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Influence of Competitive Strategies on Customer Loyalty: A Case of Kenya Commercial Bank South Sudan

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Abstract

The study sought to find out if and how cost leadership, differentiation and focus strategies influence customer loyalty in Kenya Commercial Bank South Sudan (KCBSS). Cost-leadership, differentiation, and focus are considered independent variables of this study and customer loyalty is considered as the dependent variable. The population of staff at KCB South Sudan was 286. The study adopted stratified and simple random sampling to select the sample size for the staff; whereby 15% of the staff population were chosen from each of the two strata; giving a sample size of 43 with Kenyans being 8 while South Sudan nationals being 35. Correlation and regression analysis of independent and dependent variables were made in this study. The study found that competitive strategies influenced customer loyalty. The most dominant competitive strategy was the focus strategy. The study concluded that customer loyalty is influenced by the three generic strategies, that is, cost leadership, differentiation and focus strategy. The study recommends that the management of KCBSS should improve more on these competitive strategies if they wish for the customer loyalty levels to improve.

Keywords: *Customer loyalty, Competitive Strategy, Customer Satisfaction, Industry, Strategy, Trust*

1. Introduction

The term strategy refers to the development of a specific and respected role with a different set of activities. A strategically placed organization performs different activities from competitors or performs similar activities in different ways (Porter, 1980). Competitive strategy is also a distinctive approach that a company uses or plans to use to achieve a competitive advantage in the marketplace (Porter, 2008). Competitive companies must come up with tactics that can outperform their competitors on the market. The goal of a strategic strategy is to create a competitive advantage, increase consumer satisfaction and improve competitiveness. This can only be done if the organization uses capital within its sphere to obtain competitive advantage. The view of successful strategies as more skill-based and requiring strategic thinking, innovation, execution, critical thinking, positioning and the art of warfare (Davidson, 2001).

2. Market Based View

This view indicates that a firm's performance is determined by both the industry factors and external market orientation.

For a firm to position itself strategically in the market, it must possess a unique set of qualities that are different from its competitors. A firm can also perform the same set of activities as other rival firms but in a way that outshines its rivals. A firm's profitability or performance is determined solely by the structure and competitive dynamics of the industry with which it operates (Schendel, 1994). The five competitive forces influencing the industry include threat of new entrants, threat of substitutes, bargaining power of buyers, bargaining power of suppliers and rivalry among competitors do influence or rather determine the ability of firms in an industry to earn, on average. Rate of return on investment in excess of the cost of capital (Porter, 1985). In a nutshell, the five forces do influence the prices, costs, and required investment of firms in an industry.

3. Customer Loyalty

Customer loyalty includes a company's set of measures seeking positive orientation of behavioral intentions of current and future customers to a vendor and/or its offer to obtain stabilization, respectively a development of the relationships with these customers, Bruhn, (2001). Customer loyalty is the main objective of strategic market planning. It forms the basis of a sustainable competitive advantage. It costs more to attract a new customer than to retain one. Therefore, companies seeking to be cost

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leaders strive to achieve long term customer loyalty. Bruhn (2001), notes that customer loyalty is part of a cause-effect chain that comprises processes from the initial contact with the client to the economic success of the organization. Loyalty is a physical and emotional commitment given by customers in exchange for meeting their expectations. Mitchell (1995), states that companies can increase their profitability three times by ensuring customer loyalty over a period of five years.

Rizka (2013) in his study concluded that customer relationship marketing has a mediating role in the relationship between service quality and service loyalty. The findings further showed that assurance, as a service quality indicator, developed customer relationship and eventually created customer loyalty. Weiwei (2007) in his study found out that corporate reputation had an impact on corporate image and customer loyalty; his findings were consistent indicating that indeed corporate image affected customer loyalty. The findings further showed that there were more intangible and complex dimensions in the formation of a firm's image. Moreover, the findings showed that corporate image should have a higher level of abstraction than reputation since the latter relies upon specific actions of the firm.

