PORTER’S GENERIC COMPETITIVE STRATEGIES AND CUSTOMER SATISFACTION IN COMMERCIAL BANKS IN KENYA

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ABSTRACT

Porter’s generic competitive strategies have been hypothesized by many researchers to have an influence on customer satisfaction. Amidst stiff competition, it is important that appropriate strategies are used to ensure this aim is achieved. This study was set to determine the effect of Porter’s Generic Competitive Strategies on Customer Satisfaction within commercial banks in Nakuru Municipality. To accomplish this task, the study objectives were: to determine the effect of Porter’s generic competitive strategies on customer satisfaction within Nakuru Municipality; to determine the effect of differentiation strategy on customer satisfaction; to determine the effect of cost leadership strategy on customer satisfaction; to establish the effect of focus strategy on customer satisfaction; and to determine the composite effect of differentiation strategies, cost leadership strategies and focus strategies on customer satisfaction in commercial banks within Nakuru Municipality. This study adopted a descriptive survey design and employed purposive sampling technique in the identification of the banks and systematic random sampling technique in the selection of the respondents. The study sample was obtained from bank customers that have operated in Nakuru Municipality for a period of more than five years. A representative sample of 384 bank customers was chosen and data was collected over a period of one month. The study used a questionnaire to gather data.
data from the respondents. Data collected was analyzed for descriptive statistics and inferential statistics (correlation and regression) using Statistical Package for Social Sciences (SPSS) computer software version 15. Research findings were presented in the form of tabular summaries. The significance level used for the study was 0.05. The results revealed that most bank customers agreed that banks adopted the three Porter’s generic strategies (Differentiation, Cost Leadership and Focus strategy) and they also agreed that the aspects of customer satisfaction are experienced by majority of the customers. Results also revealed that differentiation, cost leadership and focus strategy were significantly positively related to customer satisfaction. The study concluded that differentiation, cost leadership and focus strategy affect customer satisfaction positively. The study recommended that banks need to improve on the implementation of the three porter’s generic strategies especially differentiation and focus strategy and also deliver services that exceed customer’s expectations in order to enhance customer satisfaction and that similar studies should be carried out in other parts of the country and in other sectors of the economy. A research should be conducted on other factors that affect customer satisfaction that are not discussed in the study.

**Key words:** Competitive advantage, cost leadership, customer Satisfaction, differentiation, strategies, focus, managerial competence

### INTRODUCTION

In a competitive business environment, services are gaining increasingly more importance in the competitive formula of both firms and countries. More specifically, over the past decades markets have enjoyed sustained growth advanced by factors such as development in information and communications technologies, population growth, market liberalization, greater credit availability, and the increasing size and geographic reach of companies. Economic growth has increased the purchasing power in customer segments therefore creating new opportunities for firms willing and able to access them, at the same time customers are seeking better options (Petruzellis et al, 2006). Globalised competition has stressed the strategic importance of customer satisfaction in the battle for winning consumer preferences and maintaining competitive advantage. In order to optimize customer satisfaction and create competitive advantage, which ultimately leads to greater business performance, a firm knowledge and deep understanding of competitive strategies, is of up most importance.

Porter’s generic model, which highlights cost leadership, differentiation and focus as the three basic choices for firms, has dominated corporate and business competitive strategy for the last 30 years (Pretorius, 2008). According to this model, a company can choose how it wants to compete, based on the match between its type of competitive advantage and the target market pursued, as the key determinants of choice (Akan et al , 2006). Porter (1985) argued that generic strategy model remains one of the most notable in the strategic management literature. A business can enhance customer satisfaction either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Any organization that fails to make a strategic decision to opt for one of these strategies as a means of enhancing customer satisfaction is in danger of being outplayed by its rivals.

According to Cohen et al (2006), porter’s three set of generic competitive strategies (differentiation, cost leadership and focus) influences customer satisfaction. There is evidence that the three porter’s generic strategies can enable an organization to attract more customers than its competitors. It is important for firms to identify customer’s wants and find a suitable channel to give it to them so as to meet and exceed their expectations. All the three strategies have the potential to enhance customer satisfaction; however, all may not be equally suitable for a firm (Cohen et al , 2006). This is because the three strategies differ on a number of dimensions and pose different requirements, for example in terms of resources, skills, organizational arrangements, control procedures, incentive systems and management style.

A cost leadership strategy is based upon a business organizing and managing its value adding activities so as to be the lowest cost producer of a product within an industry. A successful cost leadership strategy is likely to rest upon a number of organizational features. Attainment of cost leadership depends upon the arrangement of value chain
activities (Evans, Campbell & Stonehouse, 2006). The broad scope of cost leaders means that they attempt to serve a large percentage of the total market. Companies pursuing a low-cost strategy will typically employ economies of scale, outsourcing, and control of overheads, technological advantages and operational efficiency to create low cost positions. Consequently, they can keep prices low and attract a wide segment of the market interested in inexpensive products (Harrison & Enz, 2005). According to Porter, a low cost producer must find and exploit all sources of cost advantage. However, a cost leader cannot ignore the sources of differentiation. This means a cost leader must succeed in gaining differentiation proximity or parity even though competitive advantage is sourced by cost leadership (Porter, 1985). Porter argued that cost leadership is suitable when the company has economies of scale and possess the ability to reduce the cost owing to experience curve effect.

Differentiation strategy involves developing a product or service that offers unique attributes that are valued by the customers in that the customer perceives them to be better than or different from those of competitors. Needs and demands of the customer must be accurately defined and value must be delivered. The firm might differentiate itself in terms of product form, brand image, product features, breath of product line, technology, customer service and pricing or distribution channels. This strategy is appropriate where the target customer is not price sensitive, market is competitive, customers have specific needs and the firm has unique resources and capabilities which enable it satisfy this needs in ways that are difficult to copy (Porter, 1985). In a highly competitive market, the shortest route to differentiation is through brand image, product features and customer service. This is evident in the banking industry, where banks are providing more or less identical products for nearly the same price. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain customer satisfaction (Chang et al, 2001). Uniqueness can be achieved through service innovations, superior service, creative advertising and branding among others. The key to success is that customers must be willing to pay more for the uniqueness of a service than the firm paid to create it. Firms adopting a differentiation strategy can charge a higher price for their products. Differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique and quality product. According to Ovidiu et al (2009), differentiation strategy is one of Porter’s strategies used in the service industry for the purpose of enhancing customer satisfaction. It is believed that differentiation strategy can be the result of a strong strategic campaign designed to strengthen the unique characteristics of the products/services within the mind of the consumers. The brand name is a strong differentiation element within such a strategy. Offering unique and a broad range of new services to customers and refining existing services delights customer since they have a variety to choose from (Abratt & Dion, 2006).

The focus a firm chooses refers to a specific segment or group of segments in the industry, as it attempts to achieve either cost advantage or differentiation. The premise is that the needs of a segment can be better serviced by focusing entirely on it. A firm that does not have an overall competitive advantage optimizes this strategy in order to serve the needs of the target segments and achieve a customer satisfaction in them (Davidson, 2001). The focus strategies namely: cost focus or differentiation focus relies on the differences of the given segment from the others in the industry. This entails tailoring the activities of specific segment exclusively to ensure the needs a particular segment are fully satisfied. Generic focus strategy is not usually achieved if a firm tries to pursue two broad strategies at the same time but instead risks’ getting stuck at the middle (Porter, 1985). The banking industry is highly competitive, as more and more commercial banks enter the market, there is need to focus on competitive strategies to enable organizations gain customer satisfaction. Commercial banks face challenges that are brought about by the pressures of globalization, technological advances, changing customer’s preferences and competition from non-banking financial institutions among others (Ennew & Binks, 1996). To address these challenges commercial banks should focus on competitive strategies that will enable them enhance their customer satisfaction hence enabling their survival and growth.

Customer satisfaction is the feeling customers experience when their expectations are met (Chaston, 1993). Customer satisfaction demands an objective of complete focus on satisfying the customers from all angles of the business. There is rapid growth and intense competition in the banking industry. Empirical investigation indicates
that customer satisfaction is of great importance in the retail banking (Wijetunga, 2003; Mallawarachchi, 2004; and Wanninayaka & Dissanayake, 2007). The products and services offered by banks are very similar in the industry, but the differentiator is the level of customer service and how customers perceive it. Perceived satisfaction is the customers overall impression of the relative inferiority or superiority of the organization and its services. Customers in the present banking environment are knowledgeable and highly demanding due to rapidly developing information technology and advanced communication channels.

There is evidence that supports the proposition that Porter’s generic competitive strategies have a great effect on customer satisfaction in the banking industry (Cohen et al., 2006). The present competitive business environment facilitates customers to switch banks easily seeking higher levels of satisfaction, thus posing a challenge. This study therefore seeks to determine the effect Porter’s generic competitive strategy on customer satisfaction of commercial banks in the Nakuru Municipality.

Statement of the Problem

Technology, globalization and increased customer mobility have dramatically changed the way people bank (Harwood, 2002). Harwood argued that customer satisfaction, as a tool for survival, is critical in the banking industry where all firms offer about the same kinds of products. Hence, it is critical that banks have a comprehensive knowledge of customer’s values, attitudes, needs and perceptions of various services the bank offers and adapt competitive strategies that will enhance customer satisfaction. A study conducted by Ovidiu et al. (2009) on the use of Porter’s Generic Competitive Strategies in the Romanian banking industry, indicated that there is a relationship between the three generic strategies and a firm’s competitive advantage. The same study indicated that, out of the three set of generic strategies, differentiation strategies had the highest contribution to customer satisfaction. The findings further indicated that delivering superior service to bank customers is not enough, in effect; bank managers should deliver services that exceed customer’s expectations in order to enhance customer satisfaction and maintain a positive image. Commercial banks in Nakuru Municipality apply Porter’s generic competitive strategies but customer satisfaction is still a challenge for these banks since there is a strong mobility of customers shifting from one bank to another. It is therefore not known how each of the generic competitive strategy contributes to customer satisfaction in Nakuru municipality. This study seeks to determine the effect of Porter’s generic competitive strategies on customer satisfaction of commercial banks in the Nakuru Municipality.

