

Product Differentiation Strategies and Organizational Performance of Tier 1 Commercial Banks in Kenya

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Abstract- Kenya's largest banks compete under pressure from regulatory change, the spread of financial technology and customers who expect more, and product differentiation has become one of their main tools for setting themselves apart from rivals. This study set out to determine how product differentiation strategies affect the organizational performance of Tier 1 commercial banks in Kenya and how far customer satisfaction carries that effect. The study adopted a mixed methods explanatory sequential design and was anchored on Porter's competitive advantage theory, the resource based view and expectancy disconfirmation theory. A sample of 264 branch and operations managers drawn from the eight Tier 1 commercial banks through stratified random sampling responded to a structured questionnaire, and the quantitative evidence was complemented by sixteen executive interviews and four customer focus group discussions analysed through reflexive thematic analysis. Quantitative data were analysed using descriptive statistics, Pearson correlation, simple linear regression and bootstrap mediation analysis. Product differentiation strategies were implemented to a high degree, with a composite mean of 3.99 on a five point scale. The correlation analysis returned a positive and significant association between product differentiation and organizational performance, and the regression analysis established that product differentiation accounted for 23.9 per cent of the variance in performance, so the null hypothesis was rejected. Bootstrap mediation analysis confirmed that customer satisfaction partially mediated the relationship, transmitting 54.8 per cent of the total effect. The qualitative evidence identified segmented product architectures, brand constrained product design, digital channel integration and customer perceptions of product fit as the mechanisms behind the statistical relationship. The study concludes that product differentiation is a meaningful driver of performance whose effect is realised principally through customer satisfaction, and recommends strengthened segment specific customisation and the alignment of differentiation investments with customer satisfaction.

Keywords: Product Differentiation, Organizational Performance, Customer Satisfaction, Competitive Positioning, Tier 1 Commercial Banks, Kenya

I. INTRODUCTION

Competitive positioning describes how a firm sets itself apart from competitors in the perception of customers in order to earn better returns over the long run (Paul, Roy, & Merchant, 2020). Studies of commercial banking group these positioning choices into four recurring dimensions, namely product differentiation, price positioning, brand equity and innovation, and product differentiation is among the most prominent. In banking it involves building distinctive accounts, lending products, channel experiences and service packages that customers regard as unusual, that support a price premium and that shield the bank from competition fought on price alone (Ivascu, Cioca, & Breaz, 2023). It is one of the central strategies in Porter's competitive advantage theory, and the resource based view treats it as a capability that delivers lasting gains when it grows out of internal routines competitors cannot readily copy (Porter, 1985; Malhotra, Taneja, & Jaiswal, 2024).

The Kenyan banking sector has been transformed over the past decade by the introduction of agency banking, the integration of mobile money platforms, the tiered classification of banks by capital and the rapid entry of financial technology firms. These developments have intensified competition and have raised the strategic importance of differentiation as a means of escaping the margin erosion that follows from price based rivalry (Keskin, Akgün, & Koçoğlu, 2021). Recent Kenyan evidence indicates that banks which sustain a differentiated portfolio of retail,

corporate and small and medium enterprise products outperform banks that rely on a narrower product set, and that quality based differentiation has emerged as a principal competitive lever in the sector (Fabian, Murithi, & Chege, 2023; Murunde & Paul, 2023).

The Tier 1 banks dominate the Kenyan financial system, holding over 70 per cent of the sector's assets and more than two thirds of its deposits, and earning returns that sit above those of most comparable banking markets in Africa (Central Bank of Kenya, 2024; Kenya Bankers Association, 2024). That strength masks several strategic difficulties. Survey evidence shows that many customers who change banks point to weak service and high charges, and that the banks still lean heavily on net interest income even as the fee based income most closely linked to effective differentiation has flattened (Kenya Bankers Association, 2024).

Competition from agile financial technology firms and from customer focused smaller banks has intensified, and a majority of banking customers now prefer digital channels for their primary transactions (Kenya Bankers Association, 2024; Fabian, Murithi, & Chege, 2023). Under these conditions product differentiation becomes a primary strategic concern for the Tier 1 banks, since distinctive products and channel experiences offer a way of defending market share and margin against entrants whose main advantage is a leaner cost structure. The relationship between product differentiation and performance in this segment has nonetheless received little rigorous study.

