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INFLUENCE OF COMPETITIVE STRATEGIES ON CUSTOMER SATISFACTION AMONG COMMERCIAL BANKS IN KENYA

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ABSTRACT

This study sought to establish the influence of competitive strategies on customer satisfaction among commercial banks in Kenya. The study adopted a descriptive survey design and targeted eighty eight (88) respondents in all the forty-four (44) registered commercial banks in Kenya. The data was collected using questionnaires using the drop and pick later method. The questionnaires were then edited, coded and analysed using the statistical package for data analysis. The study found out that banks can adopt product differentiation strategies by offering superior goods and services of high quality to their customers. The study showed that there was significant relationship between diversification strategies and customer satisfaction. The study found out that banks should adopt cost leadership strategies so as to attract and retain more customers, and design products that were of superior quality compared to that of their competitors so as to gain competitive advantage and also embrace process innovation strategy and design products that target different income classes and adopt the competitive strategies such as cost leadership strategies and focus strategies so as to remain relevant to their customers by offering superior products that were of better quality. The coefficient of determination (R-square) was 0.728 implying that the four variables jointly accounted for up to 72.8% of the variation in customer satisfaction of commercial banks in Kenya.

Key Words: *Product Differentiation, Diversification, Process Innovation, Cost Leadership, Customer Satisfaction*

INTRODUCTION

Competitive strategy concerns what a firm is doing in order to gain a sustainable competitive advantage. It comprises of all those moves and approaches that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position. In order to survive in the competitive environment, it becomes necessary for the commercial banks to be aggressive in their search and development of strategies that provide competitive advantage as they step up defensive strategies to protect their competitive advantages.

The Kenyan economy has seen significant improvement over the years. The country's economic growth is promising due to the sound macroeconomic policies put in place Awuah, (2011). The financial sector is among the top key sectors set to drive this growth. Nevertheless, according to Kinusi (2010), the banking industry is one of the forms of business enterprises in which cut throat competition thrives. The banking industry in Kenya has witnessed drastic complex changes over the recent years and increased intensive competition threatening both the attractiveness of the industry and the profitability. As a result, the players in the industry need to put in place and adopt strategies that will give them a competitive edge over the others.

As each commercial bank struggles to outperform the other by attracting new customers and growing their market share, the level of competition in the industry has gone higher. Several banks are developing differentiated strategies with the aim of attracting new customers as they increase the rate of satisfaction on their existing customers so as to grow their market share. According to Reichheld and Sasser (2010), it costs five times more to gain a new customer than to retain an existing customer as the acquisition costs are lowered in the long run which means that customer satisfaction is related to the profitability of a firm.

The Companies Act, the Central Bank of Kenya (CBK) Act and the Banking Act are the main regulators and governors of banking Industry in Kenya. There are 44 commercial banks in Kenya licensed under the Central bank of Kenya (CBK, 2013).Over the last five years; there has been a tremendous growth of commercial banks in Kenya that have seen new banks open up and growth of the existing ones locally and internationally (KBA, 2013). This has been attributed to a number of factors like adoption of modern technologies for instance information communication technology (ICT) and development of infrastructure facilities. This has intensified stiff competition in market forcing commercial banks to adopt various strategies to retain their customers and attract existing ones targeting to expand and develop their market shares to gain a competitive edge in the market (CBK, 2013).

In a competitive market place where businesses compete for customers, strategies are the order of the day for the businesses and customer satisfaction is seen as a key differentiator of business strategy. The concept of competitive strategy has attracted much attention in recent years (Chakrabrty, 2013). Customer's satisfaction is an ambiguous and abstract concept and the actual manifestation of the state of satisfaction will vary from person to person and product/service. Customer satisfaction is defined as the feeling or attitude of a customer towards a product or service after it has been used. The state of satisfaction depends on a number of both psychological and physical variables which correlate with satisfaction behaviour (Fram & McCarthy, 2013).

The banking industry is highly competitive, with banks not only competing among each other, but also with non-banks and other financial institutions. Most bank product development are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality (Ernest & Young, 2014). Customer satisfaction is potentially as effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment. It is more economical to keep customers than to acquire new ones. The costs of acquiring customers to replace those who have been lost are high. This is because the expense of acquiring customers is incurred only in the beginning stages of the commercial relationships. In addition, longer-term customers buy more and if satisfied, may generate positive word of mouth promotion for the company (Fiordelisi & Moluneux, 2015)

Statement of the problem

Customers' satisfaction is a key ingredient in firm's gaining competitive advantage, it is important for the commercial banks to adopt competitive strategies in order to retain existing customers in the business and also attract prospective customers. The banking industry in Kenya is facing a stiff competition as a result of technology and infrastructure that have highly contributed to growth of most banks and this has hastened the need for commercial banks to develop competitive strategies in order to cope up with competition.