Objectives of the Study

The specific objectives were:

i. To determine the effect of differentiation strategy on customer satisfaction in commercial banks within Nakuru Municipality.

ii. To determine the effect of cost leadership strategy on customer satisfaction in commercial banks within Nakuru Municipality.

iii. To determine the effect of focus strategy on customer satisfaction in commercial banks within Nakuru Municipality.

iv. To determine the composite effect of differentiation strategies, cost leadership strategies and focus strategies on customer satisfaction in commercial banks within Nakuru Municipality.

Research Hypotheses

H01: There is no significant effect of differentiation strategy on customer satisfaction in commercial banks within Nakuru Municipality.

H02: There is no significant effect of cost leadership strategy on customer satisfaction in commercial banks within Nakuru Municipality.

H03: There is no significant effect of focus strategy on customer satisfaction in commercial banks within Nakuru Municipality.

H04: There is no single factor that significantly affect customer satisfaction in commercial banks within Nakuru Municipality.
LITERATURE REVIEW
Concept of Competitive Advantage

Since the terminology of “competitive advantage” has appeared in the Porter’s book, the term has distributed throughout marketing, management, economic and human resource publications (Flint & Gerald, 2000). Even though the term has been widely accepted, there are few attempts to clarify what competitive advantage actually is. The explicit explanation by Porter (1985) was that competitive advantage came from the value created by a firm for customers after subtracting the cost of producing the value. The concern is how to create a value greater than the related cost. Besides, Porter indicated two types of competitive advantages, which were cost leadership and differentiation.

Barney (2002) gave an explicit definition of competitive advantage, he stated that a firm is said to have a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy. Due to the complexity of competitive advantage, and the social as well as economical impacts from its related activities, different scholars and institutions in the world have done researches, amendments or re-definitions of “competitive advantage”. The market place is the right place for any firm to experience their competitive differences. After a deep observation and analysis for the firm, the competitive differences can be obtained from any match of differential competencies, comparative advantages or non market influences. Competitive differences help firms to obtain competitive advantages, if the competitive advantage endures for a firm over what is usually thought to be short-term within the firm’s industry then the competitive advantage can apply with a long-term strategy (Flint & Gerald, 2000).

Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits. There are two basic types of competitive advantage: cost leadership and differentiation. Any business with a competitive advantage is able to attract more customers than its competitors by having some special factor that no one else possesses (Porter, 1985).

Commercial Banking in Kenya

In essence, a bank aims at making profit by paying lower interest for deposits than the rate they charge on loans. Banks in most countries are supervised by a central bank for example Central bank of Kenya, Central Bank of Nigeria, Bank of England in the U.K, Bundes Bank in Germany and the Federal Reserve System in the USA. Crossley & Blandford (1995) assert that banks provide an efficient means through which customers obtain funds. Loans to customers are drawn on the funds deposited with the bank and yield interest which provides the profit for the banking industry and the interest on saving accounts. They also provide foreign exchange facilities for individual customers, as well as handling international money transfer. In short, commercial banks service our monetary system, this is a most important function without which it would be impossible to maintain let alone increase the level of production and consumption in the economy.

The banking industry is highly competitive, with banks not only competing among each other; but also with other financial institutions. The banking sector is comprised of three types of financial intermediaries: commercial banks, savings banks, and credit unions. In spite of the fact that, currently, the three groups are able to perform the same type of activities throughout the country, this has not traditionally been the case. Importantly, the differences between them not only have been conditioned by factors such as origin, governance system, or objective functions, but also by regulation which has determined both the scope of operation and the types of products and services offered. They are focused to competing for customers to enhance their survival (Ennew & Binks, 1996; and Woodruff, 1997). Competition in the banking industry is based on customer perception, service quality and pricing.
Today’s customers do not just buy core quality products or services; they also buy a variety of added value or benefits thus forcing banks to adopt a customer orientation approach that identifies consumer needs and designs new products and redesigns current ones (Woodruff, 1997). Banks were created as for-profit limited firms, with the aim of performing a whole range of activities related to the provision of financial services. For successfully competition in today’s competitive marketplace, banks must focus on understanding the needs, attitudes, satisfactions and behavioral patterns of the market (Kaynak & Kucukemiroglu, 1992).

**Michael Porter’s Generic Strategies**

Porter’s generic strategies highlights cost leadership, differentiation and focus strategy as the three basic choices for firms as shown in the figure below.

### Strategic Advantage

<table>
<thead>
<tr>
<th>Uniqueness perceived by the customer</th>
<th>Low cost position</th>
</tr>
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<tbody>
<tr>
<td>Industry wide</td>
<td>Differentiation</td>
</tr>
<tr>
<td>Particular Segment only</td>
<td>“Stuck in the middle” Focus</td>
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**Figure 2.1:** Michael Porter’s Generic Model, Source: Porter (1985)

As shown in Figure 2.1, Porter’s (1985) model of generic strategies addresses practitioners with an analytical technique for gaining understanding of industries and competitors. By “practitioners” Porter implies “managers” seeking to improve the performance of their businesses, advisors to managers, teachers of management, security and analysts or other observers trying to understand and forecast business success or failure, or government officials seeking to understand competition in order to formulate public policy. The reason why strategic planning is a primary concern to business managers is that it may lead to significant benefits for a firm. In effect, an explicit process of strategy formulation can determine a firm’s long-run competitive strength and generate a persistently higher performance than its rival’s by creating a sustainable competitive advantage. However, in order to compete successfully in the long-run a firm must first choose an appropriate positioning.

Porter (1985) argued that if the primary determinant of a firm's profitability is the attractiveness of the industry in which it operates, an important secondary determinant is its position within that industry. Even though an industry may have below-average profitability, a firm that is optimally positioned can generate superior returns. A firm positions itself by leveraging its strengths. Porter (1985) has argued that a firm's strengths ultimately fall into one of the two headings: cost advantage and differentiation. By applying these strengths in either a broad or narrow scope, three generic strategies result: cost leadership, differentiation and focus. These strategies are applied at the business unit level. They are called generic strategies because they are not firm or industry dependent.
Companies that combine these generic strategies are likely to be “stuck in the middle” meaning that its customers will find more value in competitors with strong defined position as they offer them more value either in features or in price, by using its resources more accurately to what their market is asking thus gaining a competitive edge. Generic strategies are not necessarily compatible with one another. If a firm attempts to achieve competitive advantage on all fronts, it may achieve no advantage at all (Porter, 1985). For example, if a firm differentiates itself by supplying very high quality products, it risks undermining its quality if it seeks to become a cost leader. Even if the quality did not suffer, the firm would risk projecting a confusing image. For this reason, Porter argued that to be successful over the long-term, a firm must achieve at least one of these three generic strategies. Otherwise, the firm will be "stuck in the middle" and will not achieve a competitive advantage. Porter argued that firms that are able to succeed at multiple strategies often do so by creating separate business units for each strategy. By separating the strategies into different units, having different policies and even different cultures, an organization is less likely to become “stuck in the middle”.

It is clear that when a firm has a competitive advantage it is able to attract more customers than its competitors by having some special factors that no one else has. It is important that firms identify customer’s wants and find a suitable channel to give it to them so as to meet and exceed their expectations. All three strategies have the potential to enhance customer satisfaction; however, all three strategies may not be equally suitable for a firm (Cohen et al ., 2006). The reason is that the three strategies differ on a number of dimensions and pose different requirements, for example in terms of resources, skills, organizational arrangements, control procedures, incentive systems and management style. Performance may vary depending on the wellness of fit between the firm and the selected strategy, which make the decision on the type of strategy to adopt key to the benefits of strategic planning and requires that the choice be well founded. The challenge lies in selecting the strategy that best suits the firm’s strengths and resources and is least replicable by competitors and this in turn necessitates knowledge about the firm, its business environment and competitors. With an explicit technique for analyzing industry structure and competition, managers may gain better understanding and knowledge of both elements. Porter’s (1985) model facilitates the decision making process and improves the performance for a firm that chooses an appropriate strategy.

**Differentiation Strategy in the Banking Industry**

Differentiation is the modification of a product/service to make it more attractive to the target market. This involves differentiating from competitor’s products as well as the firm’s own product mix. The changes are usually minor; they can be merely a change in packaging or may include change in the advertising theme. The objective of a product differentiation strategy is to develop a position that potential customers will see as unique. If the target market of a business views the product as different from the competitors, the firm will have more flexibility in developing its marketing mix. A successful differentiation strategy will move the product from competing primarily on price to competing on non-price factors such as product characteristics, distribution strategy or promotional variables (Bennet, 2002).

Differentiation strategy involves differentiating the product or service offered by the firm to make it perceived unique industry wide. Differentiation may be achieved in various ways, for example through design, brand image, technological features, customer service, and dealer network. Bases of differentiation may be sorted into three categories. Firstly, to achieve differentiation, a firm may focus directly on product or service attributes, for example product features, product complexity, timing of product introduction, or location. Secondly, a firm may focus on the relationship between itself and its customers, for example through product customization, consumer marketing and product reputation.