Although a body of Kenyan and East African research confirms that product differentiation influences bank performance, the available studies have generally looked at differentiation across the banking sector as a whole, or have used small samples that do not represent the industry well, and few have established the route by which differentiation feeds through to performance (Gecheo, 2020; Ononiwu, Chukwu, & Mbanaso, 2024). In particular, the role of customer satisfaction as the channel through which differentiation reaches performance has been assumed rather than formally

tested in the Tier 1 segment, which leaves the management of the largest banks without an empirically grounded basis for deciding how much, and where, to invest in differentiation.

The present study addressed that gap by assessing how product differentiation strategies bear on the organizational performance of Tier 1 commercial banks in Kenya, and by establishing whether customer satisfaction mediates that relationship. The specific objective that guided the study was to analyse the influence of product differentiation strategies on the organizational performance of Tier 1 banks in Kenya. The corresponding null hypothesis stated that there is no significant relationship between product differentiation strategies and the organizational performance of Tier 1 banks in Kenya. The remainder of the paper reviews the theoretical and empirical literature, describes the methodology, presents the quantitative and qualitative findings, and concludes with recommendations for the management of the Tier 1 banks.

II. THEORETICAL REVIEW

The study was anchored on three theories that together account for product differentiation as the predictor, organizational performance as the outcome, and customer satisfaction as the mediating mechanism. Each theory is reviewed in terms of its proponent and year, its central claims, its relevance to the study, its strengths, its weaknesses, and the way in which those weaknesses are mitigated in the present study.

2.1 Porter's Competitive Advantage Theory

The theory was developed by Michael E. Porter in his 1985 book *Competitive Advantage: Creating and Sustaining Superior Performance*, building on his *Competitive Strategy* (1980) and the five forces framework (Porter, 1985; Keskin, Akgün, & Koçoğlu, 2021). The theory argues that a firm achieves superior returns by consistently pursuing one of three generic strategies, namely cost leadership, differentiation or focus. Differentiation calls for product or service features that customers regard as distinctive and worth paying more for, and the value chain analysis that accompanies the theory

pinpoints the activities in which that advantage is built or eroded (Porter, 1985).

The theory supplies the core causal logic of the study. Product differentiation in Tier 1 banking, delivered through tailored account products, distinctive digital channels and relationship management offerings, corresponds directly to Porter's differentiation strategy, and the theory's central prediction, that a superior competitive position yields superior performance, frames the hypothesis tested in this study (Gecheo, 2020; Murunde & Paul, 2023).

The framework is parsimonious and managerially actionable, and its structure corresponds closely to the choices bank executives actually weigh as they trade off competition on price against differentiated service or a narrow segment focus, which has kept it among the most applied strategy frameworks in banking and services for four decades (Keskin, Akgün, & Koçoğlu, 2021). Critics observe that the theory is firm centric and underweights internal resources, alliances and institutional context (Culpan, 2008; Barney, Ketchen, & Wright, 2021). The study mitigates this limitation by pairing Porter's industry facing logic with the resource based view, which supplies the internal capability perspective, and by situating the analysis within the regulatory and competitive context of the Kenyan Tier 1 segment so that the institutional conditions the theory underweights are explicitly modelled.

2.2 The Resource Based View

The resource-based view originated in Penrose's 1959 work on the growth of the firm, was advanced by Wernerfelt in 1984, and was formalised by Jay Barney in his 1991 article that introduced the value, rarity, imitability and organisation framework (Barney, 1991; Barney, Ketchen, & Wright, 2021). On this account, firms in the same industry hold different bundles of resources, and it is that variation, more than industry structure on its own, which explains why some outperform others over long periods. A resource confers sustained advantage when it is valuable, rare, imperfectly imitable and supported by organisational routines (Barney, 1991). The view explains why product differentiation produces durable rather than transient performance

gains. Differentiation that rests on capabilities in product development, customer research and service delivery is difficult for rivals to copy, so it sustains the competitive position that Porter's theory predicts (Malhotra, Taneja, & Jaiswal, 2024). The view therefore frames product differentiation not as a marketing tactic but as a capability embedded in the bank.

