INTERNATIONAL JOURNAL OF INNOVATION, ENTERPRISE, AND SOCIAL SCIENCES

ISSN 2454-6186
Volume 5, Issue 1, Pages 416-427, October, 2025
Journal Website: https://scholarnestpublishers.com/index.php/IJIESS

STRATEGIC FACTORS AND COMPETITIVENESS OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

The competitiveness of Kenya's commercial banking sector was investigated as a critical factor in driving economic growth and financial inclusion. The study explored strategic factors influencing competitiveness, focusing on retail network expansion and financial leverage. A descriptive research design was employed, collecting data from 44 branches of KCB Group and Consolidated Bank in Nairobi, Kiambu, and Murang'a Counties. Analytical methods, including regression, ANOVA, and correlation analyses, were utilized to evaluate these relationships. The findings indicated that retail network expansion, particularly branch establishment, significantly enhanced market presence and customer acquisition, although digital platforms were essential for broader accessibility. Financial leverage, with a focus on Return on Equity (ROE), emerged as a key driver of market share and operational stability, supported by liquidity. The study concluded that Kenyan banks needed to balance physical and digital expansion, leverage financial strategies, optimize asset acquisition, and adopt adaptive communication approaches to sustain competitiveness. Recommendations included the integration of fintech innovations, optimization of workforce development, and exploration of emerging communication technologies. These findings contributed to strategic management literature and provided actionable insights for banks navigating Kenya's dynamic financial landscape. Future research was suggested to investigate digital transformation's role and conduct cross-regional comparative studies on competitiveness.

Key Words: Strategic Factors, Competitiveness, Retail Network Expansion, Financial Leverage, Commercial Banks in Kenya

Background of the Study

Strategic factors are about gaining a competitive edge in the market (Obi, 2013; Pearce & Robinson, 2009). Top management identifies these strategic factors, which are different from operational issues managed by middle and first-line managers who focus on the day-to-day functions of a business (Obi, 2013). Finlay (2000) suggests that strategic factors are determined based on what top management deems essential at any given time, according to the firm's objectives. These factors include strategic goals, assets, business units, and strategic thinking. Finlay emphasizes that strategic factors, whether assets or resources have unique characteristics that set them apart and form the basis for achieving a competitive advantage in the marketplace (Obi, 2013). According to the Central Bank of Kenya, which is the regulatory authority overseeing the banking sector, the number of licensed commercial banks as of the end of 2023 is 38. This is detailed in their annual reports and sector updates. (Central Bank of Kenya, Annual Report 2023). The number of commercial banks in Kenya, (Cytonn,2023), currently stands at 38, including 1 mortgage finance company.

Statement of the Problem

The banking sector in Kenya plays a pivotal role in driving economic growth and national development. It contributes significantly by promoting investment, fostering innovation, and mobilizing savings (Lagat, Mugo, & Otuya, 2018). Despite its critical importance, the sector faces numerous challenges that impact its performance and competitiveness. For instance, Kairu et al. (2018) highlight that while the expansion of banks reflects overall economic growth, these institutions grapple with issues such as high employee turnover, poor customer retention strategies, and increasing customer complaints.

Research on competitiveness in the banking sector is well-documented, but there is a gap in studies specifically addressing the unique challenges faced by commercial banks in Kenya. Mutinda (2018) identifies performance management issues within Kenyan banks, particularly due to reliance on traditional performance appraisal tools. This highlights the need for a strategic approach to performance management in the sector. Meanwhile, the study by Lu et al. (2005) on the impact of competitive conditions on internet banking investments in China illustrates how global competitive pressures can influence banking practices. Although insightful, this international perspective does not fully capture the local dynamics of the Kenyan banking sector.

A study by Muriuki et al. (2021) discovered that banks that increased their retail networks by at least 15% in urban areas had a 20% increase in market share after two years. This expansion not only improved customer accessibility, but also raised brand visibility, which had a direct impact on competition. According to Otieno and Mwangi's (2022) research, commercial banks with a debt-to-equity ratio more than 2.0 earned 25% more in return on equity (ROE) than those with lower leverage. This shows that strategic financial leverage can increase profitability and consequently competitive status. According to a Kenya Bankers Association (2023) survey, larger banks (assets greater than $1 billion) had an average cost-to-income ratio of 48%, compared to 65% for small banks. This operational efficiency enables larger banks to offer competitive rates and services, thereby strengthening their market position. In contrast, a survey conducted by Nyaga and Rukwaro (2022) discovered that banks that use successful communication methods, such as social media involvement and individualized customer care, showed a 35% boost in client retention. This emphasizes the significance of communication in retaining competitiveness in the banking business.