Finally, differentiation may be achieved by focusing on the linkage within or between firms, which includes linkage within functions of a firm, linkage with other firms, product mix, distribution channels and service support. Ideally, the firm should differentiate itself along several dimensions (Porter, 1980). There may also be other ways for firms to differentiate than the examples mentioned above. In fact, Barney & Hesterley (2006) argue that, product differentiation is ultimately an expression of the creativity of individuals and groups within the firms. It is limited only by the opportunities that exist, or that can be created, in a particular industry and by the willingness and ability of firms to creatively explore ways to take advantage of those opportunities (Barney & Hesterley, 2006).
In a highly competitive market, the shortest route to differentiation is through the development of brands and active promotion to customers (Parasuraman, 1997). In the long run, however, branding, targeting and positioning would all be much more effective if the supplier had some tangible advantage to offer consumers. This is evident in the banking industry, where many banks are providing more or less the identical products for nearly the same price. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain customer satisfaction (Chang et al., 1997). Thus, the most likely way to both retain customers and improve performance is by adding value via a strategy of differentiation while increasing margins through higher prices. Today’s customers do not just buy core quality products or services; they also buy a variety of added value or benefits. This forces the service providers such as banks to adopt a customer orientation approach that identifies consumer needs and designs new products and redesigns current ones (Ennew & Binks, 1996). Further, competitive pressures then push other financial service firms to actively target consumer segments by integrating service quality, brand loyalty, and customer satisfaction strategies (Ennew & Binks, 1996).

Differentiation is an effective marketing strategy with an effect of enhancing customer satisfaction. In the area of product differentiation, most of the theoretical and empirical studies have focused on the traditional one-dimensional product differentiation in banking, either horizontal or vertical product differentiation. However, most banking products optimize both types of differentiation, only a small number of banks have extended the one dimensional models towards multi-dimensional product differentiation (Degryse, 1996; and Kim & Vale, 2001). The central issue addressed as horizontal differentiation has been the location of branches, whereas those considered in vertical differentiation models are reputation, ATM network or the possibility of remote access. However, vertical differentiation coming as a result of different types of banks has been addressed only by Cohen & Mazzeo (2004) who extend previous research by differentiating among different types of competitors’ multi-market bank, single market banks and thrifts by allowing for a separate profit function for competitors of each type in each market. According to Thompson & Martin (2005), cost leadership is usually traded off against differentiation with the two regarded as pulling in opposite directions because differentiation adds costs in order to add value for which customers are willing to pay premium prices. In the same context, Porter (1980) states that differentiating a product or service offering of the firm means creating something that is perceived industry-wide as being unique. It follows therefore that costs are only added in areas that customers perceive as important which again can relate to any area of the operation (Thompson & Martin, 2005).

Implementation of Differentiation Strategy

Implementation of differentiation strategy requires particular consideration to the organizational structure, management controls, compensation policies and implementing cost leadership strategies. As mentioned previously, organizational arrangements and implementation tools should not only fit but also reinforce the strategy. Porter (1980) suggests that strong marketing ability, product engineering, creativity, strong capability in market research, corporate reputation, quality or technological leadership, unique combination of skills drawn from other businesses and strong cooperation from channels are commonly required skills and resources for implementing differentiation. Common organizational requirements include strong coordination among functions in research and development, product development, and marketing, subjective measurement and incentives instead of quantitative measures and amenities to attract highly skilled and creative labour.

In addition, Barney & Hesterley (2006) suggest that an organizational structure supporting differentiation may be characterized by cross-divisional and cross-functional development teams, complex matrix structures and isolated pockets of intense creative efforts, broad management decision-making, managerial freedom within guidelines and policy of experimentation may be typical of a management control systems that support differentiation. Rewarding risk-taking as opposed to punishing failures, creativity and a, multidimensional performance measure that reinforces differentiation (Barney & Hesterley, 2006).
Benefits of Differentiation Strategy

According to Porter, differentiation may generate superior performance for the reason that it provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. It also increases margins, which avoids the need for a low-cost position. The resulting customer satisfaction and the need for a competitor to overcome uniqueness provide entry barriers. Differentiation yields higher margins with which to deal with supplier power, and it clearly mitigates buyer power, since buyers lack comparable alternatives and are therefore by reducing price sensitivity. Finally, the firm that has differentiated itself to achieve customer satisfaction should be better positioned vis-à-vis substitutes of its competitors (Porter, 1988). Besides reducing the five threats of entry, rivalry, substitutes, suppliers, and buyers, differentiation creates value by enabling a firm to charge a premium price that is greater than the extra cost incurred by differentiation. A firm should concentrate on the improvement of service quality and customer involvement in order to satisfy their customers which would ultimately help the firm to retain its customers and improve performance (Russell-Bennett et al., 2007).

Cost Leadership Strategy

Cost leadership is perhaps the clearest strategies among three generic strategies, Porter (1985). Cost leadership means offering a lower price to customers compared to what competitors can offer with a similar product or service. By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors’ growth in the industry through its success at price war and undercutting the profitability of competitors. If the firm’s cost of sale or cost of raw material is lower than its competitors, then the firm can offer lower prices, higher quality, or both. By innovative best-practice, organizational processes, with careful monitoring on purchasing expenditures, application of computer and communications technology in cost-effective way, trimming of overhead cost, and efficient operations, a firm can achieve the cost reduction. Sometimes, cost reduction can also be achieved by outsourcing manufacturing and services when outsider providers offer lower-cost alternatives. With the same quality level but lower cost, the low-cost firm could be able to undermine the price of competing firms. When attempting to achieve an overall cost leadership position, low cost relative to competitors is the theme running through the entire strategy (Spulber, 2009).

The idea of cost leadership strategy is supported by Thompson & Martin (2005) when they stated that; “to achieve substantial rewards from this strategy the organization must be the cost leader and unchallenged in this position.” This view is also advanced by Porter, (1985) as cited in Wit & Meyer (2004) when he stated that; the strategic logic of cost leadership usually requires that a firm be the cost leader. Cost leadership as a generic strategy does not imply that the company will market the lowest price product or service in the industry because quite often the lowest price products are perceived as inferior and as such appeal to only a proportion of the market (Thompson & Martin, 2005). However, it should be noted that at equivalent or lower prices than its rivals, a cost leader’s low-cost position translates into higher returns (Wit & Meyer, 2002). Porter (1980) contends that 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 research and development, service, sales force, advertising among others.

A Company could not only use cost-leadership to achieve competitive advantage in a particular market or industry, it can also improve their product or services by offering value-added products or service with the support of value-leadership strategy to gain customer satisfaction. Even in a highly competitive situation, value-added product or service will require a higher cost from the customers but still attain higher margins. The value-added by customized products or services provide the customers with a unique or superior experience through the product/service features, quality, or after-sale support. The companies could also attain a benefit with this value-added strategy, as the unique experience produced by this strategy could keep their customers from switching to other competitors. It is a common phenomenon that the prices a firm charge actually determine the level of satisfaction among its customers, than any other measure (Turel & Serenko, 2006). In conclusion, the notion of creating value can provide another insight to the sources of customer satisfaction through cost leadership (Spulber, 2009).
A company with a cost leader position has a broad scope and therefore can serve many industry segments, and they are able to operate in other related industries. The source of the cost advantage may depend on a variety of factors that are all dependent on the structure of the industry. Some evident factors of the industry structure include the pursuit of economics of scale, proprietary technology, special access to raw materials and other factors. For a company to be an above-average returns in its industry the company must achieve and sustain an overall cost leadership. If this is achieved the company can command prices at or near the industry average (Wit & Meyer, 2004). If prices are lower than its competitors the cost leader’s low-cost position will render in higher returns compared to its competitors. Although a cost leader must take in consideration some facts of differentiation. If customers do not perceive a product as comparable or acceptable the cost leader will be forced to discount the product well below competitors’ to gain sales.

A cost leader must achieve similarity or proximity in the bases of differentiation to be an above average relative to its competitors, although it relies on cost leadership for its competitive advantage. A company pursuing cost leadership must ensure that its customers are willing to accept a lower degree of differentiation (Gait, 1994). If they are not; cost leadership is not the appropriate generic strategy. The strategic logic of cost leadership is that only one firm is the cost leader, and not several companies are vying for this position. Recent studies have however found that there can be more than one cost leader in an industry. If a company does not recognize this fact they will make serious strategic errors. In an industry with two or more cost leaders, rivalry is severe between the companies because every little bit of market share is crucial (Partridge & Perren, 2006).

### Implementation of Cost Leadership Strategy

Implementation of cost leadership strategy requires particular consideration to the organizational structure, management controls, compensation policies and implementing cost leadership strategies. The organizational arrangements and implementation tools should not only fit but reinforce the strategy. Porter (1980) has divided requirements of overall cost leadership strategy into “commonly required skills and resources” and “Common organizational requirements”. Commonly required skills and resources when implementing overall cost leadership are sustained capital investment and access to capital, process engineering skills, intense supervision of labor, products designed for ease in manufacture and low-cost distribution systems. Common organizational requirements constitute of tight cost control, frequent detailed control reports, structured organization and responsibilities and incentives based on meeting strict quantitative targets.

According to Barney & Hesterley (2006), few layers in the reporting structure, simple reporting relationships, small corporate staff and focus on narrow range of business functions are elements of organizational structure that allow firms to realize the full potential of cost leadership strategies. Management control systems that support the implementation of cost leadership include tight cost control systems, quantitative cost goals, close supervision of labor, raw materials, inventory, and other costs and a cost leadership philosophy. Examples of good compensation policies are rewards for cost reduction and incentives for all employees to be involved in cost reductions.