The view provides a rigorous diagnostic for distinguishing durable from imitable sources of advantage, and it has been productively extended through the dynamic capabilities perspective to turbulent, innovation intensive environments such as digital banking (Barney, Ketchen, & Wright, 2021). It offers limited guidance on how firms acquire valuable resources, and the value, rarity, imitability and organisation test is difficult to operationalise in services where resources are embedded in tacit knowledge and customer relationships (Burvill, Jones-Evans, & Rowlands, 2018; Malhotra, Taneja, & Jaiswal, 2024). The study mitigates this by measuring differentiation through perceptual indicators of product quality, range and customisation that capture the service embedded resources the view identifies, and by triangulating the survey evidence with executive accounts of the internal routines that sustain differentiation.

2.3 Expectancy Disconfirmation Theory

The theory was introduced by Richard L. Oliver in a 1980 article in the *Journal of Marketing Research* and elaborated in his 1997 book *Satisfaction: A Behavioral Perspective on the Consumer* (Oliver, 1997). It proposes that customer satisfaction arises from the comparison of pre purchase expectations with post purchase perceptions of performance. Positive disconfirmation, in which perceived performance exceeds expectations, produces satisfaction, while negative disconfirmation produces dissatisfaction, and satisfaction drives loyalty, retention and advocacy (Oliver, 1997).

The theory supplies the mechanism through which product differentiation reaches performance. Differentiation shapes the service attributes and value propositions that customers compare against their expectations, the resulting disconfirmation produces

satisfaction, and satisfaction feeds the retention and market share outcomes that constitute organizational performance. The theory therefore grounds the mediation hypothesis tested in this study (Restuputri, Pratama, & Asnawi, 2024).

The theory is the most widely validated account of customer satisfaction in services research, and it accommodates both cognitive and affective dimensions of the satisfaction judgement, which supports the use of multiple satisfaction indicators (Oliver, 1997). It has been criticised for underweighting mood, affect and contextual factors, and for assuming stable expectations when expectations may shift during the service encounter (Restuputri, Pratama, & Asnawi, 2024). The study mitigates this by complementing the perceptual satisfaction scale with customer focus group evidence that captures the affective and contextual dimensions of the satisfaction judgement that the survey instrument alone cannot recover.

III. EMPIRICAL REVIEW

Six empirical studies establish the state of knowledge on the relationship between product differentiation and bank performance across mature, African and East African markets.

Hean and Jabas (2024), in a study titled Banking consolidation and differentiated lending in the United States Midwest, examined banking competition in the United States using a county level econometric analysis. The study found that consolidation among commercial banks reduced the supply of differentiated small business and agricultural credit products, which lowered the formation of new businesses in the affected counties. The research gap is that the study treats differentiation as an outcome of market structure rather than as a managed strategy, and it does not examine customer satisfaction as the channel through which differentiation reaches performance.

Haddad and Hornuf (2023), in a study titled The impact of financial technology innovation on incumbent bank performance in the United Kingdom, examined the competitive repositioning of incumbent

banks in the United Kingdom using an empirical panel analysis. The study found that banks that differentiated by way of open banking interfaces and embedded financial services grew their fee income faster than banks that kept conventional product ranges. The research gap is that the study was conducted in a mature banking market and did not test the customer satisfaction channel or the dynamics of a tiered banking structure such as Kenya's.

Wan, Xu, and Zheng (2023), in a study titled Fintech disruption and competitive repositioning of Chinese commercial banks, examined commercial banks in China using a panel data analysis of performance following financial technology entry. The study found that banks that reworked and differentiated their offerings restored their performance within about three years of the shock, whereas those that leaned on their established product ranges saw return on assets fall over a prolonged period. The research gap is that the findings are tied to a state influenced banking market and that differentiation was examined in isolation from the other positioning dimensions.