4. Competitive Strategies

Porter (1980), defined an industry as a group of firms producing products that are close substitutes for each other. The nature of an industry will determine the kind of competitive strategy a firm will adopt. The capability of a company will be measured on how it responds to outside forces.

Porter (1980), noted that competition in an industry is determined by the five basic competitive forces, that is, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, rivalry among existing firms and the threat of substitute products or services. Awareness of the five forces helps a company to understand the structure of its industry and stakeout a position that is more profitable and less vulnerable to attach (Porter 1979, 2008).

The above five forces do dictate the intensity of industry competition and profitability, and the strongest five(s) become very important when coming up with a competitive strategy. Competitive strategy therefore emphasizes the improvement of the competitive position of a firm's products or services in the specific industry or market segment (Hunger & Wheelen, 1995).

According to this model, a company can choose how it wants to compete with competitors based on the match between its type of competitive advantage and the market target pursued, as the key determinates of choice (Akan et.al. 2006).

To cope up with the five competitive forces, Porter identified three generic strategic approaches to outperforming firms in an industry, namely, overall cost leadership, differentiation and focus strategy (Porter. 1998).

4.1 Cost Leadership

It's the prayer of each company executive to be the low-cost leader in the industry they are operating in. Being the low-cost leader shields the firms against competitive pressure from rival firms. In order for a firm to be a low-cost producer, it must explore and exploit all the sources of cost advantage such as economies of scale, proprietary technology, and preferential access to raw materials among others. Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on (Porter, 1998). Once a firm has achieved low-cost leadership, it's important for the firm to re-invest some of the funds raised from such in order to maintain the low-cost leadership position.

Porter (1980), indicates that achieving a low overall cost position often requires a high relative market share or other advantages, such as favorable access to raw materials. It may well require designing products for ease in manufacturing, maintaining a wide line of related products to spread costs, and serving all major customer groups in order to build volume. In turn, implementing the low-cost strategy may require heavy up-front capital investment in state-of-the art equipment, aggressive pricing, and start-up losses to build market share. High market share may in turn allow economies in purchasing which lower costs even further. Once achieved, the low-cost position provides high margins which can be reinvested in new equipment and modern facilities in order to maintain cost leadership. Such reinvestment may well be a prerequisite to sustaining a low-cost position.

Rhoda Mwangi and Dorris Mbugua (2018), in their study on the effect of cost leadership strategy on customer loyalty among pharmaceutical companies in Nairobi County, Kenya, noted that focus strategy has a positive effect on customer loyalty. However, their study assumed that differentiation strategy and focus strategy were constant variables. My study seeks to fill this gap by focusing on the three generic strategies as variables rather than assuming that other strategies are constant variables.

4.2. Differentiation

This strategy tends to woo customers to being loyal to the firms' products and/or services. For instance, banking industry in Kenya, NIC Bank has positioned itself in the market as a bank that deals mainly with Small and Micro Medium enterprise, Equity focuses mainly on low income earners while in the Telkom industry, Safaricom enjoys a relatively higher position in the market because of its perceived low cost and available of network. Feil Engineering Ltd in Kisumu has positioned itself as one of the key suppliers of farm construction equipment. Differentiation provides buffer against rival firms because it focuses on brand or rather customer loyalty. Such customers have very low intensity to products process.

If the actions required to achieve differentiation will increase costs, a firm will have to do a trade-off with cost position. Differentiation increases customer brand loyalty and result in reduced price elasticity. It also leads to higher profit margins and reduce the need to be a low-cost producer. The profit margin will increase for as long as the firm can increase the selling price by more than the marginal cost of adding the features. Firms pursuing differentiation strategy face a series of risks. When the buyers need for the differentiating factor fades, the firm is likely to lose business. Porter (1980), says that cost differential between low-cost competitors and the differentiated firm becomes too great for differentiation to hold brand loyalty. Buyers thus sacrifice some of the features, services, or image possessed by the differentiated firm for large cost savings.