Banks are therefore facing a challenge to satisfy and retain as many customers as possible even as they struggle to increase their customer base within the industry. The intense competition attracts new entrants into the market, increased innovations among players in this sector and the adoption of strategies by the players that enable them compete favourably, giving them a competitive advantage. The harsh reality is banks provide similar services or offerings and to ensure banks survival within the industry, they need to adopt a strategy that will give it a competitive advantage over the rivals.

It is therefore apparent that the financial sector is facing challenges on several fronts, which include: how to cope with technological developments, how to come to a new level in an environment of low interest rate, how to rebuild asset adequacy, enriching and increasing value of customer relationship at a time when customers' behaviour and expectations are more demanding, restoring public confidence in the industry, how to deal with aggressive and innovative non-bank competitors, and how to embed a risk management culture into the fabric and practices in daily operations,(Kisirkoi, 2017).

Competitions exert pressure on firms requiring that they be proactive and formulate successful strategies that facilitate their competitiveness. Competitive strategy is about being different and it means deliberately choosing a different set of activities to deliver a unique mix of value (Porter, 1986). In a competitive market environment, customers make choices based on their perception of the value for money which is a combination of price and perceived product or service benefits and other value prepositions offered by an organization.

One of the biggest contemporary challenges of management in service industries is providing the right quality to maintaining customer satisfaction based on the corporate in the industry to cater for the changing customer needs is now more than evident (Stickland, 2013). In a competitive market environment, customers make choices based on their perception of the value for money which is a combination of price and perceived product or service benefits and other value prepositions offered by an organization. While the industry market leaders have been renowned for being actively involved in competitive strategies to keep their market share, no conclusive empirical evidence exists on whether market followers in the industry stand to benefit or are at risk loosing their customers studies has focused on the influence of competitive strategies on customer satisfaction among commercial banks in Kenya.

Locally, many studies have sought to investigate the customer satisfaction by Commercial Banks. For instance, Ongongo (2015) studied the relationship between corporate governance and customer satisfaction among Commercial Banks in Kenya. Nyariki (2014) carried out a study on factors influencing customer satisfaction at the Kenya Commercial Bank concluded that service quality is the most important factor in customer satisfaction, although also other strategies such as customer satisfaction, customer loyalty and complaint handling systems seems to play a significant role in retaining customers. Although a number of studies have been done on competitive strategies and customer satisfaction, a knowledge gap exists. None of the commercial banks in Kenya, which are presumed by the study to be crucial in enhancing the customer satisfaction if well formulated and implemented. The study sought to addressed this gap by conceptualizing a multi-dimensional joint relationship between competitive strategies and customer satisfaction by answering the question, What is the influence of competitive strategies on customer satisfaction among commercial banks in Kenya.

Objectives of the study

The general objective of this study was to determine the influence of competitive strategies on customer satisfaction among commercial banks in Kenya. The specific objectives were:-

- To assess the influence of product differentiation on customer satisfaction among commercial banks in Kenya
- To determine the influence of diversification on customer satisfaction among commercial banks in Kenya
- To establish the influence of process innovation on customer satisfaction among commercial banks in Kenya
- To evaluate the influence of cost leadership on customer satisfaction among commercial banks in Kenya.

LITERATURE REVIEW

Theoretical Review

Resource Based View (RBV)

Resource Based View (RBV) explains why firms in the same industry might differ in performance. This theory was brought forth by Lenka, Suar and Mohapatra (2013). The resource based view on strategy plays a pivotal role in retaining customers in the organization. The theory as a basis for the competitive advantage of a firm lies primarily in the application of a bundle of valuable tangible or intangible resources at the firms' disposal (Rumelt, 2014) The growth and performance in the banking industry majorly depends on uptake and usage of the banking products offered by different players in the industry. Competitive strategies play an important role in achieving customer retention; commercial banks can employ a number of competitive strategies for customer attraction and retention for example generic strategies postulated by Michael Porter (Snyman & Drew, 2015).