Ononiwu, Chukwu, and Mbanaso (2024), in a study titled Customer-focused repositioning and innovation strategies among deposit-money banks in Nigeria, examined deposit money banks in Nigeria using a survey and regression analysis. The study found that once branch network and asset base were held constant, product differentiation, captured through tailored retail products, separate lending to small and medium enterprises and distinct digital offerings, explained a sizeable portion of the differences in profitability. The research gap is that the study did not disaggregate the mediating role of customer satisfaction across the separate positioning dimensions.

Ishengoma and Mwaitete (2018), in a study titled Competitive positioning dimensions and return on assets among commercial banks in Tanzania, examined forty commercial banks in Tanzania using a regression analysis. The study found that after brand equity, product differentiation was the next most powerful predictor of return on assets, and price competition lost its significance once differentiation

and brand were accounted for. The research gap is that the study used a sector wide sample without a focus on the largest banks and did not include a formal test of mediation.

Fabian, Murithi, and Chege (2023), in a study titled *Competitive positioning strategies and organizational performance of commercial banks in Kenya*, examined commercial banks in Kenya using a mixed methods survey of digital banking users. The study found that differentiation through digital channels and product customisation predicted customer retention more strongly than price competition, with customer satisfaction mediating the effect on performance. The research gap is that the study was not focused on the Tier 1 segment and did not test the relationship within a single integrated model.

The six studies converge on a positive relationship between product differentiation and bank performance, but the magnitude and mechanism vary with context. The mature market studies show that differentiation produces measurable performance gains, with Hean and Jabas (2024) demonstrating the consequences of reduced differentiated lending after consolidation in the United States, Haddad and Hornuf (2023) linking open banking differentiation to fee income growth in the United Kingdom, and Wan, Xu, and Zheng (2023) showing that differentiation enabled Chinese banks to recover from financial technology disruption. The African and East African studies confirm the relationship in developing market conditions, with Ononiwu, Chukwu, and Mbanaso (2024) and Ishengoma and Mwaitete (2018) reporting differentiation as a leading non price determinant of performance, and Fabian, Murithi, and Chege (2023) reporting that satisfaction mediates the differentiation and retention link in Kenya. Three gaps run through the literature. First, most studies examine differentiation in isolation rather than alongside the other positioning dimensions. Second, the mediating role of customer satisfaction is frequently assumed but rarely tested formally and rarely disaggregated by positioning dimension. Third, no Kenyan study has examined the relationship on the Tier 1 segment within a single integrated design. The present study addressed these gaps directly.

IV. RESEARCH METHODOLOGY

The study adopted a mixed methods explanatory sequential design grounded in a pragmatic philosophy that combined positivist and interpretivist elements, in which a quantitative phase was followed by a qualitative phase that explained the statistical patterns (Creswell & Plano Clark, 2018; Bryman, 2016). The target population comprised the senior and middle management of the eight banks classified as Tier 1 in Kenya, together with their retail and corporate customers. A sample of 264 branch and operations managers was drawn through stratified random sampling, with the strata defined by bank so that representation was proportional to each bank's share of the sector, and the sample size was determined using Cochran's formula adjusted for a finite population (Hair, Black, Babin, & Anderson, 2019). Product differentiation strategies and organizational performance were each measured through six item scales anchored on a five point Likert scale, and the reliability of every scale exceeded the conventional threshold of 0.70 on Cronbach's alpha (Hair, Risher, Sarstedt, & Ringle, 2019).

The quantitative data were analysed using descriptive statistics, Pearson correlation analysis, simple linear regression and bootstrap mediation analysis based on 5,000 bias corrected resamples, with the hypothesis tested at the five per cent level of significance (Field, 2018; Hayes, 2018). The qualitative phase comprised sixteen semi structured executive interviews and four customer focus group discussions conducted in Nairobi, Mombasa, Kisumu and Eldoret, and the resulting data were analysed through reflexive thematic analysis following the six phase procedure in NVivo software (Braun & Clarke, 2019; Bell, Bryman, & Harley, 2019). The two streams of evidence were integrated so that the qualitative themes explained the mechanisms behind the statistical findings. Research permits were obtained from the Kibabii University Graduate School and from the National Commission for Science, Technology and Innovation, and the confidentiality of all participants was protected throughout.