Conceptually, competitive advantage in the banking sector is derived from attributes or combinations of attributes that enable banks to outperform their rivals (Wanjiku, 2012).

However, the existing literature, such as Panagiotis (2009), which explores factors like leverage, and management competence, does not fully address how these factors specifically influence the competitiveness of Kenyan commercial banks. Irungu (2017) underscores the importance of strategic leadership, technology adoption, resource availability, and organizational culture in gaining a competitive edge for SMEs. This framework can be applied to the banking sector but has not been extensively studied in this context.

There is a significant methodological gap in the literature regarding the in-depth examination of the competitiveness of commercial banks in Kenya. Existing studies often focus broadly on service sectors or specific factors affecting competitiveness without a comprehensive analysis of how these factors interact within the unique context of the Kenyan banking sector (Kairu et al., 2018; Mutinda, 2018). The lack of localized studies that integrate retail network expansion, and financial leverage into a cohesive analytical framework for Kenyan banks highlights the need for targeted research (Onyango, 2021).

Although extensive research exists on competitiveness and performance broadly, limited attention has been given to the unique dynamics of Kenya's banking sector (Wanjiku, 2012). This highlights the need for a comprehensive study examining how strategic elements such as retail network expansion, and financial leverage shape the competitiveness of commercial banks in Kenya. Filling these gaps will offer valuable insights for improving both performance and strategic positioning within an increasingly dynamic financial environment (Irungu, 2017; Panagiotis, 2009). These challenges further emphasize the importance of understanding the key drivers of competitiveness in the sector.

Objectives of the Study

General Objective

The general objective of this study is to determine the strategic factors influencing competitiveness of commercial banks in Kenya.

Specific Objectives

i. To assess the influence of retail network expansion on competitiveness of commercial banks in Kenya.

ii. To establish the influence of financial leverage on competitiveness of commercial banks in Kenya.

LITERATURE REVIEW

Theoretical Review

Resource Based Theory

Resource based view theory was developed by Birger Wernerfelt in 1984 in his article titled a resource-based view of the firm. The Resource-Based View (RBV) lies primarily in the application of a bundle of valuable tangible or intangible resources at the firm's disposal (Kozlenkova, Samaha and Palmatier, 2014). To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile. Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort. If these conditions hold, the bundle of resources can sustain the firms above average returns (Kozlenkova, Samaha and Palmatier, 2014).

Gillis, Cobbs & Ketchen (2014) emphasizes the distinction between capabilities and resources by defining capabilities as a special type of resource, specifically an organizationally embedded non-transferable firm-specific resource whose purpose is to improve the productivity of the

other resources possesses by the firm. Resources are stocks of available factors that are owned or controlled by the organisations, and capabilities are an organization's capacity to deploy resources. Essentially, it is the bundling of the resources that builds capabilities.
According to RBV proponents, it is much more feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. In RBV model, resources are given the major role in helping companies to achieve higher organisational performance. There are two types of resources: tangible and intangible. Tangible assets are physical things (Jensen, Cobbs & Turner, 2016) like land, buildings, machinery, equipment and capital. Physical resources can easily be bought in the market so they offer little advantage to the companies in the long run because rivals can soon acquire the identical assets. Intangible assets are everything else that has no physical presence but can still be owned by the company. Brand reputation, trademarks, intellectual property are all intangible assets. Unlike physical resources, brand reputation is built over a long time and is something that other companies cannot buy from the market.

Intangible resources usually stay within the company and are the main source of sustainable competitive advantage (Hitt, Carnes & Xu, 2016). Resource based view theory entails the identification of unique resources in a firm and making a decision where these resources can be invested to earn the company the highest returns. The theory also suggests that a firm's resources are the key determinants of its performance and this significantly contributes to its competitiveness and performance. Resources include organisational processes, assets, information and knowledge as well as attributes that help the organisation to develop and implement strategies to improve its efficiency, effectiveness, image, awareness and quality of services and products. If utilized appropriately, these resources help an organisation to achieve and maintain a competitive advantage, in the long run (Hitt, Carnes & Xu, 2016).