There is evidence that profitability differs much more between businesses than between industries. The beginnings of the theory of gaining a competitive advantage through internal factors can be attributed to Beynon (2015). The resource-based view of the firm has gone through a considerable amount of modifications and variations during the past three decades by a great number of scholars using terms such as resources, capabilities, assets and or core competences to describe intrinsic factors that lead to a competitive advantage for a firm. Although scholars use a variety of terms, this research will only use the term `resources to describe tangible assets, intangible assets, activities, capabilities and competences alike. A company's resources can be categorized into physical capital resources, human capital resources and organizational capital resources (Shah, 2014).

Configurational Theory

A strategy's success turns on combining external fit and internal fit. In essence, an organization with competitive strategies should have efficient management and a high level of performance, provided it is also able to achieve high levels of fit with its contemporary strategic initiatives (Thompson & Lockett, 2011). Emphasis is given to the importance of bundling strategic initiatives together with business strategies so that they are interrelated and therefore complement and reinforce each other. Implicit is the idea that strategies within bundles are interrelated and internally consistent and more particularly have a significant impact on the overall management of the organization. Effective management is as a result of ability and motivation of the human capital element. Thus; there are several ways in which workforce can acquire needed skills such as careful selection, talent nurturing and mentorship, leadership development and multiple incentives such as leadership and succession planning initiatives to enhance motivation and enhancement of performance management.

Dynamic Capability Theory

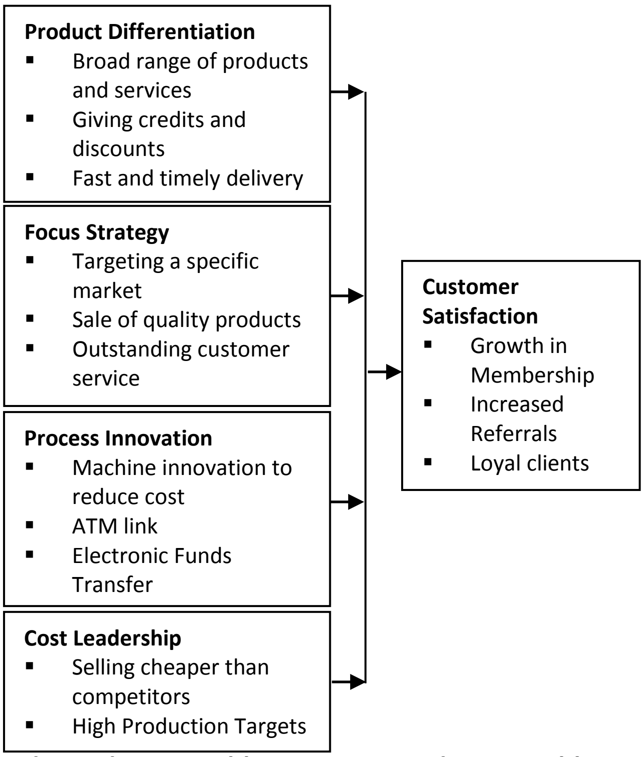
Teece et al. (1997) propose dynamic capabilities as a means of explaining how firms respond to change through the ability to integrate, build and reconfigure internal and external resources and competences. Despite the growing popularity of the dynamic capabilities concept there remains little empirical evidence of how dynamic capabilities are identified and developed in practice over time (*Narayanan et al.,* 2009). The dynamic capabilities literature has treated the concept more as a means of understanding competitive advantage than as a methodology for developing dynamic capabilities (*Helfat et al*., 2007). As a result, dynamic capabilities remain abstracted from everyday strategic management practice. A significant shortcoming of the dynamic capability concept is its lack of attention to the origins and development of dynamic capabilities, leading to criticism of the concept being of limited use to practicing managers (*Peteraf et al.,* 2013). Diversification capabilities, in this case into new products and international markets, represent a company's efforts to extend existing capabilities into related markets (Rumelt, 1974; Teece, 1980, 1982; *Teece et al.,* 1997). Dynamic capabilities are the capacity of an organization to purposefully create, extend, and modify its resource base *Helfat et al.* (2007). Unpacking this definition, it is proposed that dynamic capabilities are created through path-dependent learning Zollo and Winter, (2002) and engaged in the purposeful or deliberate creation, extension or modification of a firm's resource base, are open to both exogenous and endogenous drivers of change (*Zahra et al.,* 2006). Managers, as decision makers, are central to the process of developing dynamic capabilities (*Helfat et al.,* 2007; Zahra et al., 2006), and the pursuit of improved performance is aspired to without any tautological assumption of sustained competitive advantage.