4.3. Focus Strategy

A company pursuing this strategy will strive to focus mainly on a geographical market, a customer group or a product group in order to win its customers loyalty. As a result, the company that chooses to utilize this strategy should be able to know its customers and be in possession of the products and/or services that will competitively win both its customers and prospective customers loyalty. The strategy rests on the premise that the firm is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both (Porter, 1998). As a result, the focus strategy has two variants, namely the cost focus and the differentiation strategy.

It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market. The firm typically looks to gain a competitive advantage through effectiveness rather than efficiency. In focus strategy, the firm seeks a cost and differentiation advantage in its target segment. Porter (1985) opines that firms combine focus strategy with either cost leadership or differentiation strategy to gain competitive advantage. Karanja (2002) observes in a study of real estate firms in Kenya that increase in the number of players has led to increased competition. The most popular type of competitive strategy was on the basis of focused differentiation. Firms tended to target certain levels of clients especially the middle and upper class who resided in certain targeted estates.

5. Results and Analysis

The study adopted a simple and stratified sampling to select the sample size for the staff; whereby 15% of the staff population was chosen from each of the two strata; Kenyans and SS nationals respectively; giving a sample size of 8 and 35 as shown in Table 1.0. The basis of the stratification is because majority of Kenyans working in KCBSS are in management level. Oso and Onen (2008) noted that simple random sampling selects a sample without bias from the target/accessible population and is used to select a representative sample. According to Adèr & Mellenbergh (2008), at most 15% of the population is a valid sample size for a considerably small population size to include in the sample. The technique is used to collect focused information. The technique was chosen because it saves time and money.

Table 1.0: Sample size

	Kenyans	SS Nationals	**Total**
Population size	50	236	286
Strata Sample size	8	35	43

The data was then analyzed using descriptive statistics using statistical package for social sciences (SPSS) version 21. Descriptive statistics includes percentages, mean and standard deviation to determine the frequency of competitive strategies used by KCBSS. In addition, a multivariate regression model was applied to determine the relative importance of each of the three variables with respect to customer loyalty.

The respondents were asked to indicate the extent to which they agreed or disagreed with statements related to cost leadership strategy and how it influences customer loyalty in the bank. The scale ranged from 1 (strongly disagree) to 5 (not at all). Therefore, the mean values presented show higher agreement with the statements when they are closer to 1 and least agreement when they are closer to 5. The results are presented in terms of frequency distributions for strongly agree/agree (SA/A) and disagree/strongly disagree (D/SD). The mean and standard deviations (SD) are also shown and interpreted.

The results in Table 1.1 show that the respondents were mostly in agreement that the bank had an advanced IT system which improves service delivery (Agree = 90%; M = 1.65). The respondents also agreed that the bank had developed new products and/or services that met the customer needs over and above the competitors (Agree = 80%; M = 1.95). In Figure 1.0, the results show that 69% agreed that to a great or a very great extent, cost leadership in KCBSS influenced customer loyalty.

Table 1.1: Cost leadership

Factor	SA/A	D/SD	Mean	SD
KCBSS has an advanced IT system that improves service quality	90	5	1.65	1.09
The Bank develops new products and/or services that meet the customers' needs over and above those of the competitors.	80	20	1.95	1.05
KCBSS has been able to develop low-cost products and services compared to its products competitors without compromising on quality and high service standards	75	25	2.00	0.86
The improved financial performance of the bank has increased the level of trust from customer	80	15	2.05	1.05
KCBSS employee productivity has enhanced customers trust in the Bank's Products and services.	79	21	2.16	0.96
KCBSS holds the indisputable position of the low cost-leader in South Sudan's banking industry.	68	31	2.16	0.83
Reduction in organization overhead and administrative costs has enabled KCBSS to offer low priced products and/or services.	60	40	2.36	0.88

