

Differentiation Strategy and Mortgage Performance of Banking Institutions within the Mortgage Industry in Kenya

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Abstract: This research sought to determine the influence of differentiation strategy on mortgage performance of banking institutions within the mortgage industry in Kenya as well as evaluating the moderating effect of bank size measured using total net asset base and branch network. About 83% of lending to the mortgage market was carried out by only 8 out of the 39 registered banks as at December 2022. The study was based on the theories of Porter's Generic Strategies and Resource-Based View (RBV) of competitive advantage. The study selected a sample of 30 commercial banks was picked out of the entire accessible population of 39 banking institutions. Respondents from the institutions' offices in the cities of Nairobi, Mombasa, Nakuru, and Kisumu were administered with 5-point Likert-scale questionnaires. There were five respondents drawn from the mortgage experts in each bank making 150 respondents with a response rate of 78.7%, or 118 questionnaires being returned. The data gathered was presented using descriptive statistics such as mean, standard deviation, and frequencies to measure central tendency and dispersion. From the linear regression conducted differentiation strategy explained 12.2% of variation in mortgage performance of banking institutions within the mortgage industry in Kenya. Regression results indicated that differentiation strategy had statistically significant positive influence on mortgage performance. Bank size significantly moderated the relationship between differentiation and mortgage performance, although with a negative beta coefficient of -0.018, which implies that increase in bank size, leads to marginal reduction in mortgage performance whilst implementing differentiation strategy. These were justified by significant p-value that was less than 0.05. As a result, the study rejected the null hypotheses. The study recommends that banks should only adopt differentiation sparingly since it may not lead to improved performance owing to the price sensitivity of the mortgage market.

Keywords: Mortgage, Differentiation, Performance, competitive advantage.

1. INTRODUCTION

The international mortgage market is rather battered with Euroland difficulties well documented and a potential doom day scenario narrowly averted in the United States of America (USA). However, buying a home overseas remains an aspiration for many. It is still a buyer's market with a good range of properties for sale and plenty of opportunity to pick up a bargain. How easy it is to obtain mortgage finance depends on location and in the USA, there are also differences between what is available in New York compared to Florida, for example (Fuster, 2014). Mortgages with fixed rates are rather widespread in the USA, as opposed to the Western European countries where mortgages with variable rates are greatly available. The USA mortgage market has rates somewhat similar to Europe, although the overall non-performing mortgages are higher in the USA than in Europe. Financing of mortgages is more dependent on the secondary mortgage markets than the infamous ceremonial government guarantees backed by covered bonds and deposits. Large mortgage players such as Fannie Mae and Freddie Mac have underwriting conditions that tend to discourage certain elements as redemption penalties. In the USA, mortgages are considered non-recourse facilities contrary to the rest of the world (Simkovic, 2019). As with most African cities, the property market is segmented into several categories ranging from the

slum market where the majority of units are rental units, to middle-income properties that are not always in the formal sector to the upper end formal part of the market. By definition, little data exists on the lower- and middle-income parts of the market. The upper part of the market however is relatively developed. In the recent past, a secondary housing market has developed, in part modelled on the South African example. Having an organized secondary market is a rarity in Sub-Saharan Africa and helps in the development of a mortgage market. It allows banks to value property more precisely and assures them that in the event they seek to liquidate their loan security a considerably fluid market exists for them to be able to realize their collateral (World Bank, 2021).

A long-term mortgage loan also requires that the asset financed at least maintains its value over time, and preferably increases in value, in order to provide appropriate security to the banks. The often-poor quality of building work in Africa means that houses do not last for more than a century. However, many European development companies are becoming more active in Africa. Whilst they meet the same challenges as their African counterparts (since they have to call upon the same local contractors), nevertheless they have the resources and knowhow to improve the construction process over time. The banks providing mortgage products must themselves have access to long term funding in order to back their mortgage portfolio. Such long-term funding is often not available at all or is very limited. However, despite all these difficulties, construction companies remain keen to become more active in Africa, and to co-operate with local government and local banks to help to develop this promising market. Not only will such activity benefit the housing companies and the banks, it will also help people in Africa to meet an essential human need: owning their own home (World Bank, 2021).