The Contingency Theory

The contingency theory draws on the idea that there is no one or single best way or approach to manage organizations. Organizations should then develop managerial strategy based on the situation and condition they are experiencing. Thompson *et al*. (2007) in his classic organization in action model portrayed the basic problem of an organization as achieving originality in an uncertain word. Organizations are created to pursue some desired outcomes, yet they are faced with technologies and environment of varying levels of uncertainty which limits their ability to plan and execute actions to achieve the desired ends. Thompson vied an organizations as open systems fundamental with environment over which they had only limited control.

Thompson (2012) conceives environment in terms of several key dimensions, one being organizational domain, second being task environment which most interpedently and the third is being power and dependence relation implied by the nature of its domain and task environment. The organization domain is defined by the claims that the organization makes in terms of its range of products, the customers it serves and what services it lenders. The most relevant part of the larger system from the organization's strategic point of view comprise its external environment which are the customers or clients, suppliers of materials, labor, capital equipment and work space competitors for markets and resources and regulatory group including government, union and inter firm associations.

Conceptual Framework



Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework
Source: Author (2018)

Empirical Review

Several studies have been conducted on competitive strategies and customer satisfaction. The dynamic environment in which organizations operate demand that they come up with relevant strategies to satisfy their customers. Lynch (2015) intimates that differentiation strategy has many advantages for the firm which makes use of the strategy. Challenges are experienced by the firms in estimating if the extra cost entailed in the differentiation can actually be recovered from the customer through premium pricing. The value added by the uniqueness lets the firm command a premium price. The key characteristic of differentiation strategy is perceived quality whether real or not. This may be through superior product design, technology, customer service, dealer network or other (Shah, 2014). The advantage of differentiation is that perceived quality and brand loyalty insulates company from threats from any of the five forces that determine the state of competition in an industry. Price increases from powerful suppliers can be passed on to customers who are willing to pay. Buyers have only one source of supply. Brand loyalty protects from substitutes. Brand loyalty is also a barrier to new entrants. The risks to differentiation strategy include limitation due to production technology. The 'shelf life' of differentiation advantage is getting shorter and shorter. Customer tastes may also change and wipe out the competitive advantage.

Differentiation

In the differentiation strategy, the firm creates a differential competitive advantage through specific features or services that sets it apart from the others in the industry or the market. Narteh and Kuada (2014) assert that the essence of differentiation is to be unique in ways that are valuable to customers and that can be sustained by the firm. It needs a critical study of buyer needs and preferences to consider what is important to them and what value are they willing to pay for this. The advantage of uniqueness may be in the form of customer service, design, brand image or technology. Differentiation extends beyond the characteristics of the product or service, to include every possible interaction between the firm and its customers. However, adds that differentiation strategies are not about pursuing uniqueness for the sake of being different but is about understanding the product or service and the customer. Differentiation insulates loyalty by customers and gives lower sensitivity to price (Beynon, 2015).

Focus Strategy

Focus strategy involves targeting a particular market segment. This means serving the segment more efficiently and effectively than the competitors. Focus strategy can be either a cost leadership or differentiation strategy aimed towards a narrow, focused market.(Porter,1985). Advantages of focus strategy include having power over buyers since the firm may be the only source of supply. Customer loyalty also protects from new entrants and substitute products. The firm adopting focus strategy can easily stay close to customers and monitor their needs.

Increased competition in the banking industry threatens the attractiveness of the industry thereby reducing commercial banks' profitability. This is because it exerts pressure on banks to be proactive and to formulate successful strategies that facilitate proactive response to anticipated and actual changes in the competitive environment. In order to remain competitive and outperform their competitors, commercial banks have to develop appropriate strategies to drive their performance. In order to use the focus strategy, commercial banks have to identify a market niche they wish to serve (Pearson, 1999). By focusing on a given niche in the market, commercial banks are able to customize their financial services to the needs of that market niche.