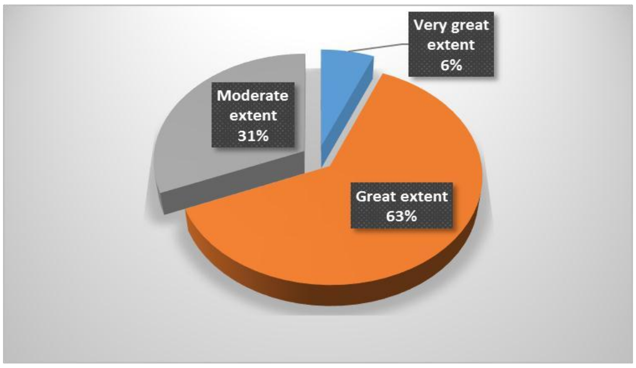

Figure 1.0: Influence of cost leadership strategy on customer loyalty

5.1 Differentiation Strategy

The respondents were asked to indicate the extent to which they agreed or disagreed with statements related to differentiation strategy and how it influences customer loyalty in the bank. The scale ranged from 1 (strongly disagree) to 5 (not at all). Therefore, the mean values presented show higher agreement with the statements when they are closer to 1 and least agreement when they are closer to 5. The results are presented in terms of frequency distributions for strongly agree/agree (SA/A) and disagree/strongly disagree (D/SD). The mean and standard deviations (SD) are also shown and interpreted.
The results in Table 1.2 show that the most significant differentiation strategy element was the existence of skilled and experienced staff who deliver quality service to the customers (Agree = 80%; M = 1.80) followed by investment in latest technology that helped reach out to many customers (Agree = 70%; M = 1.90). In Figure 4.6, it is shown that 65% agreed to a great or a very great extent that differentiation strategy in KCBSS influenced customer loyalty.

Table 1.2: Differentiation strategy

Factor	SA/A	D/SD	Mean	SD
KCBSS has skilled and experienced staffs who deliver high quality service to its customers.	80	15	1.80	1.06
KCBSS has invested in the latest technology that has helped it to reach out to many customers	70	5	1.90	1.02
KCBSS offers reputable and quality products and services that are superior to those of the competitors	75	25	2.25	0.79
KCBSS offers products and services with unique features that add value to customers	80	5	2.30	1.26
Strong customer relationship management by KCBSS has enabled customers to form a strong buying intention towards the bank's products and/or services	60	40	2.30	0.66
KCBSS customers do not mind paying premium price for its products and services because the are unique	58	37	2.37	1.07
KCBSS conducts high quality research that enables it to identify and meet the needs of its customers.	63	26	2.42	1.22
The different tastes of customers may wipe out differentiated products and render KCBSS non-competitive	40	55	2.70	0.86

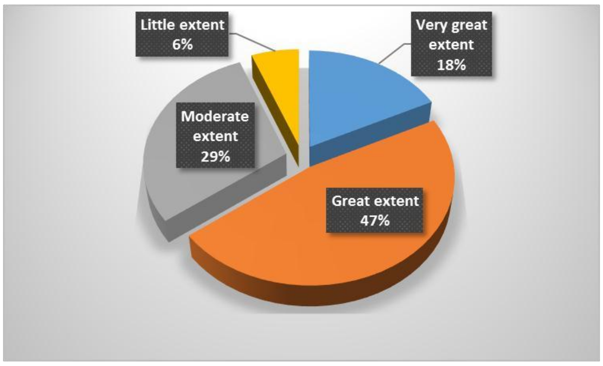

Figure 1.2: Influence of differentiation strategy on customer loyalty

5.2 Focus Strategy

The respondents were asked to indicate the extent to which they agreed or disagreed with statements related to focus strategy and how it influences customer loyalty in the bank. The scale ranged from 1 (strongly disagree) to 5 (not at all). Therefore, the mean values presented show higher agreement with the statements when they are closer to 1 and least agreement when they are closer to 5. The results are presented in terms of frequency distributions for strongly agree/agree (SA/A) and disagree/strongly disagree (D/SD). The mean and standard deviations (SD) are also shown and interpreted.