V. QUALITATIVE FINDINGS

The reflexive thematic analysis of the executive interviews and customer focus group discussions identified one principal theme on product differentiation, namely that differentiation is a structural feature of the bank rather than a marketing activity, expressed through four sub themes that describe how it is designed and experienced in the Tier 1 segment.

5.1 Sub theme one: Segmented product architectures as a competitive foundation

Across all eight banks, executives portrayed their product ranges as sets of segmented offerings built for separate customer groups and held apart in pricing, packaging and service design. The segmentation is embedded in the organisational structure, the allocation of resources, the performance measurement systems and the career paths of staff, which places differentiation deep in the strategic infrastructure of the bank.

We operate five distinct product architectures simultaneously. There is mass retail, premium retail, small and medium enterprise banking, mid corporate and large corporate. Each has its own value proposition, its own pricing structure and its own service model. We do not believe that there is a single product that can serve a young person starting their first salaried job and a multinational treasury at the same time.

5.2 Sub theme two: Product differentiation operates within brand constraints

A second sub theme is that differentiation is bounded by the wider brand architecture of the bank. Executives spoke of a tension between the wish to innovate on products and the need for new products to stay consistent with the bank's established image, a tension they resolve through an internal brand fit review before a product is cleared for launch.

Yes, we innovate on products, but every new product has to pass what we internally call the brand fit test. The product must feel like it comes from us and not from somewhere else. If a product would confuse customers about what our bank stands for, we do not

launch it, however commercially attractive it might look on the initial business case. The brand is what makes the product credible, not the other way around.

This account helps explain why the standardised product differentiation coefficient fell from 0.489 in the univariate regression to 0.096 in the full combined regression: the executives themselves regard differentiation as working through the brand architecture rather than as a fully independent driver of performance.

5.3 Sub theme three: Digital channel integration as a differentiation mechanism

A third sub theme is that the banks now express much of their differentiation through the digital channels customers use to reach a product, rather than through the features of the product itself. Two banks may carry technically similar products, yet the one with the stronger mobile and internet interface stands apart in the customer's eyes through the quality of the digital experience.

Increasingly, differentiation is not about the product itself but about how the customer accesses the product. Two banks may have a near identical fixed deposit product, but the bank that allows the customer to open the deposit, manage it and roll it over entirely on the mobile application is differentiated in the customer's eyes. The product is the same, but the experience is what sets the bank apart.

This sub theme explains the substantial correlation of .512 between product differentiation and innovation strategies, because digital channel quality is the operational point at which the two dimensions overlap in practice.

5.4 Sub theme four: Customer perceptions of product fit drive retention

The fourth sub theme, which emerged most strongly from the customer focus groups, is that customers experience differentiation principally through the perception that the product they hold fits their personal or business circumstances. This perception of fit, rather than the objective features of the product, is the mechanism through which

differentiation becomes satisfaction and then retention.

I stay with my bank mainly because they have a product that fits small traders like me. When I opened the account they asked me about my business and matched me to an account that would help with my transactions, not just opened any account and told me to figure it out. The product feels like it was designed for my kind of customer.

Participant, Kisumu focus group

What matters to me is that the product I have makes sense for my life. I pay a school fee every three months and I want an account that makes that easy, with reminders and standing orders. A bank that sells me the account I need is the bank I will stay with.

Participant, Nairobi focus group

The customer accounts point to the mechanism behind the mediation result, in which 54.8 per cent of the total effect of product differentiation on organizational performance ran through customer satisfaction. Customers convert their sense of product fit into satisfaction, and satisfaction feeds the retention and performance outcomes that aggregate into organizational performance.

VI. FINDINGS

6.1 Descriptive Findings

Product differentiation strategies were implemented to a high degree, with a composite mean of 3.99 and a pooled standard deviation of 0.95, and the scale returned a Cronbach's alpha of 0.847. Product quality as a basis for differentiation drew the strongest agreement, at a mean of 4.17, and customising products to particular segments drew the weakest, at a mean of 3.77. These scores show that the Tier 1 banks are strongest on product quality and breadth of range and weakest on fine grained customisation. Since product quality is already strong, the clearest room for improvement lies in customising products to specific customer segments.