The Kenyan housing finance system has grown rapidly over recent years in both value and number of loans. The market has now gone through the primary 'germination' stage and is preparing to go into its next development phase. Consideration now needs to be given to the requirements for ensuring sustained augmentation. The mortgage market is the third most advanced in Sub-Saharan Africa with mortgage assets equivalent to two and a half percent of the country's Gross Domestic Product (GDP). Only Namibia and South Africa rank higher, with Botswana just a little smaller (World Bank, 2021). The Kenyan commercial banks are classified into three peer groups using a weighted composite index. The index comprises of net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts. A bank with a weighted composite index of 5 percent and above is classified as a large bank. A medium bank has a weighted composite index of between 1 percent and 5 percent while a small bank has a weighted composite index of less than 1 percent (CBK, 2022). Mortgage lending is largely carried out by banks in Kenya. Out of the 39 banking institutions, that is, 38 banks and one Mortgage Finance Company in the Kenyan mortgage banking structure, 32 of them have mortgage portfolios of varying sizes. Some of the lenders have just one or two loans on their books, which may be to staff members or special customers, and other banks are much larger players who see mortgages as a major business centre. There are two types of lenders that can be authorized by the Central Bank of Kenya: These are ordinary banks, which have the right to engage in mortgage business, and mortgage companies. HFC Limited, which still has a significantly small government interest, is the sole remaining Mortgage Finance Company at present. There are no major differences in the set of laws applying to both sets of institutions and they each compete under relatively fair terms. Overall, the three largest lenders control over half the market (CBK, 2022). The mortgage industry, however, grew 6.8% to Kenya Shillings 261.8 billion in 2022. About 83% of primary mortgage lending was conducted by eight institutions, that is, one medium-sized bank and seven banks from the large banks peer group. The institutions are KCB Bank (30.4%), Stanbic Bank (12.6%), Standard Chartered Bank (8.6%), HFC Limited (8.3%), Absa Bank Kenya (6.9%), NCBA Bank Kenya (6.3%), Co-operative Bank of Kenya (5.2%), and Equity Bank Kenya (4.9%). There has been considerable progress to expand the mortgage reach by the industry. New entrants and insistent marketing have resulted in some newer product offerings. The Kenya Mortgage Refinance Company (KMRC) was licensed in September 2020 to provide long-term funds to Primary Mortgage Lenders (PMLs) for the purpose of increasing the availability of affordable home loans to Kenyans. KMRC is funded through a combination of equity from shareholders and debt from the World Bank and the African Development Bank (AfDB). The number of institutions offering mortgages to customers in Kenya was 32 as at end of 2022 (CBK, 2022).

Statement of the Problem

The mortgage industry in Kenya has witnessed recent entry of banks offering mortgages, almost certainly being attracted by the unexploited potential the industry presents to such institutions. The industry, however, is still largely dominated by just a few out of all commercial banks licensed to offer mortgages to their customers. In 2022, for instance, about eighty

three percent of primary mortgage lending was done by eight institutions, that is, one medium-sized bank (8%) and seven banks from the large banks peer group (75%). This has rendered the other players 'mere spectators' who are unable to significantly determine the happenings within the industry. All banks operating within this industry have at their disposal at least four competitive strategies of cost leadership, differentiation, focus, and hybrid strategies that can be implemented to achieve competitive advantage over other market players. However, the market has consistently been dominated by just about ten to twenty percent of the players who control over three-quarters of the market (CBK, 2022). Internal bank characteristics such as bank size based on the total mortgage asset base within the industry are premised to determine the extent of success of competitive strategies implemented by the banks. Available literature indicates that no academic research has been conducted to identify the influence of competitive strategies on mortgage performance of commercial banks in Kenya. Instead, such studies have focused on other industries such as insurance, manufacturing, and real estate; with the focal point being identification of strategies employed and their overall effect on performance of organizations. This study, therefore, sought to deviate from this trend and instead attempt to determine the specific influence of differentiation strategy on mortgage performance of banking institutions within the mortgage industry in Kenya whilst also assessing the moderating effect of bank size.

Objectives of the Study

- i. To examine the influence of differentiation strategy on mortgage performance of banking institutions within the Mortgage industry in Kenya.
- ii. To assess the moderating effect of bank size on the relationship between differentiation strategy and mortgage performance of banking institutions within the Mortgage industry in Kenya.

Research Hypotheses

- i. Differentiation strategy has no statistically significant influence on mortgage performance of banking institutions within the Mortgage industry in Kenya.
- ii. Bank size has no statistically significant moderating effect on the relationship between differentiation strategy and mortgage performance of banking institutions within the Mortgage industry in Kenya.

2. LITERATURE REVIEW

Theoretical Framework

There are two major theoretical models that formed the basis of this study, that is, Porter's Generic Strategies, and Resource-based view (RBV) of competitive advantage.