Process Innovation

(Stanleigh, 2015) Innovation is rapidly becoming a key strategic implementation driver for organizations as we advance further into this century. Innovation refers to the process of translating an idea or invention into a good or service that creates value or for which customers will pay; it is finding a better way of doing something (Frame and White, 2004). Innovation can be viewed as the application of better solutions that meet new requirements, in-articulated needs, or existing market needs. Innovation is accomplished through having effective products, processes, services, technologies, or ideas that are readily available to markets, governments and society. Polder et. al. (2010) argues that organizations that embrace product innovation to enhance efficiency across the business and reflects the nature of strategy adopted by the organization. In today's highly competitive environment, organizations have to develop strategies meant to develop new products in order to meet customer's needs. The purpose of product innovation is to attract and retain new customers. Process innovation entails refining the production and logistic methods significantly or bringing substantive improvements on supporting processes such as accounting, purchasing and computing. Process innovation includes enhancing improvement in terms of equipment, technology and software of the production as well as delivery method. Organizations bring innovations in the production and delivery method to boost efficiency in the business. The new techniques and processes must be relatively new to the organization and should not have implemented before. The Organization can develop new process either by itself or with the assistance of another organization (Polder et. al., 2010).

Cost Leadership

A cost leadership strategy is one in which a firm strives to have the lowest costs in the industry and offer its products or services in a broad market at the lowest prices. A firm pursuing a cost-leadership strategy attempts to gain a competitive advantage primarily by reducing its economic costs below its competitors (Porter, 1985). Characteristics of cost leadership include low level differentiation, aim for average customer, use of knowledge gained from past production to lower production costs, and the addition of new product features only after the market demands them.

Customer Satisfaction

The market has become extra competitive and firm needs to draw much attention in maintaining customer by building strong relationship due to benefits enjoyed. As banking become more competitive, commercial banks recognize the importance of retaining current customers and some have initiated a variety of activities to improve customer satisfaction. Indeed, the benefits associated with customer satisfaction are lower costs associated with retaining existing customers, rather than constantly recruiting new ones especially within mature, competitive markets (Ehrenberg & Goodhardt, 2015).

Customer satisfaction is one of the key factors in modern marketing and customers' behavior analysis. If the customers are satisfied with the provided goods or services, the probability that they use the services again increases (East, 2014). Also, satisfied customers will most probably talk enthusiastically about their buying or the use of a particular service this will lead to positive advertising. On the other hand, dissatisfied customers will most probably switch to a different brand this will lead to negative advertising. Customer satisfaction has been considered the essence of success in today's highly competitive banking industry. Ndubisi (2013) and Pfeifer (2015) pointed out that the cost of serving a loyal customer is five or six times less than a new customer.

METHODOLOGY

This study employed a descriptive research design. It is concerned with describing the characteristics of a particular individual, or of a group. The population of the study comprised of all commercial banks in Nairobi, Kenya. As at 31st December 2016, there were 44 financial institutions in the banking industry in Kenya. The study included all the commercial banks in the country and hence a census study was conducted. The unit of observation was Marketing Manager and Operations Manager in total 88. The study used questionnaires to collect primary data. The primary data was collected using interview and questionnaires which comprised both open and closed- ended questions.

The linear regression model is :

$Y = a + B_1X_1 + B_2X_2 + B_3X_3 + e$

Where:

Y=Customer Satisfaction which is the dependent variable

a = Minimum value of the dependent variable if all the independent variables are zero B1=Coefficient of differentiation (D)

B2= Coefficient of focus (F)

B3= Coefficient of Cost Leadership (CL)

B4 = Coefficient of Process Innovation

e=Error variable

RESULTS

Product differentiation

The first objective of the study was to determine the influence of product differentiation on customer satisfaction of commercial banks in Kenya. The respondents were asked to rate statements on product differentiation on a scale of 1 to 5, where 1 was Very low extent, 2 was Low extent, 3 was Moderate extent, 4 was High extent and 5 was Very high extent. The results of the study were as indicated in table 1. The findings revealed that majority of the respondents agreed that the bank offered products or services with unique features that customer's need., The uniqueness let the bank demanded a higher price and the bank offers products that are designed in a better way compared to the competitors.to a very high extend as indicated by mean value of 4.63, 5.00 and 3.52 respectively.

Furthermore, the respondents indicated that the risks of differentiation strategy include limitation due to production technology and Customers tastes may outgrow differentiated products and render the bank non-competitive to moderate extent as shown by mean value of 3.38 and 3.19 respectively. On average, it was concluded that product differentiation was practiced to a moderate extent among first moving consumer goods. The findings of this study were consistent with Homburg, Krohmer, Cannon and Kiedaisch (2002) who argued that despite its importance, product differentiation as a competitive strategy method was not widely practiced in the commercial banks.

