate if the independent variables can predict the outcome of the criterion variable and if the existing relationship is statistically significant. The quantity of change experienced by the dependant variable is explained in terms of the regression beta coefficient of the independent variable.

For purposes of this study, the researcher formulated simple regression model follows:

$Y= \beta 0 + \beta_1 X_1 + \varepsilon$. ***(Where Y = Performance of Equity Bank, X_1 = Differentiation Strategy and*** **ε is the error term*).***

The adopted regression model was considered fairly appropriate since the coefficient of determination is (R^2=.576) as demonstrated from the model summery in table 3 below.

Model Fitness of differential strategy on Equity bank performance

Table 3. Model Summary.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.759[a]	.576	.570	.466

a. Predictors: (Constant), Differentiation

b. Dependent Variable: Performance

The standard value for R^2 is 1, which means that there is a perfect linear relationship between the dependent and independent variables. On the contrary if R^2 value is equal to 0; this indicates that there is no linear relationship between the dependent and independent variables. The coefficient of determination (R Square) of 0.576 which indicates that the model can explain 57.6% of the variations or changes in Equity bank performance and the other 42.4% is due to other variables not covered in this study.

Table 4. ANOVA of differential strategy on Equity bank performance.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.335	1	20.335	93.606	.000[b]
	Residual	14.989	69	.217		
	Total	35.324	70			

a. Dependent Variable: Performance

b. Predictors: (Constant), Differentiation

ANOVA test was carried out to determine the variations/level of significance/difference in the perceptions of differential strategy on Equity bank performance and the effect was found to statistically significant at F=93.606 with a significance level of 0.000 which is below the threshold of p<0.05.

Table 5. Regression Coefficients of differential strategy on Equity bank performance.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.661	.206		8.074	.000
	Differentiation	.572	.059	.759	9.675	.000

a. Dependent Variable: Performance

A further test on the beta coefficients of the resulting model, the constant α = 1.661 is significantly greater than zero. The coefficients β = 0.759 is significantly different from zero with p-value of 0.000. The results show that for each unit increase in the independent variable, there is an expected increase of 0.759 in the dependent variable. An examination of the t-value (t = 9.675, p = 0.000 < 0.05) indicates that differential strategy contributes to increase the effect of Equity bank performance. This implies that differential strategy has a positive and significant effect on Equity bank performance.

Summary and conclusion of the study

The aim of the study was to find out whether differentiation strategy has an effect on current performance of Equity Bank. Although the results in table 1 indicates that the 65% of the respondents agreed that differentiation generally has an effect on the bank performance, table 2 goes further and explains to what extent the various attributes of differentiation contribute to the outcome based on a computed weighted score. Accordingly, differentiation based on technological leadership is found to be the most influencer of the bank performance with a mean score of 3.43. This unequivocally implies that differentiation strategy, with a coefficient of determination of 0.576(this means that differentiation can explain up to 57.6%of the bank performance while other factors not in this study can explain 42.4%) is a panacea to achieving sustainable competitive advantage leading to superior economic performance, while the role played by technological leadership and innovation cannot be overemphasized.

Generally and in conclusion, both the model summary and ANOVA, have demonstrated that differentiation strategy has a statistical significance on the performance of Equity bank with a beta coefficient of 0.759 and the significance was at **p<0.000** which is highly effective.

Recommendation

The study recommends that Equity Bank should deepen its technological and innovation leadership so as to uniquely differentiate its products, services and customer service. Such innovations and technology may allow the bank to invest in non tangible strategic asset that may be difficult to imitate, substitute, or simply be competed away by a competitor`s higher order of capability. This will in turn lead to more sustainable competitive advantage for superior performance.

REFERENCES

Allela, M. A. (2011). Competitive Strategies employed by KCB Group Ltd (Unpublished MBA Project) School of Business, University of Nairobi, Kenya

Allison , P.D. (1999) Multiple Regression. Thousand Oaks, C.A: Pine Forge Press

Ansoff, I. (1957). Strategies for Diversification, Harvard Business Review 35(2), 113-124.

Barney, J.B. (2007). Gaining and Sustaining Competitive Advantage (4th Ed). New Jersey 07458, USA: Pearson International Edition.

Bintiomari, N. W. (2010). Response Strategies by Islamic Banks to Competition in the Commercial Banking in Kenya (Unpublished MBA Project) School of Business, University of Nairobi, Kenya.

Burnes, B. (2009). Managing Change (5th Ed). Harlow, England: Pearson Education Ltd.

Busienei, C. (2011). Competitive Strategies adopted by Western Union money in the International money transfer Industry in Kenya (Unpublished MBA Project). School of Business, University of Nairobi, Kenya.

Capon, C. (2008). Understanding Strategic Management. London, England: Pearson Education Limited.

Central Bank of Kenya (2016) Banking Analysis, Central Bank, Nairobi, Kenya

Clegg, S., Carter, C., Kornberger, M. & Schweitzer, J. (2011). Strategy; Theory and Practice. London, England: SAGE Publication Ltd.

Coopers, D., & Schindler, P. (2006). Business Research Methods; Indian Special Edication. (9th Ed). New Dheli, India: Tata McGraw-Hill.

Gandoifo, D. (2011). Game theory as a marketing tool: uses and limitations. Retrieved online From http://academia.edu/ 1084456/.