Porter's Generic Strategies Model

Porter explains that an effective organizational strategy should ideally be based on a nucleus thought regarding how an organization can best compete within the industry where it operates. He further proposes the three generic strategies that an organization can implement to outperform other firms in a particular industry. These strategies are called generic because they can be pursued by any type or size of business, even by not-for-profit organizations. These strategies are also referred to business strategies since they focus on improving the competitive position of a company's or business unit's products or services within specific industry or market segment that the company or business unit serves. That these strategies provide basic direction for strategic actions and a basis for coordinated and sustained efforts towards achieving business objectives (Johnson et al., 2017).

Porter further contends that any long-term strategies should draw from an organization's endeavor to seek competitive advantage based on one or the three generic strategies: striving for overall low cost leadership in the industry, striving to produce and promote distinct commodities for diverse consumer groups through differentiation, striving to have special appeal to one or more groups of consumer or industrial buyers, that is, focusing on their cost or differentiation concerns by segmenting the market and focusing on those market segments (Johnson et al., 2017).

Low-cost leadership as a strategy is achieved by excelling at: Cost reduction and efficiencies in designing, producing and marketing comparable products than competitors, maximizing economies of scale, implementing cost cutting technologies, and emphasizing cost decrease especially efficient cost management of overheads and administrative

expenses; forestalling of auxiliary consumer accounts and minimizing expenditure in sections reminiscent of research and development (R&D) and sales force. A low-cost leader is able to use its cost advantage to charge lesser prices or enjoy superior profit margins; and thus, the firm can reasonably compete in situations of price wars and attack rivals on price to gain substantial share of the available market. Firms seeking low-cost leadership monitor any low-cost technology that may be developed by a competitor (Porter, 2004).

Resource-Based View (RBV) Model of Competitive Advantage

Strategic capabilities are of value when they provide potential competitive advantage in a market at a cost that allows an organisation to realize acceptable levels of return. Rare capabilities, on the other hand, are those possessed uniquely by one organisation or by a few others. Here competitive advantage might be longer lasting. For example, a company may have patented products or services that give it advantage. Sustainable competitive advantage also involves identifying inimitable capabilities- those that competitors find difficult to copy or acquire. However, an organisation may still be at risk from substitution in the form of product or service or in the form of competence (Barney and Clark, 2007).

In summary and from a resource-based view of organisations, managers need to consider whether their organisation has strategic capabilities to achieve and sustain competitive advantage. To do so they need to consider how and to what extent it has capabilities that reflect the VRIN criteria. Strategic capabilities provide sustainable bases of competitive advantage the more they meet all the four criteria. If such capabilities for competitive advantage do not exist, then managers need to consider if they can be developed (Johnson et al., 2017). The RBV model enriches this study by providing a platform for the researcher to assess the internal competencies and resources that may be useful in the execution of the competitive strategies that form the independent variables as well as the intrinsic effect of the moderating variable in this study.

Empirical Review

Porter views differentiation strategy as a plan of action geared towards enhancing the perceived value of goods and services in comparison to those of its industry competitors all for the sole purpose of creating customer preference and eventual loyalty attracted by their unique features. Customer perception is always at the core of differentiation even though organizations still have a leeway of somewhat manipulating such perceptions. The implication is, therefore, that differentiation strategy can be implemented deliberately for a commodity to make it appealing or for a service through adoption of after sales services like contemplation of quality, incentive programs, and extended operating hours (Johnson et al., 2017).

Differentiation also encompasses certain physical elements such as space, location, design, layout and stores ambience. Allen and Helms (2006) stress the significance of differentiation in an organization's image which intrinsically enhances the emotion of the consumer purchase process. Emanating from the aforementioned, organizations can develop tailored products. This further confirms the statement that there exist diverse means and dimensions by which firms can differentiate its products. Dynamism in industry competition can be considered as a key driver that pushes organizations to adopt differentiation as a competitive strategy (Thompson and Strickland, 2007).

A considerable number of studies have investigated the connection between differentiation and organizational performance. Most of these studies, however, have been conducted majorly in the developed Nations. Acquaaah and Agyapong (2015) conducted studies to determine the perceived importance of adoption and implementation of low-cost, differentiation, and mixed strategies. The findings of the study revealed lack of any significant discrepancy between organizational performance of firms pursuing purely the differentiation strategy and cost leadership. However, those firms that adopted a multi strategy (cost leadership combined with differentiation) achieved higher levels of organizational performance.