Table 1: Product differentiation

Statements	Mean	Standard Deviation
The bank offers products or services with unique features that customer's need.	4.63	0.79
The uniqueness lets the bank demand a higher price.	5.00	0.00
The bank offers products that are designed in a better way compared to the competitors.	3.38	1.13
The risks of differentiation strategy include limitation due to production technology.	3.19	1.23
Customers' tastes may outgrow differentiated products and render the bank non-competitive.	3.52	0.98
Average	**3.94**	**0.83**

Focus strategy

The second objective of the study was to establish the influence of focus strategy on customer satisfaction of commercial banks in Kenya. The respondents were asked to rate statements on focus strategy on a scale of 1 to 5 where 1 was Very low extent, 2 was Low extent, 3 was Moderate extent, 4 was High extent and 5 was Very high extent. The results of the study were as indicated in table 2. It was established that majority of commercial banks had focus strategy employed by bank involves targeting a particular market segment., Focus strategy was the most popular type of competitive strategy that attract customers and it was aimed towards a smaller, focused market to a moderate extent as shown by average responses of 3.44, 3.30 and 3.42 respectively. Furthermore, the findings revealed that the bank adopts focus strategy to stay close to its customers and monitor their needs and it is more efficient and effective in attracting new customers.to a high extent as shown by average responses of 4.03 and 3.92 respectively. On average, it was concluded that the focus strategy among commercial banks in Kenya was at a moderate extent as shown by overall average mean response of 3.62. The findings of this study were consistent with Tangus, Yugi, Rambo and Rono (2015) who argued that at the moment, the commercial banks are looking of ways of enhancing focus strategy.

Table 2: Focus Strategy

Statements	Mean	Standard Deviation
The focus strategy employed by bank involves targeting a particular market segment.	3.44	1.26
Focus strategy is the most popular type of competitive strategy to attract customers.	4.03	0.78
Focus strategy is aimed towards a smaller, focused market.	3.30	1.41
The bank adopts focus strategy to stay close to its customers and monitor their needs.	3.42	1.29
Focus strategy is more efficient and effective in attracting new customers.	3.92	1.03
Average	**3.62**	**1.15**

Process Innovation

The third objective of the study was to find out the influence of process innovation on customer satisfaction of commercial banks in Kenya. The respondents were asked to rate statements on process innovation on a scale of 1 to 5 where 1 was Very low extent, 2 was Low extent, 3 was Moderate extent, 4 was High extent and 5 was Very high extent. The results of the study were as in table 3. The findings revealed a high extent the firm had adopted process innovation there. The technology infrastructure helped the bank reach out to a many customers, The bank adopted technology that enhanced efficient and convenient services., With the process innovation, the bank was able to reach out to all their clients easily and more faster and Process innovation had really improved on the services and products of the bank.. This was supported by average response rate of 3.64, 3.74, 3.68 and 3.94 respectively. It was however revealed that Process innovation enhanced customer loyalty to a moderate extent as shown by an average response rate of 3.47. The findings were consistent with the findings of a study by Modi and Mabert, (2007) who argued that process innovation is essential in enhancing customer loyalty.

Table 3: Process Innovation

Statements	Mean	Standard Deviation
The technology infrastructure helps the bank reach out to a many customer.	3.64	1.16
The bank adopt technology that enhances efficient and convenient services.	3.74	0.96
With the process innovation, the bank is able to reach out to all their clients easily and faster.	3.47	1.26
Process innovation has really improved on the services and products of the bank.	3.68	1.12
Process innovation enhances customer loyalty	3.94	0.82
Average	**3.69**	**1.06**

Cost leadership

The final objective of the study was to find out the influence of cost leadership on customer satisfaction on commercial banks in Kenya. The respondents were asked to rate statements on cost leadership on a scale of 1 to 5, where 1 was Very low extent, 2 was Low extent, 3 was Moderate extent, 4 was High extent and 5 was Very high extent. The results of the study are as in table 4. It was established that the cost leadership. The bank used low prices of the products to target average customers and lowering the prices of the products in the bank enabled it to have a bigger market as shown by average response of 3.80 and 4.40 respectively. It established that the bank developed new products that met the market demand. The bank used knowledge gained from past production to lower production costs and the cost leadership strategy protects the bank from competition by other financial institutions to a moderate extent as shown by mean response of 2.63, 1.63 and 1.80 respectively.

The findings were consistent with Wachiuri, Waiganjo and Oballah (2015) who argued that even though cost leadership indicators positively influences customer satisfaction, it was not widely practised in the commercial banks.