Small and Medium Enterprises in particular Supermarkets have a wide range of resources that include branches, warehouses and human resource among others. Other resources include corporate brand, technological equipment and range of products. These resources play major role in enhancing retail distribution of products and services in SMEs. In the case of this study, resource availability is crucial especially if a firm needs to gain competitive advantage through retail network expansion.

Trade-off Theory

Ever since Modigliani and Miller (1958) presented a theory of leverage irrelevance for firm value in perfect markets, capital structure has been a widely debated subject. Modern theories on optimal capital structure have found important links between leverage and firm value (Schawrtz and Aronson, 1968; DeAngelo and Masulis, 1980; and Myers, (1984). One theory that has achieved recognition is the trade-off theory, Myers (1984). The basic concept behind the trade-off theory is to minimise the cost of capital by employing an appropriate debt and equity financing. Firms are partly financed by debt and equity and the main benefit of debt financing is the tax benefit of that debt, while on the other hand, the disadvantage of debt financing is debt cost i.e. the interest of return which the company pays on debt which is referred as bankruptcy cost. This theory states that in order to maintain the balance between the pros and cons of debt and equity financing, the firm must choose the mixed type of financing. Moreover, the cost of capital cannot be minimized by increasing the debt level because at a specific point, the cost of debt will become more expensive than the cost of equity because it increases the Leverage level and due to which the risk of the creditor increases because of their required rate of return increase. Furthermore, the increased amount of debt also makes the investors and shareholders' financial position riskier. Hence, up to a certain limit, the cost of capital can be decreased by increasing debt. However, after that limit, the cost of capital will start increasing.

Therefore, firms usually use the mixture of debt financing and equity financing in order to minimize the average cost of capital and to increase the market value per share. The trade-off theory of capital structure of firms varies from sector to sector. Industries, whose firms are more tangible, tend to borrow more rather than using the equity because assets of these industries are collateral and considered relatively safe. By using trade off theory, Rajan & Zingales (1995) concluded that there is a positive correlation between Leverage, and profitability of a firm, whereas tangibility of assets and the size of the firm found positively correlated with firm’s Leverage. Um (2001) argued that high profitability results in a higher debt capacity of the firm and hence, a firm can have more tax shield.

Firms having more tangible assets will likely provide more collateral for debts. In the case of default, the assets of the company will be seized however; the company will be safe from bankruptcy. Moreover, firms having a large amount of tangible assets are less likely to default and will acquire more debt. Hence, according to the trade-off theory it shows a positive relationship between financial Leverage and tangibility of assets (Rajan & Zingales, 1995). Big firms are regarded as “too big to fail” having better access to capital market and hence tend to hold more debt than small firms. Large size firms prefer debt financing because they have a high debt capacity (Bevan & Danbolt, 2002). Therefore, according to the trade-off theory there exist a positive relationship between profitability of a firm and financial Leverage.

Conceptual Framework

The conceptual framework is based on four independent variables that are presumed to have influence on competitiveness of commercial banks. These include retail network expansion, and financial leverage. The dependent variable is competitiveness.