Prajogo (2007) concluded that the Total Quality Management (TQM) function was positively associated with differentiation strategy. Product quality was also influenced more by differentiation than cost leadership. Organizations that practice differentiation deem the entry into the market first as a very important priority; being first implies that the company has the leeway to set prices arbitrarily, and exploit the wider market segment with the sole objective of achieving high profit and growth margins. For a firm to reap the benefits accruing from differentiation there is a need to guarantee superior product quality and emphasize on innovation at the forefront of the company's consideration.

A company can differentiate itself by offering inventive features, providing better-quality service, launching effective promotions, and developing a strong brand name (Li and Li, 2018). Organizations need to include elaborate product features and consequently make consumers aware of how it differs from that being offered by industry competitors. Adoption of this strategy somewhat accords an organization the preserve to charge premium prices for such differentiated commodities as a reward for its distinct features that sets it apart from competition (Hilman, 2009).

Porter (2008) states that for organizations to successfully implement differentiation strategy, they must possess unrivalled access to scientific research and technology, astute production and marketing teams, coupled with ability to effectively communicate uniqueness of the product and the firm's quality and innovation reputation. Generally, the power of differentiation is scarce and costly to imitate and is also an important basis of sustainable competitive advantage. The product uniqueness greatly limits the buyer's bargaining power due to the absence of substitute products compared to those that the organization produces and distributes (Auzair, 2011).

Conceptual Framework

The conceptual framework for this study was developed on the basis on the independent variable and the dependent variable as shown in Figure 1. In this study, mortgage performance was conceptualized as being dependent on differentiation strategy with bank size acting as the moderating variable.

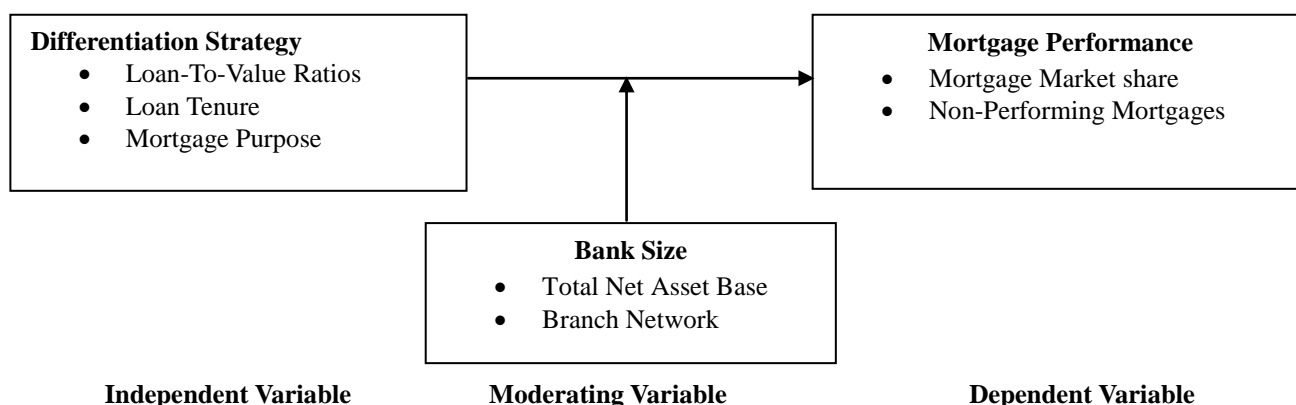


Figure 1: Conceptual Framework for Mortgage Performance

3. METHODOLOGY

This study opted for a descriptive survey research design, which ensures ease in understanding information concerning the research problem. For this study the target population was, therefore, limited to all the 39 banking institutions that operate in Kenya and are licensed to provide mortgage and related products and services. The institutions are classified into three peer groups using a weighted composite index. The index comprises net assets, customer deposits, capital and reserves, number of deposit accounts and number of loan accounts. A bank with a weighted composite index of 5 percent and above is classified as a large bank. A medium bank has a weighted composite index of between 1 percent and 5 percent while a small bank has a weighted composite index of less than 1 percent. The sampling frame for this study was extracted from the listing of all the 39 banking institutions licensed to operate in Kenya as at 2022. The study broadly used random sampling to develop a study sample from the entire population. Specifically, stratified sampling method was employed to draw a study sample from the target population. The strata were represented by three peer groups, that is, large, medium and small peer groups as classified by the Central Bank of Kenya (CBK). Proportionate sampling strategy was used to further develop the sample. A sample of 30 banking institutions was developed with a proportion of 7,7, and 16 for the respective peer groups. The study proceeded to pick 150 respondents using purposive sampling, that is, 5 respondents per sampled institution. Data was collected using both questionnaires and secondary data collection sheet. The data was analyzed using both descriptive and inferential statistics, which sought the effect of differentiation strategy on mortgage performance.