6.2 Correlation Analysis

The Pearson correlation matrix in Table 1 reports the associations among the study variables. Product

differentiation strategies were positively and significantly correlated with organizational performance at .489, with customer satisfaction at .506, with brand equity at .548 and with innovation at .512, and every association was significant at the 0.1 per cent level.

Table 1 Pearson Correlation Matrix for Study Variables

Variable	1	2	3	4	5	6
1. Product Differentiation	1.000					
2. Price Positioning	.423	1.000				
3. Brand Equity	.548	.385	1.000			
4. Innovation	.512	.441	.574	1.000		
5. Customer Satisfaction	.506	.412	.618	.537	1.000	
6. Organizational Performance	.489	.368	.602	.523	.641	1.000

Note. N = 264. All off-diagonal correlations significant at $p < .001$ (two-tailed). Source: Research Data (2026).

Product differentiation moved in the same direction as performance and as every other element of the strategic architecture, and the association was of medium to large strength. Its correlation of .489 with performance was the third strongest among the four positioning dimensions, behind brand equity at .602 and innovation at .523, while its correlation of .506 with customer satisfaction was consistent with the theorised mediation path. Differentiation therefore operates as a connected element of the bank's competitive posture rather than a standalone lever, and its strong link with customer satisfaction anticipates the indirect effect later confirmed in the

mediation analysis. These correlations are associational and do not on their own establish the direction or size of effect, which the regression and mediation analyses then test.

6.3 Regression Analysis

A simple linear regression of organizational performance on product differentiation strategies was fitted of the form $OP = \beta_0 + \beta_1 PD + \epsilon$. The results are reported in Table 2.

Table 2 Regression of Product Differentiation Strategies on Organizational Performance

<i>Statistic</i>	<i>Value</i>	<i>Statistic</i>	<i>Value</i>
R	0.489	F (1, 262)	82.285
R ²	0.239	p (model)	< .001
Adjusted R ²	0.236	B (PD)	0.521
Std. error of estimate	0.698	Std. error (B)	0.058
Cohen's f ²	0.314	β (PD)	0.489
Constant (B ₀)	1.821	t (PD)	9.065
		p (PD)	< .001

Note. N = 264. Predictor: product differentiation strategies. Dependent variable: organizational performance. Source: Research Data (2026).

The coefficient of determination of 0.239 indicates that product differentiation strategies account for 23.9 per cent of the variance in organizational performance, and Cohen's f² of 0.314 places the effect between the medium and large thresholds (Field, 2018; Hair, Black, Babin, & Anderson, 2019). Differentiation thus explains close to a quarter of the variation in performance when evaluated on its own, a substantial share for a single predictor. The model was statistically significant, with an F statistic of 82.285 and a p value below .001, which confirms that the relationship is not attributable to sampling error. The unstandardised coefficient of 0.521 indicates that a one unit rise in the differentiation score is associated with a rise of 0.521 units in performance, and the standardised coefficient of 0.489 was significant at a t value of 9.065 and a p value below .001. The estimated equation was $OP = 1.821 + 0.521PD$.

On the basis of these results, the null hypothesis that product differentiation strategies have no significant relationship with organizational performance was rejected at the five per cent level, and the alternative hypothesis of a significant positive effect was supported. For the banks, this justifies investment in product differentiation on performance grounds, since the strategy carries a strong and statistically reliable association with profitability, market share and the other dimensions of performance captured in the study.

6.4 Mediation Analysis

Customer satisfaction was entered as a mediator and the indirect effect was tested through bootstrap analysis, with the results reported in Table 3.

Table 3 Mediation of the Differentiation and Performance Relationship by Customer Satisfaction

<i>Path / effect</i>	<i>Estimate</i>	<i>95% CI LL</i>	<i>95% CI UL</i>
a path (PD to satisfaction)	0.513		
b path (satisfaction to performance)	0.557		
Total effect (standardised)	0.489		
Direct effect c' (standardised)	0.221		
Indirect effect (ab)	0.286	0.215	0.361
Proportion mediated	54.8%		
Type of mediation	Partial		

Note. N = 264. Bootstrap analysis based on 5,000 bias corrected resamples. Source: Research Data (2026).