Independent Variables **Dependent Variable**

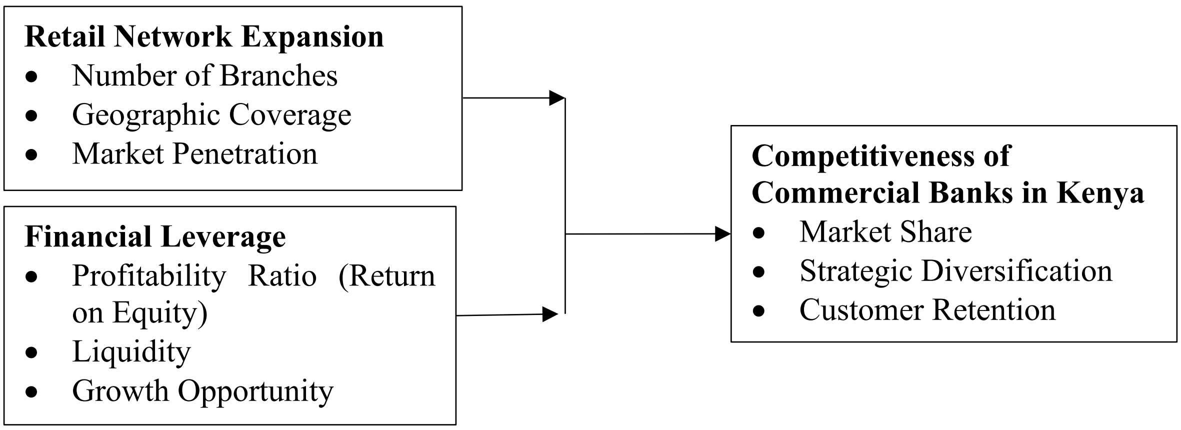

Figure 1: Conceptual Framework

Retail Network Expansion

Qixun Siebers (2012) identifies six important activities in successful retail expansion: adaptation to the external environment; responses to psychic distance; establishment of business networking; localization; entry strategies into new areas; and the role of local management team. A new framework articulates the interdependent relationships between various factors embedded in retail internationalization, including external environment, internal drivers, psychic distance, and expansion strategies.

M-Pesa has expanded from a development-orientated innovation in Kenya to become part of a global enterprise. Control of Intellectual property rights (IPR) has led to bottlenecks in innovation in Kenya and significant South-to-North financial transfers. This case contributes to expanding the debate about patterns of innovation and governance of the digital economy. As digital firms expand, unpacking the processes by which global intellectual property regimes and cross-border IPR practices shape uneven power relations and inequality is vital, Foster (2023).

Financial leverage

Financial leverage and the percentage of female borrowers (PFB) have a negative and significant effect on financial sustainability. These findings by Githaiga and Bitok (2023) further show that the interaction between financial leverage and the PFB positively affects the financial sustainability of microfinance institutions (MFIs). The results by Mnyaka-Rulwa and Akande (2024) revealed the hybrid implication of the pay gap for firm performance in the retail and mining sectors of South Africa, depending on the performance measures emphasized. More importantly, the study shows that with the moderating effects of leverage, firms can improve their performance while shrinking the pay gap.

According to Al-Hunnayan (2020), the leverage of Islamic banks in the GCC is positively related to size of the firm and growth opportunity and it is negatively related to profitability of the firm, tangibility of the firm’s assets and financial market development. The results indicate that larger Islamic banks tend to be relatively more diversified with higher credit ratings, which lower their cost of funding and relatively increase its profitability and the bank’s customer/depositor base. The results also show that higher profitability ratios indicate relatively more internal funds to cover future investments, which leads to less reliance on external funds in the form of debt and/or equity. However, the higher the growth opportunities of Islamic banks, the faster the depletion rate of internal funding and the more external debt financing is acquired to cover the expansion plans. In addition, the results show that in developed financial markets, savers tend to purchase less traditional depository products, and they prefer to invest directly in the financial markets to avoid higher commissions.

Competitiveness of Commercial Banks in Kenya

Competitiveness is a multifaceted concept that has been extensively discussed in global academic literature. Numerous definitions of company competitiveness exist, yet none has achieved universal acceptance. Closely linked to the idea of competition, competitiveness broadly refers to the capacity of individuals, companies, economies, regions, and other entities to stay competitive in domestic and international markets and derive economic gains (Manole, 2014).

Today’s organizations operate in a more demanding business environment often characterized as unstable, volatile, hostile, and therefore unpredictable or even chaotic. Advances in science, technology, and international markets create new technological and market opportunities, originating outside any specific organization. In such a context, the significance of an organization's ability to attain and sustain a competitive edge over the long term is underscored. Achieving this competitive advantage is not feasible without an appropriate environmental strategy (Korsakiene, 2012).

Increasing competition and a country's economic capacity to compete in domestic and foreign markets have become primary goals for economic entities. The ability to quickly respond to sudden market changes is linked to the competitiveness of companies and their capability to maintain their positions promptly. Success in this area depends on the specific actions taken by an economic entity in market competition, the criteria used to evaluate the entity's competitiveness, and the recommendations provided to improve the situation (Liucvaitiene, 2013).

Empirical Review

Irungu & Arasa (2017), in factors influencing competitiveness of SMEs in Nairobi county, Kenya, established that the management of SMEs was concerned with attaining high profits and thus improved performance which would translate to competitive advantage. The managers therefore are putting in place various measures that are aimed at achieving sustainable competitive advantage. Correlation results indicated that strategic leadership, adoption of technology, resources availability and organization culture had a positive and significant relationship with organization competitiveness.