Cost leadership can be implemented in a number of ways; companies can use economies of scale since there are links between volume and cost of production. The more a company produces, the less their cost of production. However, there is an optimum volume beyond which firms cannot minimize their cost of production. This aspect of cost leadership can be achieved through various routes. For example, companies that produce large numbers of items are able to take advantage of specialized equipment. This will go a long way in ensuring that more products are produced with less finance. Low cost strategy is centered on the capability of the company to produce and deliver products of competitive quality at lower costs. Cost leadership strategy is much more than cost reduction initiatives that get a lot of prominence in strategic planning and review session of any company as a means of improving its efficiency (Barney & Hesterley, 2006). Some companies use their efficient cost structures to protect their markets from the competitors by responding to competitors’ move of making in-roads in the market space by reducing prices.
Gaining Cost Advantage

Hart (1995) says “Cost advantage can result from adopting best practices that focus on firms ‘production processes’”. In order to choose the best practices, a firm is required to pursue aggressive construction of efficient scale facilities and vigorous cost reductions through experience, tight cost and overhead control, avoidance of marginal customer accounts and cost minimization in areas like research and development, sales force and advertising (Porter, 1980). Successful cost leaders usually derive their cost advantage from multiple sources within the value chain. Sustainable cost advantage stems not from one activity but from many, and reconfiguring the chain frequently plays an important role in creating cost advantage. Cost leadership requires an examination of every activity in a firm for opportunities to reduce cost and the consistent pursuit of all of them. Once a firm has identified its value chain and diagnosed the cost drivers of significant value activities, cost advantage grows out of controlling those drivers better than competitors. A firm can potentially achieve superior position vis-à-vis the cost drivers of any activity in the value chain. Activities that represent a significant or growing proportion of cost will offer the greatest potential for improving relative cost position.

In order to sustain cost advantage in the long-term, the firm must have a sense of priority and sustainability about the sources of business advantage. For example, the cost advantage based on cheap labor is easily replicable by other competitors, because it is difficult to prevent the competitors to hire employee with the same price. Correspondingly, the advantage based on excellent human resource and related recruit policy, is relatively hard to replicate by other competitors, which is able to secure a long-term advantage (Spulber, 2009).

Benefits of a Low-Cost Strategy

As suggested by Porter a low-cost position gives a firm a defense against rivalry from competitors. A low-cost position defends the firm against powerful buyers because they can exert power only to drive down prices to the level of the next most efficient competitor. Low cost provides a defense against powerful suppliers by providing more flexibility to cope with high input cost. The factors that lead to a low-cost position provide substantial entry barriers in terms of economies of scale or cost advantages. Finally, a low-cost position usually places the firm in a favorable position vis-à-vis substitutes relative to its competitor’s in the industry. Porter (1988) says that economies of scale and cost advantages tend to defend a firm against powerful buyers and suppliers and provide substantial entry barriers. Achieving a low overall cost position often requires a high relative market share. In other words, cost advantages can create value and customer satisfaction for a firm by reducing the five threats of entry, rivalry, substitutes, suppliers and buyers (Martina, 2007).

Focus Strategy

The third and final generic strategy is the focus strategy. Focus strategy is aimed at attending to specific small niches that require special features or prices. Porter proposed this strategy of competing as a means of penetrating into specific market segments either by focus on differentiation on products or by focus on costs. In a focus strategy a company selects a segment or a group of segments within the industry for which a strategy is tailored. The purpose is to serve this segment exclusively. The aim of a focus strategy is to achieve competitive advantage in the selected segment and not overall. There are two different types of focused strategies: cost focus and differentiation focus (Davidson, 2001). In the case of cost focus the firm seeks to achieve an advantage in the selected segment by reducing costs, while a company with a differentiating focus tries to achieve differentiation within the chosen segment. Both these focus strategies relies on the premise that there is a difference in the selected target segment and other segments in the industry (Wit & Meyer, 2002).

A focus strategy takes advantage of sub-optimization by largely targeted competitors. Competitors may be underperforming in meeting special customer needs in the segment, this opens up the possibility for differentiating focus. If competitors have broad targets they might be over-performing in meeting customer needs in the segment, this leads to higher costs than necessary for serving the segment. This opens up the opportunity for a cost focus
strategy in just meeting the needs of such a segment and no more. The most important factor for a focus strategy to be successful is that the focuser’s target segment is different from other segments within the industry. If a company focuses on a segment similar to others the focus strategy will not succeed. If a firm can achieve cost leadership (cost focus) or differentiation (differentiation focus) in its segments and the segment is structurally attractive, then the focuser will be an above-average performer in its industry (Wit & Meyer, 2002). Some segments in the industry are more profitable than others, hence the importance of structural attractiveness when choosing segment.

Focus strategy can be used by companies to achieve competitive advantage by positioning themselves into a market niche. This strategy focuses on a specific buyer group, geographic market or segment of particular product line. Similar to the differentiation strategy, the focus strategy may take many forms. The whole strategy is built around serving a special target in a way that exceeds customer’s expectations thus enabling an organization enhance customer satisfaction (Gan et al., 2006). The strategy draws on the assumption that the firm is able to serve its particular target as effective and efficient than no other competitor in the industry (Porter, 1980). To run a focus strategy a company must have a selective offering provided to selective markets, every process must be focus oriented, in both meeting the market segment needs and doing it with lower costs than the average of its competitors (Wit & Meyer, 2002).

According to Porter, successful implementation of a focus strategy the market must be a big one and expect to growth dramatically. A company should have different segments in which it can focus on or represent the impossibility to go to the broader perspective, because these are facts creating tradeoffs and so barriers to imitation. These specific needs usually generates specific demands, that includes specific inputs to be provided and so higher prices to cover this costs and that are reasonable for the customers demanding such products. In the long run, the company will not only maintain these customers but also will integrate more customers by continuing improving on technologies and research and development processes (Barney & Hesterley, 2006). The risks encountered in this approach are the volatility in the customer’s preferences and trends on its consumption patterns that would imply a change on supply of the product and so to give a try to competitor’s products. Another risk is the fact that new comers would easily saturate the market that would bring about all the already known consequences.

Customer Satisfaction

According to Kotler (2006), customer satisfaction is the extent to which a product’s perceived performance matches a buyer’s expectations. He further argued that customer satisfaction depends on the product’s perceived performance relative to a buyer’s expectations. If the product’s performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied and if performance exceeds expectations, the customer is highly satisfied or delighted. Highly satisfied customers make repeat purchases, cross buying and tell others about their positive experience with the product or services. Oliver (1997) defines customer satisfaction as the customers’ evaluation of a product/service in terms of whether that product/service has met their needs and expectations. If it fails to do so, dissatisfaction with the product/service occurs. Further, ‘satisfaction’ is a feeling which is a short term attitude that can readily change in given circumstances. It is related from observable behaviors, such as product choice, complaining and repurchase and it resides in the user’s mind. Satisfaction commonly has thresholds at a lower level (under fulfillment) and at an upper level (over-fulfillment). Satisfaction may drop if a customer “gets too much of a good thing”. Many people focus upon the lower threshold and neglect the potential for an upper threshold. Outcomes of satisfaction feelings may involve intent to repurchase, word-of-mouth and complaints. These outcomes are also moderated by other variables such as extreme dissatisfaction, where it will not necessarily generate complaint behavior, especially if the consumer believes complaining will be of no use. Oliver (1997) identified satisfaction and dissatisfaction in terms of the disconfirmation of consumers’ expectation. A positive disconfirmation leads to customer satisfaction and a negative disconfirmation leads to customer dissatisfaction.

Satisfaction is the consumer’s fulfillment response (Boulding, Kalra, Staelin & Zeithaml, 1993). Customer satisfaction is important to a manager because it is generally assumed to be significant determinant of referrals, word of mouth, cross buying and repurchase. The objective of a customer satisfaction should be to nurture long-term
relationships with customers through trust, responsiveness, customized services and reliability. Key to this objective should be the ability to utilize knowledgeable, intelligent customer information for the benefit of customers and to offer them quality of services (Grand, 2002).

The behavior of customer to repurchase, cross buying and higher customer satisfaction has positive impact on the customer mind which will generate confidence for the company products or services. All these aspects are directly interlinked with the economic success of the business (Grand, 2002). Successful customer satisfaction starts with the first contact an organization has with a customer and continues throughout the entire lifetime of a relationship. A company’s ability to attract and retain new customers is not only related to its products or service but strongly related to the way it services its existing customers and the reputation it creates within and across the market place. Customer satisfaction is more than giving the customer what they expect; it’s about exceeding their expectations so that they become loyal advocates for your brand (Grand, 2002). Any business is likely to lose market share, customers and investors if it fails to satisfy customers as effectively and efficiently as its competitors are doing. Customer satisfaction may influence a firm through repurchase, purchase of more products, positive word of mouth and willingness of customer to pay more a particular brand (Anderson, Fornell & Mazvancheryl, 2004).

Boulding, et al. (1993) found a positive relationship between customer services and repurchase intentions, cross buying and willingness to recommend which in this study are measures of customer satisfaction. Satisfaction is the state felt by a person who has experienced a performance or outcome that has fulfilled his or her expectations. Satisfaction is thus a function of relative levels of expectation and perceives performance. Expectations are formed on the basis of past experiences with the same or similar situations, statements made by friends and other associates, and statements made by the supplying organization (Kotler & Armstrong, 2006). Customer satisfaction can be defined as when the customer’s expectation of the service provided matches his perception of the actual service received (Parasuraman, 1985). Customers judge the services provided or the product delivered by making a very subjective value judgment which many times do not reflect reality. The current stiff competition and sophisticated marketing environment has urged service organizations to shift focus from profitability to customer satisfaction. Staff courtesy is a prime consideration in choosing a bank.

Indeed, customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organization. Organizations need to know how to keep their customers, even if they appear to be satisfied. Reichheld (1996) suggests that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere. However, keeping customers is also dependent on a number of other factors. Ioanna (2002) further proposed that product differentiation is impossible in a competitive environment like the banking industry. Banks everywhere are delivering the same products. For example, there is usually only minimal variation in interest rates charged or the range of products available to customers. Thus, bank managers tend to differentiate their banks from competitors through customer satisfaction. In banking industry, customer satisfaction is a multi-variable concept, which includes differing types of convenience, wider range of products, better prices, services portfolio, corporate image, branding, promotion and critically, the staff delivering the excellent service.