Table 4: Cost leadership

Statements	Mean	Standard Deviation
The bank uses low prices of the products to target average customers	3.80	1.08
Lowering the prices of the products in your bank enables it to have a bigger market.	2.63	1.29
The bank develops new products that meet the market demand.	4.40	0.92
The bank uses knowledge gained from past production to lower production costs.	1.63	1.59
The cost leadership strategy protects the bank from competition by other financial institutions.	1.80	1.41
Average	**2.85**	**1.25**

Customer satisfaction

The study sought to establish the changes in the loyal clients in commercial banks between the year 2011 and 2015. The findings revealed that there were unsteady trends in the loyal clients in commercial banks in Kenya between the year 2011 and 2015. The findings were consistent with the findings of a study by Wanyama (2010) who revealed that there is increase in number of clients in an organization if there is effective competitive strategies. The study further sought to establish the changes in the number of referrals as measured by the commercial banks between the year 2011 and 2015. The results revealed decreasing trends in the number of referrals in commercial banks in Kenya from the year 2011 to 2014, then followed by a sharp increase in the year 2015.

The study sought to establish the changes in the growth membership in the commercial banks in Kenya between the year 2011 and 2015. The results revealed growth of membership decreased steadily from year 2011 to year 2013 followed by an increase in year 2014 to 2015. These findings confirmed an argument by Njeru (2015) the growth of membership in the banks where there are good competitive strategies.

Correlation Analysis

The study conducted a correlation analysis to establish the association among the variables used in the study. The study used Pearson correlation coefficient to determine the connection among the study variables at 5% level of significance.

Table 5: Correlation Tests Results

		Product differentiation	Focus strategy	Process innovation	Cost leadership	Customer satisfaction
Product differentiation	Pearson Correlation	1				
Focus strategy	Pearson Correlation	-0.177	1			
Process innovation	Pearson Correlation	-0.224	-.261*	1		
Cost leadership	Pearson Correlation	.282*	0.052	.499*	1	
Customer satisfaction	Pearson Correlation	.370*	.265*	.318*	.789*	1
	Sig. (2-tailed)	0.003	0.035	0.010	0.000	
	N	64	64	64	64	64

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

The study findings revealed a positive and significant relationship between product differentiation and customer satisfaction among commercial banks in Kenya. (R = 0.370, Sig <0.05). This therefore implies that an improvement in various indicators of product differentiation results to a significant improvement in customer satisfaction among commercial banks in Kenya. The correlation results revealed that focus strategy and customer satisfaction among commercial banks in Kenya were positively and significantly associated (R = 0.265, Sig <0.05). This therefore implied that an improvement in various indicators of focus strategy resulted to a significant improvement in the customer loyalty among commercial banks in Kenya. Correlation results also indicated that process innovation had a positive and significant association with customer loyalty among commercial banks in Kenya, (R = 0.318, Sig >0.05). This also implied that an improvement in various indicators of process innovation results to a significant improvement customer satisfaction among commercial banks in Kenya. The findings agreed with Hald and Ellegaard (2011) who indicate a positive effect of process innovation and customer satisfaction.

Concisely, the correlation results showed that cost leadership was positively and significantly related with customer satisfaction among commercial banks in Kenya (R = 0.789, Sig<0.05) implying that improvement in various indicators of cost leadership resulted to a significant improvement in customer satisfaction among commercial banks in Kenya. This finding was consistent with the argument by Chen and Paulraj, (2004) who argued that cost leadership improves the customer satisfaction of the buying firm thus enhancing its competitive advantage.

Regression Analysis

This study used the following regression model to determine the influence of competitive strategies on customer satisfaction among commercial banks in Kenya: $Y= \beta 0 + \beta 1X1 + \beta 2X2 + \beta\ 3X3 + \beta 4X4 + \varepsilon$ Where; Y = customer satisfaction, X1 = product differentiation, X2= focus strategy, X3= process innovation and X4= cost leadership. This multiple regression model was adopted to determine the influence of competitive strategies on customer satisfaction among commercial banks in Kenya.

The model summary results as presented in Table 6 revealed that the four independent variables of product differentiation, focus strategy, process innovation and cost leadership had a strong positive influence on customer satisfaction among commercial banks in Kenya.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.853	0.728	0.709	0.225164

The F statistic indicating the overall significance of the model was significant at 5% (Sig < 0.000) showing that the model was significant. The F calculated statistic of 39.464> F (4, 159) critical value of 2.429 confirming that the model was significant. The model significance results therefore implied that the four independent variables of product differentiation, focus strategy, process innovation and cost leadership adopted in the study were suitable factors in predicting variation in customer satisfaction in commercial banks in Kenya.