The results in Table 4.3 show that the most significant focus strategy initiatives were the location of the branches to ensure easy access to customers (Agree = 85%; M = 1.75) and that the bank is considered as an all-round best bank in South Sudan (Agree = 80%; M = 1.95). Figure 4.7 shows that 71% of the respondents agreed to a great or a very great extent that the focus strategy used by the bank had influenced customer loyalty.

Table 1.3: Focus strategy

Factor	SA/A	D/SD	Mean	SD
KCBSS locates its branches in particular geographical areas to ensure that its customers have ease of access to bank products and services	85	5	1.75	1.25
KCBSS is considered as the all-round best bank in South Sudan	80	10	1.95	1.23
KCBSS is recognised by competitors as the banking industry's pacesetter in product innovation	80	10	2.00	1.21
KCBSS combines both focus strategy and cost leadership strategy to achieve customer loyalty	80	15	2.10	1.02
KCBSS employs focus strategy to target a particular market segment	75	20	2.20	1.00
KCBSS combines both focus strategy and differentiation strategy to achieve customer loyalty	65	35	2.25	0.79
KCBSS uses broad focus strategy to achieve customer loyalty	63	31	2.37	1.01
KCBSS uses narrow focus strategy to achieve customer loyalty	53	37	2.47	1.17

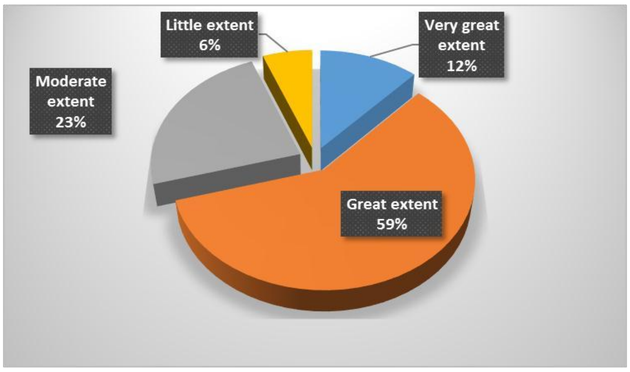

Figure 1.3: Influence of focus strategy on customer loyalty

5.3 Customer Loyalty

The respondents were asked to indicate the extent to which they agreed or disagreed with statements related to competitive strategy and how it influences customer loyalty in the bank. The scale ranged from 1 (strongly disagree) to 5 (not at all). Therefore, the mean values presented show higher agreement with the statements when they are closer to 1 and least agreement when they are closer to 5. The results are presented in terms of frequency distributions for strongly agree/agree (SA/A) and disagree/strongly disagree (D/SD). The mean and standard deviations (SD) are also shown and interpreted.

Table 1.4 shows that 90% of the respondents agreed that there is a measurable relationship between competitive strategies and customer loyalty. The results also show that 85% were in agreement that differentiated products had led to successful relationship between the bank and its customers.

Table 1.4: Customer Loyalty

Factor	A/SA	D/SD	Mean	SD
There is a measurable relationship between competitive strategies and customer loyalty	90	5	2.00	0.85
Competitive strategies enhance customer trust at KCBSS	85	15	2.05	0.83
Competitive strategies encourage customers to be committed to KCBSS	80	15	2.15	0.99
Competitive strategies has enhanced the image and reputation of KCBSS	75	20	2.15	0.93

In Table 1.4, the summary of descriptive statistics as well as a correlation matrix between the variables is presented. As shown, the most adopted strategy among the three generic strategies was cost leadership (M = 2.04) followed by the focus strategy (M = 2.13) and finally the differentiation strategy (2.25). Generally, the competitive strategies were significantly used in the organization (M = 2.14). The results also show that customer loyalty was greatly influenced by the competitive strategies (M = 2.26).