**Porter’s Generic Strategies and Customer Satisfaction**

Previous studies have identified the benefits that customer satisfaction delivers to an organization. The longer a customer stays with an organization the more utility the customer generates (Ioanna, 2002). Indeed, customer satisfaction has for many years has been perceived as key in determining why customers leave or stay with an organization. Organizations need to know how to keep their customers, even if they appear to be satisfied Fornell (1992), in his study of Swedish consumers, noted that some of the benefits of customer satisfaction include ; repurchase ,referrals ,positive word of mouth and cross buying.

The relationship between Porter’s generic competitive strategies and customer satisfaction has also been examined empirically by (Cohen et al, 2006) in a study on the effect of generic competitive strategies on customer satisfaction in Zealand .The findings that the three porter’s generic strategies can enable an organization to attract more
customers than its competitors. The study also indicated that it is important for firms to identify customer’s wants and find a suitable channel to give it to them so as to meet and exceed their expectations. All the three strategies have the potential to enhance customer satisfaction; however, all three strategies may not be equally suitable for a firm (Cohen et al, 2006). The reason is that the three strategies differ on a number of dimensions and pose different requirements, for example in terms of resources, skills, organizational arrangements, control procedures, incentive systems and management style. The study further revealed that cost leadership alone can not be used to gain competitive advantage without applying some elements of differentiation so as to enhance customer satisfaction.

A study conducted by Ovidiu et al (2009) on the use of Porter’s Generic Competitive Strategies in the Romanian banking industry also indicated that there is a positive relationship between the three generic strategies and a firm’s competitive advantage. The findings of the study indicated that, out of the three set of generic strategies, differentiation strategies had the highest contribution to competitive advantage. The findings further indicated that delivering superior service to bank customers is not enough, in effect, bank managers should deliver services that are better than customer’s expectations in order to enhance customer satisfaction and maintain a positive image.

Conceptual Framework

In this study the dependent variable is customer satisfaction while the independent variables are differentiation, cost leadership and focus strategies. The variables and their relationship are shown in the figure below.
Moderating Variable

Figure Relationship between Porter’s Generic Strategies and Customer Satisfaction

Source: Adapted from Porter (1985)

As shown in Figure 2.2 above, Porter’s generic competitive strategies (differentiation, cost leadership and focus) are working strategies aimed at fostering customer satisfaction amidst competition. Customer Satisfaction is measured in terms of repurchase, referrals and cross buying are differently influenced by the porter’s three generic competitive strategies. Differentiation strategy measures the extent to which customized and broad range of products and the use of up-to-date technology influence customer satisfaction. On the other hand banks must strive offer lower prices to customer at the same time tailor its products to ensure that the needs of specific segments are fully served. In this study Cost Leadership Strategy is measured extent by the to which a bank offers affordable ATM charges, charge reasonable interest rates on loans and affordable ledger fees for accounts maintenance while Focus Strategy is measured by the extent to which a bank offers different products for different, affordable and unique products for different customer groups. However, this relationship depends on the bank’s managerial ability in implementing these strategies, organizational policies and government regulations. Satisfied customers will definitely recommend bank services to other potential customers, hence an increase in business performance.

MATERIALS AND METHODS

Research Design

The study adopted descriptive survey design. The purpose of descriptive research design is to describe the state of affairs as it exists (Robson, 2002). This research technique is the most appropriate when the purpose of the study is to explore and create a detail description of a phenomenon. Thus making it suitable for this study because the researcher is fairly knowledgeable about the aspects of the phenomenon, but little is known regarding their nature.

Sample Size and Sampling Procedure

The study used purposive sampling technique in the selection of the banks, whereby only banks that have been in operation for 5 years and above in Nakuru Municipality were used for the study. Banks which have been in operation for 5 years are considered to have stabilized and may have identified their customers thus being in a position to gauge their satisfaction. Individual respondents in each bank were selected using systematic sampling, whereby a random starting point was decided and every kth customer was selected (Kothari, 2004). There are 12 commercial banks that have been in operation for more than 5 years in Nakuru Municipality with a population of 238,560 customers as per a preliminary survey conducted by the researcher in the May, 2011.

The sample size for the study was obtained using the formula provided by Krejcie & Morgan (1970) as follows;

\[ S = \frac{\frac{P(1-P)}{A^2}}{Z^2 + \frac{P(1-P)}{N}} \]

Where:
P = Preliminary estimate of percentage of people in the population who possess attributes of interest. The conservative estimate and one that is often used is 50%. (0.5 is used in this formula)
A= Accuracy (or precision) desired, expressed as a decimal (0.05 for 5% is used in this formula)
Z = The number of standard deviations of the sampling distribution (Z units) that corresponds to the desired confidence level, 1.96 for 95% confidence level
S = Sample size required
N = Number of people in the population

The formula was preferred for its acceptable level of accuracy in generating a representative sample size at 0.05 level of confidence. Using the above formula the sample size for this study was 384 using a target population of 238,560.

Table  Sample distribution of Banks

<table>
<thead>
<tr>
<th>Banks with operations for more than 5 years</th>
<th>Active bank customers</th>
<th>Percentage</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Bank</td>
<td>8400</td>
<td>4%</td>
<td>14</td>
</tr>
<tr>
<td>National bank</td>
<td>16800</td>
<td>7%</td>
<td>27</td>
</tr>
<tr>
<td>Equity Bank</td>
<td>52800</td>
<td>22%</td>
<td>85</td>
</tr>
<tr>
<td>Transnational bank</td>
<td>6000</td>
<td>3%</td>
<td>10</td>
</tr>
<tr>
<td>Kenya commercial bank</td>
<td>28800</td>
<td>12%</td>
<td>46</td>
</tr>
<tr>
<td>Barclays Bank</td>
<td>15600</td>
<td>7%</td>
<td>25</td>
</tr>
<tr>
<td>Oriental Commercial bank</td>
<td>1200</td>
<td>1%</td>
<td>2</td>
</tr>
<tr>
<td>Standard Chartered bank</td>
<td>18000</td>
<td>8%</td>
<td>29</td>
</tr>
<tr>
<td>Credit bank</td>
<td>2160</td>
<td>1%</td>
<td>3</td>
</tr>
<tr>
<td>Family bank</td>
<td>36000</td>
<td>15%</td>
<td>58</td>
</tr>
<tr>
<td>Cooperative bank</td>
<td>48000</td>
<td>20%</td>
<td>77</td>
</tr>
<tr>
<td>K rep bank</td>
<td>4800</td>
<td>2%</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td><strong>238560</strong></td>
<td><strong>100%</strong></td>
<td><strong>384</strong></td>
</tr>
</tbody>
</table>

Source: Field Data, May (2013)

The customers information in Table 3.1 was obtained from managers of the various banks through a preliminary study conducted by the researcher in the month of May, 2011. The sample size column is a distribution of the respondents to the selected banks. This was computed using the formula given by Krejcie & Morgan (1970) as follows.

\[ s = \frac{xS}{P} \]

Where: 
- \( s \) = Sub-sample size for each bank
- \( x \) = Sub population of customers in each bank
- \( S \) = Total sample size for the study
- \( P \) = Total population for all the banks

Data Collection Methods

The study adopted a questionnaire method which was used for the collection of data from the bank customers. The questionnaire was chosen because of its ease in administration, scoring of items and analysis (Mugenda & Mugenda,
The items in the questionnaire were developed on the basis of the objectives of the study and captured key data related to porter’s generic competitive strategies. The study employed a self-administered questionnaire to gather data from the respondents. Data collection process was completed within one month. Authorization was obtained from Egerton University prior to data collection exercise. The study gave assurance to the respondents regarding confidentiality of information obtained through a letter of introduction.

Validity and Reliability

Validity measures the accuracy of instruments used in order to obtain data which can meet the research objectives (Kothari, 2004). This was achieved by relying upon the views of experts in the Faculty of Commerce at Egerton University. The researcher ensured that the questionnaire captured relevant information that answered the objectives of the study.

Reliability of an instrument is the degree of consistency with which it measures a variable (Mugenda & Mugenda, 1999). The purpose of this was to improve reliability of the measuring instrument. Yin (2003), defines reliability as the extent to which the research may be replicated, yielding the same results. The questionnaire was pilot tested at KCB Eldama Ravine in Koibatek District. Simple random sampling technique was used for the selection of the banks for the pre-test.

Data Analysis

Data collected was keyed in the computer, coded and analyzed with the aid of the Statistical Package for Social Sciences version 15 (SPSS) computer software. Descriptive statistics (frequencies and percentages) was used to describe the study findings while inferential statistics (correlation and regression). Pearson’s correlation analysis was used in testing the first, second and third hypothesis while the fourth hypothesis was tested using regression analysis. Regression analysis enables confirmation of relationships between the independent and dependent variables since not all factors that are found to be significant in the correlation analysis affect the dependent variables. Research findings were presented in the form of tabular summaries, graphs and charts. The linear regression model used was:

\[ Y = a + B_1X_1 + B_2X_2 + B_3X_3 + e \]

Where:
- \( Y \) = Customer Satisfaction which is the dependent variable
- \( a \) = Minimum value of the dependent variable if all the independent variables are zero
- \( B_1 \) = Coefficient of differentiation (D)
- \( B_2 \) = Coefficient of cost leadership (CL)
- \( B_3 \) = Coefficient of focus (F)
- \( e \) = Error variable

Operationalization of Variables

In this study the independent variables were the three Porter’s generic competitive strategies (differentiation, cost leadership and focus) which were measured by items 5-13 in the research questionnaire. The dependent variable is customer satisfaction was measured by items 14-28 in the research questionnaire.