Table 7: Analysis of Variance (Model Significance)

	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	8.003	4	2.001	39.464	0.000
Residual	2.991	59	0.051		
Total	10.994	63			

The regression results revealed that product differentiation positively and significantly influenced customer satisfaction in commercial banks in Kenya (Beta = 0.191, Sig< 0.05). This implied that a unit increase in various indicators of product differentiation indicator resulted to 0.191-unit improvement in customer satisfaction in commercial banks in Kenya. The regression results on focus strategy further showed that this variable positively and significantly influenced customer satisfaction among commercial banks in Kenya (Beta = 0.122, Sig <0.05) implying that a unit increase in focus strategy indicators resulted to 0.122-unit improvement in customer satisfaction among commercial banks in Kenya. These results showed that focus strategy was an important factor when a firm needs to improve its customer satisfaction. The results agreed with Sanders, Chad, Autry, David and Gligor, (2011) who indicated that focus strategy improvement leads to an improvement in customer satisfaction. The regression results further showed that process innovation positively and significantly affected customer satisfaction among commercial banks in Kenya(Beta = 0.164, Sig <0.05) implying that a unit increase in indicators of process innovation resulted to 0.164 unit improvement in customer satisfaction among commercial banks in Kenya. The findings are consistent with Wagner (2010) who argued that process innovation was linked to an improvement in customer satisfaction.

The regression results finally showed that cost leadership had a positive and significant influence on customer satisfaction among commercial banks in Kenya (Beta = 0.251, Sig<0.05). This implied that a unit improvement in indicators measuring cost leadership resulted to 0.251 improvement in customer satisfaction among commercial banks in Kenya. The findings were consistent with Kamau (2013) who argued that cost leadership leads to an improvement in customer satisfaction.

Table 8: Regression Coefficients Results

	Beta	Std. Error	t	Sig.
(Constant)	0.045	0.352	0.128	0.899
Product differentiation	0.164	0.037	4.432	0.000
Focus strategy	0.122	0.029	4.207	0.001
Process innovation	0.191	0.055	3.473	0.003
Cost leadership	0.694	0.110	6.309	0.000

The optimal regression equation on Customer satisfaction among commercial banks = 0.045 + 0.694 (cost leadership) + 0.164 (product differentiation) + 0.122 (focus strategy) + 0.191 (process innovation).

CONCLUSIONS

Based on the study findings, it was concluded that the risks of differentiation strategy included limitation due to production technology and customer's tastes may outgrow differentiated products and render the bank non-competitive. These would enhance the customer satisfaction. The study concluded that the Focus strategy was the most popular type of competitive strategy to attract customers. The bank adopted technology that enhanced efficient and convenient services and Process innovation had really improved on the services and products of the bank. The study concluded that the strategy helped the bank gain as many customers by reducing its economic costs below its competitors, the cost leadership strategy protects the bank from competition by other financial institutions and there is quality delivery of service at lower prices and at appropriate locations.

In conclusion, for survival in today's competitive banking environment, banks must focus on understanding customer's needs, attitude and behavioral patterns of the industry and adopt customer oriented strategies that enhance customer satisfaction. This is also because customers do not just buy core quality products or services; they also buy a variety of added value or benefits. Bank managers should not only deliver superior services to customers but in effect deliver services that meets and exceed customer's expectations.

RECOMMENDATIONS

Banks should improve on the implementation of the competitive strategies especially on differentiation and focus strategy so that its impact can be felt by the bank customers. Bank managers should therefore deliver services that meet and exceed customer's expectations in order to enhance customer satisfaction.

The study also recommended that banks should enhance strategies that attract and retain more customers. Also banks should use market surveys so as to identify the needs of the customers and thus develop products that meet their demand. Banks should design products that are of superior quality compared to their competitors so as to gain competitive advantage. Banks should embrace packaging products so that customers get more products in one package, and design products that target different income classes. This will ensure that all economic classes have products that suit their income level and thus the bank will meet the demands of large group while focusing on meeting the needs of each group.

Areas for further Research

The study targeted commercial banks in establishing the extent to which competitive strategies influence customer satisfaction. This study therefore recommended that in future a similar study be conducted across all micro finance institutions in the country so as to generalize the findings. The study also recommended that in future a study be conducted on establishing the extent to which competitive strategies influence customer attraction. This would be important in helping organizations identify ways in which they can attract more customers to their organizations.

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