The results on cost leadership strategy revealed that there is a positive and significant relationship between cost leadership strategy and customer loyalty in KCBSS. The regression results revealed that the coefficient of determination was 0.574 that is (r^2 =0.574) meaning that cost leadership strategy can explain 57.4% of the changes in customer loyalty in KCBSS. This postulates that cost leadership strategy is a significant predicator of customer loyalty in KCBSS. From the descriptive analysis, 69% of the respondents agreed that cost leadership strategy had influenced customer loyalty. The results are consistent with Gathoga (2001) who noted that cost leadership was instrumental as a competitive strategy in commercial banks.

The results on cost differentiation strategy revealed that there is a positive and significant relationship between differentiation strategy and customer loyalty in KCBSS. The regression results revealed that the coefficient of determination was 0.448 that is (r^2 =0.448) meaning that differentiation strategy can explain 44.8% of the changes in customer loyalty in KCBSS. This postulates that differentiation strategy is a significant predicator of customer loyalty in KCBSS. The descriptive results showed that 65% of the respondents agreed that differentiation strategy influenced customer loyalty in the bank.

The results on focus strategy revealed that there is a positive and significant relationship between focus strategy and customer loyalty in KCBSS. The regression results revealed that the coefficient of determination was 0.553 that is (r^2 =0.553) meaning that focus strategy can explain 55.3% of the changes in customer loyalty in KCBSS. This postulates that focus strategy is a significant predicator of customer loyalty in KCBSS. The results showed that 71% of the respondents agreed that focus strategy influenced customer loyalty in the bank. Thus, focus strategy influenced customer loyalty in the bank. This is consistent with the findings of Karanja (2002).

Overall, the regression results revealed that the coefficient of determination was 0.625 that is (r^2 =0.625) meaning that competitive strategy can explain 62.5% of the changes in customer loyalty in KCBSS. This postulates that competitive strategy is a significant predictor of customer loyalty in KCBSS. The results from the descriptive analysis revealed that 90% of the respondents agreed that competitive strategies influenced customer loyalty. Thus, competitive strategies influence customer loyalty. These results are consistent with the findings of Prahalad and Ramaswamy (2000).

The importance of strategy to a firm cannot be ignored. Implementation of strategy defines the process through which a selected strategy is actualized. In the context of this study, the fact that financial institutions have strived from various stages alongside the adoption of various organizational strategies indicates that it has not been easy to achieve optimum strategy implementation. The purpose of this study was to analyze the influence of competitive strategies on customer loyalty in KCBSS.

The study employed descriptive research design targeting employees at KCB and a sample of 43 respondents. The study used primary data. The primary data was collected using questionnaires and an interview guide. Quantitative data collected was analyzed with the use of descriptive statistics using SPSS (version 20) as the tool of choice and presented through diverse measures that included percentages, means, standard deviations and frequencies. The study further employed a multivariate regression model to study the relationship between dependent and independent variables.

The study found that the three generic strategies namely cost leadership, differentiation strategy and focus strategy influenced customer loyalty in KCBSS. The study established that customer loyalty was linked to its strategic initiatives

The study recommends that KCBSS should come up with customer loyalty programs that include product availability and innovations. The nature of each component requires research as different service offerings with different interest rates are likely to be needed by each of them and different marketing strategies and approaches are likely to be essential.

Furthermore, product differentiation appears as a critical driver for performance of KCBSS, which could perform the role of a bridge that links the positive influence of customer loyalty to organizational performance. Therefore, management ought to focus and invest more on product differentiation as it could be used as a major competitive advantage tool against competitors in the industry and it is capable of guaranteeing the long-term survival of the organization. KCBSS should adopt product differentiation strategies that address needs of specific market segments. To achieve this, clients' needs must be identified by way of continuously seeking customer feedback and promptly addressing them. Research has shown that customer preferences keep changing, which translates into a guiding principle that products must keep changing so as to ensure sustained customer loyalty.

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