FINDINGS AND DISCUSSIONS

Demographic characteristics of the Respondents

Gender of the Respondents

Out of the respondents interviewed, 56.8% were male while 43.2% were female as shown in the Table 4.1.
Table 4.1: Gender of the Respondents

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>218</td>
<td>56.8</td>
</tr>
<tr>
<td>Female</td>
<td>166</td>
<td>43.2</td>
</tr>
<tr>
<td>Total</td>
<td>384</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)

Age of the Respondents

Majority (45.6%) of the respondents were of the age between 31-45 years with 19.8% being between 46-60 years of age while 34.4% were below 31 years. Those aged above 61 years were the least with 0.3% as shown in Table 4.2.

Table 4.2: Age of the Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 31 Years</td>
<td>132</td>
<td>34.4</td>
</tr>
<tr>
<td>31-45 Years</td>
<td>175</td>
<td>45.6</td>
</tr>
<tr>
<td>46-60 Years</td>
<td>76</td>
<td>19.8</td>
</tr>
<tr>
<td>Over 61 Years</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>Total</td>
<td>384</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)

Number of Years as a Bank Customer

The number of years customers have been with a bank is important since it may influence their satisfaction. The findings indicates that, majority of the customers have been with their respective bank for more than six years. The findings in Table 4.3, indicates that 31.8% of the respondents have been with their respective banks for less than five years, 46.1% for a period of between 6-10 years and 18.2% for a period of between 11-16 years while the remaining 3.9% have been with their respective banks for a period of over 61 years.

Table 4.3: Number of Years as a Bank Customer

<table>
<thead>
<tr>
<th>No of Years</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Than 6 Years</td>
<td>122</td>
<td>31.8</td>
</tr>
<tr>
<td>6-10 Years</td>
<td>177</td>
<td>46.1</td>
</tr>
<tr>
<td>11-16 Years</td>
<td>70</td>
<td>18.2</td>
</tr>
<tr>
<td>Over 16 Years</td>
<td>15</td>
<td>3.9</td>
</tr>
<tr>
<td>Total</td>
<td>384</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)

Level of Education of the Respondents

From the findings, 94.3% of the respondents had attained education level of above secondary level as shown in Table 4.4 while only 5.7 % of the respondents had attained up to primary level education.
Table 4.4: Highest Level of Education of the Respondent

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Level</td>
<td>22</td>
<td>5.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Secondary Level</td>
<td>197</td>
<td>51.3</td>
<td>57.0</td>
</tr>
<tr>
<td>Bachelors</td>
<td>146</td>
<td>38.1</td>
<td>95.1</td>
</tr>
<tr>
<td>Masters</td>
<td>19</td>
<td>4.9</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>384</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Field Data (2012)

Descriptive Statistics on Differentiation Strategies

The first objective of this study was to determine the effect of differentiation strategy on customer satisfaction in commercial banks within Nakuru Municipality. Differentiation strategy is one of the three Porter’s generic competitive strategies. In this study, differentiation strategy was measured by the extent to which a bank customizes its products to suit customer needs and preferences, offers a broad range of products with numerous features and use up-to-date technology to improve its services.

Table 4.5: Summary of Differentiation Strategies Responses

<table>
<thead>
<tr>
<th>Differentiation Strategies</th>
<th>SD (%)</th>
<th>D (%)</th>
<th>U (%)</th>
<th>A (%)</th>
<th>SA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customize products</td>
<td>0</td>
<td>0.5</td>
<td>0.3</td>
<td>50.2</td>
<td>49</td>
</tr>
<tr>
<td>Broad range of products</td>
<td>0</td>
<td>1</td>
<td>1.3</td>
<td>52.4</td>
<td>45.3</td>
</tr>
<tr>
<td>Up-to-date technology</td>
<td>0</td>
<td>0</td>
<td>1.1</td>
<td>50.5</td>
<td>48.4</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)
Key: SD-Strongly Disagree; D- Disagree; U-Uncertain; A- Agree; SA- Strongly Agree

Customize Products to Suit Customer Needs and Preferences

The study sought to know the extent to which a bank customizes its products to suit customer’s needs and preferences so as to enhance customer satisfaction. Table 4.5 shows that 99.2% of the respondents strongly agreed or agreed that their respective banks customize products to suit customer needs and preferences, 0.5% disagreed while 0.3% remained uncertain on the issue. This suggests that customer needs differ and that customers are keen on whether bank tailor’s products to suit customer needs and preferences.

Broad Range of Products with Numerous Features

Broad range of products is another measure of differentiation strategy. In this study the researcher sought to know the extent to which customers agree with the ability of their respective banks in providing a broad range of products with numerous features. Table 4.5 shows that 97.6% of the respondents either agreed or strongly agreed while 1.1% disagreed, with 1.3% were uncertain on the issue.

Up-To-Date Technology to Improve Services

The other element of differentiation strategy in the banking industry is the ability of a bank to offer up-to-date technology for example agent banking, SMS banking, internet banking among others. The findings indicates that majority (98.9%) of the respondents agreed that their respective banks offer up-to-date technology to improve services while 1% were uncertain as shown in Table 4.5. This is an indicator that customers are concerned with the
ability of their respective banks in offering latest technology since a majority of them agreed that the banks offer new technology in provision of services.

2 Descriptive Statistics on Cost Leadership

The second objective of the study was to establish the effect of cost leadership strategy on customer satisfaction in commercial banks within Nakuru Municipality. For a commercial bank to be an effective cost leader in a competitive banking environment, it must be able to offer lower prices to customers compared to the competitors with a similar product or service. In this study, cost leadership strategy was measured by the extent to which a bank offers affordable ATM charges, charge reasonable interest rates on loans and affordable ledger fees for accounts maintenance.

Table 4.6: Summary of Cost Leadership Strategies Responses

<table>
<thead>
<tr>
<th>Cost leadership</th>
<th>SD (%)</th>
<th>D (%)</th>
<th>U (%)</th>
<th>A (%)</th>
<th>SA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordability of ATM charges</td>
<td>0</td>
<td>0.5</td>
<td>16.4</td>
<td>82.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Reasonable interest rates on loans</td>
<td>0</td>
<td>8.1</td>
<td>11.2</td>
<td>60.9</td>
<td>19.8</td>
</tr>
<tr>
<td>Affordability of ledger fees</td>
<td>5.5</td>
<td>7.3</td>
<td>5.2</td>
<td>65.9</td>
<td>16.1</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)

Key: SD-Strongly Disagree; D- Disagree; U-Uncertain; A- Agree; SA- Strongly Agree

Affordable ATM Charges

The ability of a bank to offer affordable ATM charges is critical in today’s banking industry since customers are looking for affordable services. The findings indicate that majority (83.1%) of the respondents agreed that their respective bank offer affordable ATM charges while 0.5% of the respondents disagreed as shown in Table 4.6. A considerable number of respondents 16.4% were uncertain on the issue.

Reasonable Interest rates on loans

Due to the large number of financial institutions offering credit facilities to customers, commercial banks are striving to offer affordable interest rates on loans to remain relevant and competitive. The findings of the study indicate that 8.1% disagreed, 11.2% were uncertain, 60.9% agreed while 19.8% strongly agreed that their respective banks offer affordable interest rates on loans.

Affordable Ledger Fees

As more and more banks open branches particularly in Nakuru Municipality, managers are keen to offer reasonable account maintenance fees to enable them increase their customer base. The findings in Table 4.6 show that 12.8% of the respondents either strongly agreed or disagreed, 5.2% were uncertain while 82% either agreed or strongly agreed. This indicated that banks are keen to offering its customers reasonable charges for account maintenance.

3. Descriptive Statistics on Focus Strategy

The third objective of the study was to establish the effect of focus strategy on customer satisfaction in commercial banks within Nakuru Municipality. This entails tailoring the products of a specific segment exclusively to ensure that their needs are fully satisfied. Commercial banks target to attend to specific small niches that require special features or prices so as to enhance customer satisfaction. In this study, focus strategy was measured by the extent to which a bank offers different products for different customer groups, affordable products for different customer groups and unique products for different customer groups.
Table 4.7: Summary of Focus Strategy Responses

<table>
<thead>
<tr>
<th>Empathy</th>
<th>SD(%)</th>
<th>D(%)</th>
<th>U(%)</th>
<th>A(%)</th>
<th>SA(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Different products for different customer groups</td>
<td>0</td>
<td>4.2</td>
<td>4.1</td>
<td>69.3</td>
<td>22.4</td>
</tr>
<tr>
<td>Affordable products for different customer groups</td>
<td>0</td>
<td>2.1</td>
<td>7.3</td>
<td>68.2</td>
<td>22.4</td>
</tr>
<tr>
<td>Unique products for different customer groups</td>
<td>0</td>
<td>3.1</td>
<td>5.5</td>
<td>67.2</td>
<td>24.2</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)
Key: SD-Strongly Disagree; D- Disagree; U-Uncertain; A- Agree; SA- Strongly Agree

**Different Products for Different Customer Groups**

The findings in Table 4.7 show that majority of the respondent (91.7%) strongly agreed or agreed that banks have different products for different customer groups for example, farmers, business people and children while some respondents disagreed (4.2%) with this opinion. 4.1% were uncertain on the issue. Based on the findings it can concluded that competition in today’s banking environment has made banks to have a variety of products to suit the needs of the different customer segments.

**Affordable Products for Different Customer Groups**

The ability of a commercial bank to offer affordable products to different customer segments is critical for survival in today competitive environment as shown in Table 4.7. The findings of this study indicates that majority (90.6%) of the respondents strongly agreed or agreed with the opinion that their respective banks offered affordable products to their various customer groups while the remaining 9.4% either disagreed or were uncertain on the issue.