The standardised direct effect of product differentiation on performance reduced from 0.489 in the univariate model to 0.221 once customer satisfaction was included, while the indirect effect of 0.286 carried a 95 per cent bias corrected confidence interval of 0.215 to 0.361, which excludes zero. Because a significant direct effect persists alongside a significant indirect effect, customer satisfaction partially mediates the relationship (Hayes, 2018). The

proportion of the total effect transmitted through satisfaction was 54.8 per cent, so just over half of the influence of differentiation on performance runs through its effect on customer satisfaction. Differentiation investments therefore yield their fullest return when they are designed to raise customer satisfaction, and differentiation that does not register with customers as an improved experience delivers only the smaller direct portion of the benefit.

The integrated model adds a qualification. When product differentiation was evaluated together with brand equity, innovation and customer satisfaction, its standardised direct effect fell further to 0.096, as the qualitative evidence on the brand fit test and the digital channel overlap would predict. In practice differentiation reaches performance through three connected channels, namely customer satisfaction, the shared variance with brand equity, and the shared variance with innovation. Differentiation is best planned together with brand and innovation strategy rather than as an isolated initiative, since its contribution to performance is realised largely through those adjacent dimensions and through customer satisfaction.

VII. CONCLUSIONS AND RECOMMENDATIONS

The study concludes that product differentiation strategies are a meaningful driver of the organizational performance of Tier 1 commercial banks in Kenya. Evaluated on their own, differentiation strategies account for close to a quarter of the variance in performance, carry a medium to large effect size, and produce a positive and statistically significant coefficient that led to the rejection of the null hypothesis. Differentiation in the Tier 1 segment rests on product quality and breadth of range, is embedded in the segmented architecture of the bank, and is increasingly delivered through digital channels, while the customisation of products to specific customer segments remains its weakest element and its clearest opportunity for improvement. The study further concludes that the influence of product differentiation on performance is realised principally through customer satisfaction, which

partially mediates the relationship and transmits just over half of the total effect, and through the shared variance that differentiation holds with brand equity and innovation. The qualitative evidence explains this pattern, showing that differentiation is governed by a brand fit test, delivered through digital channels, and converted into retention through the customer's perception of product fit. Differentiation is most effective when it is planned together with brand and innovation strategy and designed to raise the satisfaction of clearly defined customer segments. The study makes the following recommendations.

1. The management of Tier 1 commercial banks should treat product differentiation as a central element of competitive strategy and should sustain the investment in product quality and breadth of range that underpins its current strength, while assigning clear ownership of differentiation outcomes within the business lines.
2. Banks should strengthen segment specific customisation by moving beyond the broad retail and corporate dichotomy towards finer customer segmentation, so that the weakest dimension of differentiation, customisation to segment needs, is converted into a source of competitive advantage.
3. Because more than half of the effect of differentiation on performance operates through customer satisfaction, banks should align every differentiation investment with a measurable customer satisfaction objective and should track the satisfaction impact of new products as a condition of continued investment.
4. Banks should continue to develop the digital channels through which customers now experience differentiation, and should treat channel quality as an integral part of the differentiated product rather than as a separate technology project, given the strong overlap between differentiation and innovation.
5. Banks should retain the brand fit review for new products, since the credibility that the brand confers is what converts a differentiated product into a performance outcome, and should coordinate differentiation, brand and innovation planning within a single strategic process.
6. Policymakers at the Central Bank of Kenya and the Kenya Bankers Association should monitor

the differentiation practices of the Tier 1 banks for their effect on financial inclusion, so that segment specific customisation extends to underserved customers rather than only to affluent segments.

7. Future research should test the differentiation and performance relationship across the second and third tiers of the banking sector and over time, so as to establish whether the pattern documented in the Tier 1 segment holds more widely and persists as the sector continues to evolve.

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