Kirimi et al. (2022) conducted a study on the financial soundness and performance of commercial banks in Kenya. They used a dynamic panel model to analyze data from 2009 to 2020. The results from the Generalized Method of Moments (GMM) showed that financial soundness significantly influenced Net Interest Margin (NIM), return on assets (ROA), and return on equity (ROE). Specifically, the study found that asset quality and earning quality statistically impacted net interest margin, while management efficiency significantly affected ROE. However, the study also revealed that capital adequacy, asset quality, achieving quality, and liquidity had no statistically significant effect on ROA and ROE. Similarly, capital adequacy, management efficiency, and liquidity were found to have no statistically significant impact on NIM.

Inadequate cost-efficient sources of non-traditional horticultural export financing for SMEs are the hindrance to the international competitiveness of exporting SMEs in developing countries such as Ghana. In addition, effective and coordinated support from export promotion agencies was found to be critical, Appiah, *et al.,* (2019).

In a study by Afum et al. (2021), the impact of logistics outsourcing on company competitiveness and various performance indicators in an emerging country was investigated. The study found that logistics outsourcing significantly improves time-based competitiveness, cost-based competitiveness, customer performance, and financial performance. Both time-based and cost-based competitiveness were positively correlated with economic performance. However, customer performance did not show a significant influence on financial performance. Mediation analysis revealed that time-based and cost-based competitiveness mediate the relationship between logistics outsourcing and economic performance, whereas customer performance does not.

In a study by Mathenge and Njuguna (2017), the influence of retail network expansion on Vivo Energy's competitive advantage in Kenya was examined using a descriptive research design. The study concluded that expanding the retail network substantially positively impacted Vivo Energy's competitive advantage, recommending further expansion of its branch network.

Abu-Abbas (2017) explored the relationship between financial leverage and firm performance on the Amman Stock Exchange. The study found a negative association between financial leverage and firm performance. Additionally, the impact of financial leverage on performance was more negative for firms employing product differentiation strategies compared to those using low-cost strategies and for firms facing high competitiveness compared to those with lower competitiveness.

RESEARCH METHODOLOGY

The study adopted a descriptive research design, integrating both quantitative and qualitative survey approaches to capture numerical and perceptual data regarding the competitiveness of commercial banks in Kenya. The quantitative section comprised structured questions, while the qualitative section included open-ended items and semi-structured interviews. This design enabled a comprehensive understanding of strategic factors influencing competitiveness, consistent with Kothari (2014), who emphasizes the suitability of descriptive surveys in behavioral and organizational studies.

The target population comprised 44 branches of KCB Bank Group and Consolidated Bank, located across Nairobi, Kiambu, and Murang'a counties. These counties were selected due to their high concentration of banking activities. The unit of analysis was the bank branch, while the units of observation were key managerial and operational staff, including operations managers, branch managers, human resource managers, relationship managers, departmental managers, product managers, tellers, and loan officers. This structure ensured the inclusion of respondents with direct operational and strategic roles in competitiveness-related decisions. A census approach was adopted to include all 310 respondents from the 44 bank branches, as outlined in the sampling frame (218 from KCB Bank Group and 92 from Consolidated Bank). The census design was chosen to eliminate sampling bias and improve reliability, consistent with Bernard (2011) and Seltman (2014), who recommend full-population surveys for populations below 400 respondents. This ensured comprehensive data coverage from all key categories of banking personnel.

Data were collected using electronic questionnaires (e-questionnaires) and self-administered physical questionnaires delivered at branch offices. This mixed administration approach minimized nonresponse and interviewer bias (Kowalczyk, 2015). Research authorization was obtained from the university and participating banks prior to data collection. A pilot study was conducted with 31 respondents (10% of the sample size) to test the clarity, reliability, and validity of the instrument, consistent with Render et al. (2012), who recommend pilot tests between 1–10% of the study population. The pilot results informed the refinement of questionnaire items to improve precision and eliminate ambiguities. Reliability was assessed using the Cronbach's Alpha internal consistency method. A coefficient threshold of 0.7 or higher was adopted as acceptable. The coefficients ranged from 0.7 to 0.9, demonstrating good to excellent internal consistency (Seltman, 2014; Tavakol & Dennick, 2011). Validity was evaluated through content and construct validity. Content validity ensured that the questionnaire comprehensively covered all conceptual dimensions of the study variables, with expert review by supervisors and colleagues. Construct validity was tested using Confirmatory Factor Analysis (CFA) to ensure that each set of items accurately measured its intended construct (Kothari, 2014). The process confirmed that all indicators aligned with their respective variable constructs. Data were coded and analyzed using SPSS version 25. Both descriptive and inferential statistics were applied