**Unique Products for Different Customer Groups**

It is critical that commercial banks have a comprehensive knowledge of customers’ values, attitudes, needs and perceptions and develop unique products for each target group in a way that exceeds customers’ expectations. The findings in Table 4.7 show that 8.6% of the respondents either disagreed or were uncertain that their banks offer unique products to the different customer group while the majority (91.4%) of the respondents strongly agreed or agreed with the opinion. The findings suggest that commercial banks strive to offer unique products to its various customer segments.

**4. Customer Satisfaction**

Customer satisfaction is the extent to which a product’s perceived performance matches a buyer’s expectations. Customer satisfaction was the dependent variable in this study.

Table 4.8: Summary of Customer Satisfaction Responses

<table>
<thead>
<tr>
<th>Customer Satisfaction Aspects</th>
<th>VS(%)</th>
<th>S(%)</th>
<th>U(%)</th>
<th>D(%)</th>
<th>VD(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy to read and error free bank statements</td>
<td>46.4</td>
<td>50.8</td>
<td>2.3</td>
<td>0.5</td>
<td>0</td>
</tr>
<tr>
<td>Good and pleasant branch facilities</td>
<td>0</td>
<td>0</td>
<td>3.1</td>
<td>50.8</td>
<td>46.1</td>
</tr>
<tr>
<td>Doing things right first time</td>
<td>11.7</td>
<td>61.2</td>
<td>24.7</td>
<td>9</td>
<td>0</td>
</tr>
<tr>
<td>Offering convenient banking hours</td>
<td>19.5</td>
<td>69.8</td>
<td>6.5</td>
<td>4.2</td>
<td>0</td>
</tr>
<tr>
<td>Providing convenient branch locations</td>
<td>0.3</td>
<td>4.4</td>
<td>4.3</td>
<td>69</td>
<td>19</td>
</tr>
<tr>
<td>Providing quick customer service</td>
<td>10.9</td>
<td>60.4</td>
<td>25.5</td>
<td>3.1</td>
<td>0</td>
</tr>
<tr>
<td>Competent and professional staff</td>
<td>32.3</td>
<td>61.7</td>
<td>5.5</td>
<td>0.5</td>
<td>0</td>
</tr>
<tr>
<td>Understanding your specific financial needs</td>
<td>26.8</td>
<td>60.7</td>
<td>8.6</td>
<td>3.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Competitive interest rates on deposits</td>
<td>7</td>
<td>59.1</td>
<td>20.6</td>
<td>10.7</td>
<td>2.6</td>
</tr>
</tbody>
</table>
Charging reasonable service fee 7.3 61.7 21.4 9.6 0
Affordable interest rates on loans 8.9 60.2 19 12 0
Providing various contact points with customers 9.1 69.8 16.1 4.7 0.3

Source: Field Data (2012)
Key: VD- Very Dissatisfied; D- Dissatisfied; U- Uncertain; S- Satisfied; VS- Very Satisfied

Easy to Read and Error Free Bank Statements

This research sought to establish the opinion of respondents on how they rate their respective banks ability to provide easy to read and error free bank statements. The findings in Table 4.8 show that 0.5% were dissatisfied with the ability of their respective banks in providing easy to read and error free bank statements, 2.3% were uncertain, 50.8% were satisfied while 46.4% of the respondents were very satisfied. The findings suggest that majority of the customers were satisfied with the bank’s ability to provide easy to read and error free bank statements and are therefore satisfied.

Pleasant Branch Facilities

The research sought to determine the extent to which customers perceived the pleasantness of the branch facilities. The study findings indicated that majority (88%) of the respondents were very satisfied or satisfied with the branch office facilities, 4.3% were uncertain while the remaining 4.7% were either dissatisfied or were very dissatisfied on the issue. This suggests that branch visual presentation is very important and has some influence on the level of customer satisfaction.

Doing Things Right First Time

Due to the high competition in the banking industry banks are investing in training their employees so that they can serve their customers better so as to enhance customer satisfaction. The study findings indicated that the majority (72.9%) of the respondents were very satisfied or satisfied with the manner in which their respective banks provide services right first time while the remaining 33.7% were either dissatisfied or were uncertain on the issue.

Convenient Banking Hours

The ability of a bank to offer convenient banking hours largely influences customer satisfaction since today's customer is busy and needs flexibility. This study sought to seek the opinion of the bank customers on the ability of their respective banks in offering convenient banking hours. The findings in Table 4.8 indicates that 4.2% were dissatisfied, 6.5% uncertain, 69.8% satisfied and 19.5% very satisfied. This therefore suggests that commercial banks in Nakuru Municipality are striving to enhance their survival by offering convenient banking hours.

Convenient Branch Location

The other aspect of customer satisfaction that was measured in this study was convenience of branch location. The respondents were asked to give their opinion on the extent to which they were satisfied with the ability of their respective banks in providing convenient branch location. The findings indicated that the majority of the respondents (96.9%) were very satisfied or satisfied while the remaining 3.1% were uncertain on the issue. It can therefore be concluded that bank customers consider convenient branch location as an important aspect of customer satisfaction.

Quick Customer Service

The products and services offered by banks are very similar in the industry, but the differentiator is the level of customer service and how customers perceive it. It is therefore critical that banks offer quick and quality customer
service to enhance customer satisfaction. From the findings of this study majority of the respondents (60.4%) were satisfied with their respective banks ability to provide quick customer service while 10.9% were very satisfied. A substantial percent 25.5% were uncertain while the remaining 3.1% were dissatisfied.

**Competent and Professional Staff**

Bank staff being competent, professional and willing to help their customers at all times is very critical in the banking industry. The study findings indicated that the majority of the respondents (94%) were very satisfied or satisfied with competence and professionalism of bank staff in the provision of services to its customers while the remaining 6% were either dissatisfied or were uncertain on the issue.

**Understanding Customers Financial Needs**

Intense competition has made banks to modify their services to suit the financial needs of different customer’s segment thus enhancing their competitive advantage. From the findings of this study majority of the respondents (60.7%) were satisfied with their respective banks ability to provide quick customer service while 26.8% were very satisfied. 8.6% of the respondents were uncertain while the remaining 3.9% were either dissatisfied or very dissatisfied. This suggests that banks have been striving to customize their services so as to meet customers’ varied financial needs.

**Competitive Interest Rates on Deposits**

The ability of a bank to offer competitive interest rates on deposits to customer’s in today’s banking environment is critical since customers are looking for higher returns. The findings of this study indicates that majority of the respondents (59.1%) were satisfied with their respective banks ability to offer competitive interest rates on deposits, 7% were very satisfied and 20.6% were uncertain on the issue. Despite the fact that majority of the respondents were either satisfied or very satisfied, a considerable percentage 2.6% were very dissatisfied and 10.7% were dissatisfied with this opinion. Based on the above findings, it can be recommended that banks need to further revise their interest rates on deposits so as to enhance customer satisfaction.

**Reasonable Service Fee**

Bank managers in today’s competitive banking environment must offer reasonable service fee, for example, ledger fees, over the counter withdrawals among others to enable them retain and attract customers. The findings of this study indicates that majority of the respondents (61.7%) were satisfied with their respective banks ability to offer reasonable service fee while 7.3% were very satisfied, 21.4% were uncertain while the remaining 9.6% were dissatisfied.

**Affordable Interest Rates on Loans**

In order to optimize customer satisfaction and survive intense competition commercial banks must offer affordable loans to customers for both business investments and personal development. The findings show that 12% were dissatisfied with the ability of their respective banks in offering affordable interest rates on loans, 19 % were uncertain, and 60.2% were satisfied while 8.9% of the respondents were very satisfied. The findings in Table 4.8 show that majority of customers were of the opinion that banks have been able to offer affordable loans.

**Availability of Contact Points with Customers**

Banks work tirelessly towards enhancing customer satisfaction by not only matching customer’s expectations but by exceeding them. This can be achieved by providing various contact points within the bank for customers to access
services conveniently. Contact points include cashiers, ATMs, agency banking, SMS banking and internet banking among others. This has been made possible due to the availability of modern technology. The study sought to gauge the satisfaction of respondents on the ability of their respective banks to provide contact points. The findings of this study indicate that majority (69.8%) of the respondents were satisfied with their respective banks ability to provide various contact, 9.1% were very satisfied while a considerable 16.1% were uncertain. 4.7% of the respondents were dissatisfied while the remaining 0.3% were very dissatisfied.

Table 4.9: Summary of Customer Satisfaction Responses

<table>
<thead>
<tr>
<th>Customer Satisfaction</th>
<th>SD(%)</th>
<th>D(%)</th>
<th>U(%)</th>
<th>A(%)</th>
<th>SA(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I will remain with this bank in the future</td>
<td>0.3</td>
<td>0.8</td>
<td>17.7</td>
<td>55.7</td>
<td>25.5</td>
</tr>
<tr>
<td>I will buy the various products offered by the bank</td>
<td>0</td>
<td>0</td>
<td>9.9</td>
<td>69.3</td>
<td>20.8</td>
</tr>
<tr>
<td>I will refer potential customers to this bank</td>
<td>0</td>
<td>0</td>
<td>13</td>
<td>69</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)
Key: SD-Strongly Disagree; D- Disagree; U-Uncertain; A- Agree; SA- Strongly Agree

Remaining with the Bank in Future

The study sought to know the extent to which customers are willing to remain with their respective banks in future. 0.8% of the respondents disagreed that they will remain with their bank in the future 0.3% strongly disagreed, 17.7% were uncertain, 55.7% agreed while 25.5% strongly agreed as shown in Table 4.9. The findings suggest that the respondents will remain with their respective banks in the future. This could imply that banks are adopting strategies that enable them retain customers.