Equity Bank (2012) Bank Annual Report, Nairobi, Kenya

Equity Bank (2016) Bank Annual Report, Nairobi, Kenya

Grant, M. R. (1998). Contemporary Strategy analysis; Concepts, Techniques, Applications (3rd ed). 350 main street, maiden Massachusetts 02148, USA: Blackwell publishers inc.

Hamel, G. (1996). Strategy as a Revolution. Harvard Business Review, Boston, 69-82.

Horngren, C. T., Datar, S. M., Foster, G., Rajan, M. &. Ittner, C, (2009) Cost Accounting; A Managerial Emphasis, (13th ed). New Jersey, 07458: Pearson International Edition.

Hussein, K. (2011). Competitive Strategies employed by Mumias Sugar Company to develop Competitive advantage (Unpublished MBA Project). School of Business, Bank of Nairobi, Kenya.

Johns, G., Scholes, K., & Whittington, R. (2008). Exploring Corporate Strategy: Text and cases (8th ed) Harlow, England: Pearson education Ltd.

Kimutai, D. K. (2010). Responses by Commercial Banks in Kenya to increased competition (Unpublished MBA Project). School of Business, University of Nairobi, Kenya.

Kothari, C.R (2004). Research Methodology: Methods and Techniques (2nd ed). New Delhi, India: New Age International (P) Ltd.

Kotler, P., & Armstrong, G. (2001). Principles of Marketing (9th ed). New Jersey, USA: Prentice- Hall, Inc.

Kotler, P., Keller, K. L., Koshy, A., & Jha. M. (2009). Marketing Management, (13th ed): A South Asian Perspective. Knowledge Boulevard, Noida, India: Dorling Kindersley (India)Pvt. Ltd.

Kunwar, D. S, & Nyandemo. S. M. (2007). Managerial Economic: Theory and application (2nd Ed).Nairobi, Kenya: Richmond Designers & Printers.

Mwaniki, C. (2013, April 15). Bank of India targets major towns in expansion plan. Business Daily. Retrieved online from http://www. Business daily africa.com.

Mbegwa, T. N. (2010). Strategies employed by Barclays Bank of Kenya to achieve Competitive advantage (Unpublished MBA Project). School of Business, University of Nairobi, Kenya.

Mintzberg. H., Quinn, J.B., & Ghoshal, S. (1999). The strategy process; Revised European Edition. Harlow, England: Pearson Education Ltd.

Maina, C, W. (2011). Growth Strategies adopted by Eco Bank Kenya Limited (Unpublished MBA Project). School of Business, University of Nairobi, Kenya.

Nyakichi, V. (2009). Competitive Strategies adopted by Multinational banks in Kenya (Unpublished MBA Project). School of Business, University of Nairobi, Kenya.

Onyango, M. A. (2011). Strategic Responses of EQUITY BANK to mobile money transfer services in Kenya (Unpublished MBA Project). School of Business, university of Nairobi, Kenya.

Onyoro, D. (2011). Competitive Strategies and performance of Multinational commercial Banks in Kenya. (Unpublished MBA Project). School of Business, university of Nairobi, Kenya.

Oyeila, B.M. (2011). Competitive Strategies and Performance of Commercial banks in Kenya. (Unpublished MBA Project). School of Business, university of Nairobi, Kenya.

Pearce, J. A. & Robinson, R. B. (2009). Strategic management; formulation, Implementation and Control, (10th ed). New York, NY, 10020, USA: McGrow- Hill.

Pearce II, J. A, Mittal A. & Robinson, R, B. (2010). Strategic management; formulation, Implementation and Control, (10th ed). Special Indian Edition. New Delhi, India: Tata McGrow-Hill.

Porter, M. E. (1980). Competitive Strategy; Techniques for Analyzing Industries and Competitors. New York, NY 10020: Free press, a division of Macmillan Inc.

Porter, M. E. (1985). Competitive Advantage; Creating and sustaining superior performance. New York, NY 10020: 1st Free press edition.

Prahalad, H., & Hamel, G. (1990). The core competence of the corporation. Retrieved online from http://faculty. fuqua.duke.edu/~charlesw/s591/willstuff/oldstuff/PhD_2007-2008/ Papers/C08/P.

Sababu, B, M. (2007). Strategic Management; The Analytical Approach. Nairobi, Kenya: Jomo Kenyatta Foundation.

Tabachnick, B.G., &Fidell, L. S. (2001) Using Multivariate Statistics. Fourth Edittion. Boston: Allyn and Bacon

Stemler, S. (2001). An overview of content analysis. Practical Assessment, Research & Evaluation. Retrieved from http://PARE online.net/ getvn.asp? v=7&n=17.

Tom, P. & Robert, H. (1982). In search of excellence. Retrieved online from http://www.bespokecomputing.com /blog/sticking-to-the-knitting/.

Thomas, L. W. & Hunger, J. D. (2008).Strategic Management and Business Policy “Concepts and cases” (11th ed).

Thompson, J. A., Strickland, A. J. & Gamble, J, E, (2008). Crafting & Executing Strategy; The Quest for Competitive Advantages, Concepts and Cases, (16th ed). Irwin, 1221 Avenue, New York, NY, USA: McGraw-Hill

Wanyonyi, W. C. (2011). Competitive Strategies adopted by Kenyan Commercial Banks to attract and retain corporate customers (Unpublished MBA Project). School of Business, university of Nairobi, Kenya.