RESULTS AND DISCUSSION

This section presents the analysis and discussion of results derived from data collected from 310 respondents drawn from 44 branches of KCB Bank Group and Consolidated Bank across Nairobi, Kiambu, and Murang'a counties. The objective was to determine the strategic factors influencing the competitiveness of commercial banks in Kenya. Both descriptive and inferential statistical analyses were performed using SPSS (version 25). However, empirical evidence revealed that two variables, Retail Network Expansion and Financial Leverage, had the most significant influence on competitiveness. Therefore, this chapter focuses primarily on the two significant variables.

Descriptive and Diagnostic Summary

Before inferential analysis, the study confirmed instrument validity and reliability. The Kaiser-Meyer-Olkin (KMO) values exceeded 0.7, while Bartlett's Test of Sphericity was significant ($p < 0.001$), confirming data adequacy for factor analysis (Almanasreh et al., 2019). Cronbach's Alpha coefficients for all variables ranged from 0.773 to 0.872, demonstrating strong internal consistency (Tavakol & Dennick, 2011). Normality tests indicated all p-values were above 0.05, confirming approximately normal data distribution. Multicollinearity checks yielded Variance Inflation Factors (VIF) between 3.297 and 8.124, below the threshold of 10, indicating no serious collinearity concerns (Kang, 2022). These diagnostic results validated the suitability of the data for regression and multivariate analysis.

Influence of Retail Network Expansion on Competitiveness

Descriptive Findings

The study first examined the prevalence and form of retail network expansion among the sampled banks. A total of 309 out of 310 respondents (99.7%) confirmed that their bank had implemented retail network expansion strategies. When asked which element their institution had prioritized, 41.6% indicated increasing the number of branches, 34.2% emphasized geographic coverage, and 24.2% focused on market penetration. This finding demonstrates that Kenyan banks still view branch expansion as the most tangible and effective means of enhancing accessibility and market visibility, an observation consistent with Kithinji and Waweru (2007) and Kamau (2011), who emphasized the continuing importance of physical presence in developing banking markets.

Logistic Regression Results

To assess the effect of retail network expansion on competitiveness, a logistic regression model was fitted. The results are summarized in Table 1.

Table 1: Logistic Regression on Retail Network Expansion

Variable	B	Sig.
Number of Branches	0.388	0.014
Geographic Coverage	0.028	0.855
Market Penetration	-0.023	0.882
Constant	-0.283	0.504

The coefficient for number of branches ($B = 0.388$, $p = 0.014$) is positive and statistically significant at the 5% level. This indicates that an increase in branch network significantly enhances a bank's competitiveness by improving accessibility, strengthening brand presence, and expanding customer acquisition. Conversely, geographic coverage and market penetration were statistically insignificant ($p > 0.05$), suggesting that without corresponding branch presence or operational intensity, these strategies alone do not guarantee competitiveness.

This supports Olweny and Shipho (2011), who found that physical branch expansion drives customer retention and financial performance by improving trust and proximity in customer-bank relationships. Thus, branch expansion remains a critical competitive strategy in Kenya's banking industry, even in the digital era.

Influence of Financial Leverage on Competitiveness

Descriptive Findings

All respondents (100%) reported that their banks apply financial leverage as a strategic tool. Among its aspects, Return on Equity (ROE) was the most prioritized at 43.2%, followed by Growth Opportunity (29.0%) and Liquidity (27.7%). This indicates that profitability and capital efficiency remain central to competitiveness, aligning with Maina and Muturi (2013), who observed that firms maximizing ROE tend to attract investment and sustain growth.

Multivariate Probit (MVP) Results

The study employed a Multivariate Probit model to evaluate how financial leverage indicators influence different dimensions of competitiveness, Market Share (MS), Strategic Diversification (SD), and Customer Retention (CR).