Buying Various Products Offered by the Bank

The findings shown in Table 4.9, majority of the respondents (91.9%) were of the opinion that they would buy the various types of products offered by the bank for example children accounts, loan facilities, saving accounts, fixed deposits among others while the remaining 9.9% of the respondents were uncertain. This suggests that customers are satisfied with the banks products and are willing to buy the various products offered by their respective banks.

Referring Potential Customers to the Bank

The other aspect of customer satisfaction was the extent to which customers are willing to refer their respective banks to people they know. 13% of the respondents were uncertain, 69% agreed while 18% strongly agreed as shown in Table 4.9. This suggest that majority of the respondents will refer their respective banks to people they know.

HYPOTHESES TESTING

The overall mean of the three aspects of the independent variables (differentiation strategy, cost leadership strategy and focus strategy) and the dependent variable (customer satisfaction) was obtained of all the 384 respondents.

Table 4.10: Summary of Correlations

<table>
<thead>
<tr>
<th></th>
<th>D</th>
<th>CL</th>
<th>F</th>
<th>CS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson’s Correlation Coefficient</td>
<td>1.000</td>
<td>.375(**)</td>
<td>.353(**)</td>
<td>.441(**)</td>
</tr>
<tr>
<td>Sig.(2tailed)</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>384</td>
<td>384</td>
<td>384</td>
<td>384</td>
</tr>
</tbody>
</table>
** Correlation is significant at the 0.01 level (2-tailed).

<table>
<thead>
<tr>
<th></th>
<th>CL</th>
<th>F</th>
<th>CS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Correlation Coefficient</td>
<td>Correlation Coefficient</td>
<td>Correlation Coefficient</td>
</tr>
<tr>
<td></td>
<td>.375(**)</td>
<td>.353(**)</td>
<td>.441(**)</td>
</tr>
<tr>
<td></td>
<td>1.000</td>
<td>.405(**)</td>
<td>.605(**)</td>
</tr>
<tr>
<td></td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>384</td>
<td>384</td>
<td>384</td>
</tr>
</tbody>
</table>

Source: Field Data (2012)

Key:

D = Differentiation
CL = Cost Leadership
F = Focus
CS = Customer Satisfaction

**H0**: There is no Significant Effect of Differentiation Strategy on Customer Satisfaction in Commercial Banks within Nakuru Municipality.

The correlation analysis shown in Table 4.10, indicate that there is a significant positive correlation between differentiation strategy and customer satisfaction ($r= 0.441, P < 0.01$). Therefore, the null hypothesis ($H_0$) that there is no significant effect of differentiation strategy on customer satisfaction in commercial banks within Nakuru municipality was rejected. This could imply that bank customers in Nakuru Municipality believe that their respective banks are customizing products to suit their needs and preferences, offer broad range of products with numerous features and use up-to-date technology to improve services for them to remain satisfied. These results are consistent with other studies that show a significant and positive correlation between differentiation strategy and customer satisfaction (Russell-Bennett, McColl-Kennedy & Coote, 2007).

**H0**: There is no Significant Effect of Cost Leadership Strategy on Customer Satisfaction in Commercial Banks within Nakuru Municipality

The correlation analysis indicates that there is a significant positive correlation between cost leadership strategy and customer satisfaction, this means that the two variables are moving on a similar direction ($r= 0.605, P < 0.01$). Therefore the null hypothesis ($H_0$) that there is no significant effect between cost leadership strategy and customer satisfaction was rejected. This could imply that customer satisfaction is enhanced by the ability of banks to offer affordable ATM charges to its customers, affordable ledger fees and affordable interest rates on loans. These results are consistent with other studies that show a significant and positive correlation between cost leadership strategy and customer satisfaction (Turel & Serenko, 2006).

**H0**: There is no Significant Effect of Focus Strategy on Customer Satisfaction in Commercial Banks within Nakuru Municipality

There is a significant positive correlation between focus strategy and customer satisfaction variables ($r=0.423, P< 0.01$). In this regard, the null hypothesis ($H_0$) that there is no significant effect of focus strategy on customer satisfaction in commercial banks within Nakuru Municipality was rejected. This could imply that the banks effort to provide different products for different customer groups, affordable products for different customers groups and unique products with added benefits for different customer groups positively influences customer satisfaction. These
results are consistent with other studies that show a significant and positive correlation between focus strategy and customer satisfaction (Cohen, Gan, Yong & Choong, 2006).

**H0:** There is no single independent variable that significantly affect customer satisfaction in Commercial Banks within Nakuru Municipality.

The regression analysis results on the study variables (differentiation strategy, cost leadership strategy and focus strategy) against customer satisfaction have been shown below.

**Table 4.11a: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.682</td>
<td>.465</td>
<td>.461</td>
<td>.281</td>
<td></td>
</tr>
</tbody>
</table>

*Change Statistics*

<table>
<thead>
<tr>
<th>R square change</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>.465</td>
<td>110.291</td>
<td>3</td>
<td>380</td>
<td>.000</td>
</tr>
</tbody>
</table>

*a Predictors: (Constant), D, CL, F*

Source: Field Data (2012)

**Table 4.11b: Coefficients**

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.404</td>
<td>.152</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>.172</td>
<td>.033</td>
<td>.221</td>
<td>.000</td>
</tr>
<tr>
<td>CL</td>
<td>.323</td>
<td>.029</td>
<td>.459</td>
<td>.000</td>
</tr>
<tr>
<td>F</td>
<td>.134</td>
<td>.027</td>
<td>.204</td>
<td>.000</td>
</tr>
</tbody>
</table>

*a Dependent Variable: CS*

Source: Field Data (2012)

The $R^2$ which is the co-efficient of determination was 0.465 as shown in Table 4.11a. This means that there was a relationship between the independent variables (differentiation strategy, cost leadership and focus strategy) and dependent variable which was customer satisfaction. The $R^2$ value of (0.465) indicates that 46.5% of the variation is explained by the independent variables while the remaining 53.5% could be explained by chance or error and other factors not discussed in the study that could affect customer satisfaction. Other factors that affect customer satisfaction include; corporate image, branding and promotion (Kurniawa, 2010).

Null hypothesis (H0) which states that there is no one significant independent variable that affects customer satisfaction in commercial banks within Nakuru Municipality was rejected since $P<0.05$ shown in Table 4.11b. This is consistent with a study by Cohen et al, 2006) in a study on the effect of generic competitive strategies on customer satisfaction in Zealand which established a positive relationship between the three generic strategies and customer satisfaction.

The standardized beta coefficients shown in Table 4.11b are all positive, meaning that the contribution of the independent variables and the dependent variable move in the same direction. The coefficient of cost leadership, differentiation strategy and focus strategy, was 0.459, 0.221 and 0.204 respectively. The significance values of differentiation strategy, cost leadership strategy and focus strategy are all ($P<0.05$) meaning the three strategies contribute significantly to the regression model thus null hypothesis 1, 2 and 3 should be rejected. These results are consistent with what was found in the correlation analysis. Cost leadership had the highest contribution to the
regression model, followed by differentiation strategy with focus strategy contributing the least to the model. These results are inconsistent with a study by Ovidiu et al (2009) which found differentiation strategy with the highest contribution to customer satisfaction.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

According to the findings, majority of the respondents were male of the age bracket of 31-45 years. The findings also indicated that majority of customers had banked with their respective banks for more than 6 years with education level above secondary. The response rate in this study was 100%. The findings of the study on the effect of differentiation strategies on customer satisfaction revealed that majority of the respondents were in agreement that banks’ ability to customize products to suit customers need and preferences, offer broad range of products and use up-to-date technology significantly influence customer satisfaction. The findings on cost leadership strategies indicated that affordable ATM charges, interest rates and reasonable ledger fees positively influence customer satisfaction. The findings on focus strategy also indicated that majority of the respondents are satisfied with the ability of the bank to offer different, affordable and unique products to different customer groups. The findings on the effect differentiation, cost leadership and focus strategy on customer satisfaction indicated that there was a significant positive correlation.

Conclusions

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 is but in effect deliver services that exceed customer’s expectations.

According to the findings there was a significant positive correlation between differentiation strategy and customer satisfaction. It can therefore be concluded that banks are striving to customize products, provide broad range of products and use up-to-date technology. From the findings, it can be concluded that cost leadership strategy and customer satisfaction are positively correlated. Based on these findings it can be concluded that banks are also offering affordable ATM charges, reasonable interest rates on loans and affordable ledger fees. Based on the findings it can also be concluded that there is a significant positive correlation between focus strategy and customer satisfaction. According to the findings it can be concluded that banks are striving to provide different, affordable and unique products to their different customer segments.

It can also be concluded that the three Porter’s generic strategies (differentiation strategy, cost leadership strategy and focus strategy) affect customer satisfaction positively. This is because Null hypothesis H0₁ was rejected (P < 0.01), Null hypothesis H0₂ was rejected (P < 0.01) Null hypothesis H0₃ was rejected (P < 0.01) and Null hypothesis H0₄ was rejected (P < 0.05). This could imply that as banks adopt differentiation, cost leadership and focus strategy customer satisfaction significantly increases. It can also be concluded that despite the fact that the independent variables positively affect customer satisfaction, there are other factors not in the study that affect customer satisfaction.

Recommendations

Organizations should improve on the implementation of the three porter’s generic strategies especially on differentiation and focus strategy so that its impact can be felt by the customers. Managers should therefore deliver services that exceed customer’s expectations in order to enhance customer satisfaction.
This study was conducted on commercial banks within Nakuru Municipality, it is therefore recommended that similar studies be carried out in other parts of the country for comparison purposes. Similar research studies should also be conducted in other economic sectors. Research should also be conducted on other factors that affect customer satisfaction other than the three porters generic strategies (differentiation strategy, cost leadership strategy and focus strategy) since there are other factors that affect customer satisfaction.

REFERENCES