Table 2: MVP Results for Financial Leverage

Dependent Variable	Predictor	B	Sig.
Market Share	Return on Equity (ROE)	0.749	0.000
Strategic Diversification	ROE	0.887	0.000
Strategic Diversification	Liquidity	0.465	0.007
Customer Retention	ROE	1.150	0.000
Customer Retention	Liquidity	0.610	0.001

The results reveal that ROE and Liquidity have consistent and statistically significant positive effects on competitiveness across all dimensions ($p < 0.05$). ROE exhibits particularly strong effects on Market Share ($B = 0.749$, $p = 0.000$), Strategic Diversification ($B = 0.887$, $p = 0.000$), and Customer Retention ($B = 1.150$, $p = 0.000$). Liquidity also demonstrates significant positive effects on Strategic Diversification ($B = 0.465$, $p = 0.007$) and Customer Retention ($B = 0.610$, $p = 0.001$). However, Growth Opportunity had an insignificant influence ($p > 0.05$), indicating that potential for expansion alone, without profitability and liquidity stability, does not enhance competitiveness.

These results corroborate Wanjiru (2020) and Gitari (2017), who found that banks with strong profitability and liquidity profiles maintain higher resilience, customer loyalty, and capacity for innovation. Hence, financial leverage, anchored in high ROE and strong liquidity, serves as a critical pillar for sustaining competitiveness in Kenya's banking sector.

Summary of Key Results

When comparing the strategic variables, only Retail Network Expansion and Financial Leverage exhibited statistically significant effects on competitiveness. Specifically, number of branches ($p = 0.014$) and Return on Equity ($p = 0.000$) emerged as the most influential predictors. These findings highlight that competitiveness among commercial banks is primarily driven by two interdependent dimensions:

1. Operational Reach – determined by the extent of branch network and accessibility.
2. Financial Strength – reflected through profitability (ROE) and liquidity sufficiency.

Discussion

The empirical evidence underscores that bank competitiveness in Kenya is a function of physical accessibility and financial efficiency. The results reaffirm the strategic relevance of maintaining a balanced approach between operational expansion and financial prudence. While technological transformation is reshaping service delivery, the persistence of branch-driven competitiveness reveals that customer trust and presence remain deeply relational and geographically anchored in Kenya's banking market. Simultaneously, robust ROE and liquidity positions empower banks to sustain service innovation, manage risks, and retain customers effectively.

These insights align with theoretical perspectives of resource-based and market positioning theories, which argue that firms derive sustainable competitiveness from a combination of tangible assets (branch networks) and financial resource capabilities (profitability and liquidity). Thus, Kenyan commercial banks achieve superior competitiveness when they optimize both network reach and financial leverage, creating an ecosystem where accessibility and financial performance reinforce one another.

Conclusion

The study concludes that retail network expansion plays a vital role in the competitiveness of commercial banks in Kenya, with branch expansion being the most adopted strategy. It contributes significantly to market presence and customer acquisition, though its success depends on alignment with other strategies.

The focus on financial leverage, particularly Return on Equity (ROE), is crucial for enhancing market share, strategic diversification, and customer retention. Liquidity further supports operational stability, while growth opportunities alone have minimal impact unless coupled with other strategies.

Recommendations

Based on the study findings, several recommendations can help enhance the competitiveness of commercial banks in Kenya. First, while expanding branch networks is a valuable strategy, banks should consider complementing this with digital service platforms to broaden access and improve efficiency. By balancing physical and digital channels, banks can better cater to diverse customer needs, maximizing reach and convenience.

The emphasis on financial leverage, particularly Return on Equity (ROE), is essential. Banks should focus on strengthening ROE to boost profitability, market share, and customer loyalty. To enhance long-term impact, growth initiatives should be strategically aligned with broader financial and operational goals rather than pursued in isolation. Additionally, maintaining sufficient liquidity is critical, as it supports operational stability and customer confidence, particularly in fluctuating economic conditions.

Suggestions for further research

Future research could investigate the role of digital banking solutions in enhancing the competitiveness of commercial banks, especially in areas where branch expansion may be limited or impractical. Exploring the integration of fintech innovations and their effects on market penetration and customer acquisition could yield insights for banks in digital transformation.

Additionally, while this study focused on Kenyan commercial banks, a comparative study across regions could reveal context-specific factors in financial leverage that influence competitiveness. Analyzing how different economic environments and regulatory frameworks impact these strategies could provide a broader understanding.

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