4. RESULTS

Descriptive Statistics

This study set out to establish the influence of differentiation strategy on mortgage performance of banking institutions within the mortgage industry in Kenya. Three key elements denoting differentiation in the mortgage sector were considered – mortgage interest rates, nature of deposits, and technological efficiency. The questionnaires required respondents to indicate – on a scale of 1 to 5 (1-Strongly Disagree - SD, 2-Disagree - D, 3-neutral - N, 4-Agree - A, and 5-Strongly Agree - SA) whether their respective banks adopted these strategies. Table 1 indicates varied percentages of responses to the six questions contained in the study questionnaire regarding differentiation. The results imply that the respondent banks generally adopted the differentiation strategies indicated with varying magnitudes. The findings show some concurrence with the studies by Isa et al., (2022) who indicate that Small Scale Enterprises in Nasarawa State in Nigeria actually adopted differentiation strategies aimed at making them unique in the ever-competitive business environment.

Table 1: Descriptive Statistics for Differentiation Strategy and Mortgage Performance

	SD	D	N	A	SA	\bar{X}	Sdev
The bank offers mortgage facilities for both housing and non-housing purposes	8.5% (10)	17.8% (21)	3.4% (4)	45.8% (54)	24.6% (29)	3.97	1.093
The bank offers mortgages in foreign currency to cushion borrowers from inflation	9.30% (11)	24.6% (29)	5.90% (7)	41.5% (49)	18.6% (22)	3.47	1.388
The bank finances acquisition of both residential as well as commercial properties	4.2% (5)	7.6% (9)	3.4% (4)	55.1% (65)	29.7% (35)	4.33	0.472
The bank offers mortgages of 100%+ financing to cover incidental mortgage costs	11.0% (13)	27.1% (32)	8.5% (10)	32.2% (38)	21.2% (25)	3.52	1.044
The bank's mortgages have long repayment periods of over 20 years	4.2% (5)	8.5% (10)	2.5% (3)	52.5% (62)	32.2% (38)	4.25	0.602
The bank accepts varied loan repayment sources	5.10% (6)	7.6% (9)	4.20% (5)	49.2% (58)	33.9% (40)	4.18	0.912
Average	7.10%	15.50%	4.70%	46.10%	26.70%	3.95	0.919

Bank Size

The study also sought to examine the moderating effect of bank size on the influence of differentiation strategy on mortgage performance of banking institutions within the mortgage industry in Kenya. Total net asset base was included as a measure in the secondary data collection tool with a view to finding out the respective size parameters. The results concerning the banks' total net asset base obtained from the secondary data collection sheet with the banks being grouped according to their respective peer groups. A further trend analysis was conducted for the total net asset base of all the industry players for the period from 2016 to 2022 with the results being presented in Table 2. From the results, banks from the large peer group have consistently had the largest net asset base, followed by the medium peer group, and finally the small peer group with the smallest values. In all the three cases, however, the values have been steadily rising over the study period. The large peer group have accounted for between 65 to 76 percent (drawn from values of Kes. 2.404 to 4.971 trillion) from 2016 to 2022 while the small peer group has been responsible for a paltry 8 to 10 percent (drawn from values of Kes. 311 to 665 billion) of the total net assets for the industry over the same period.

Table 2: Total Net Asset Base by Bank Peer Group

Year	Large Peer Group (Kes. B)	Medium Peer Group (Kes. B)	Small Peer Group (Kes. B)	Totals (Kes. B)
2016	2,404 (65%)	981 (27%)	311 (8%)	3,696
2017	2,641 (66%)	1,053 (26%)	309 (8%)	4,003

2018	3,103 (70%)	929 (21%)	377 (9%)	4,409
2019	3,607 (75%)	805 (17%)	398 (8%)	4,810
2020	4,033 (75%)	910 (17%)	463 (8%)	5,406
2021	4,508 (75%)	968 (16%)	546 (9%)	6,022
2022	4,971 (76%)	954 (14%)	665 (10%)	6,590

Further results also indicated that there were 1,475 bank branches throughout the country by the end of 2022. These branches were spread throughout all the 47 counties as shown in Appendix IV. Banks in the large peer group had 897 branches countrywide representing 60.81%, Medium peer group banks had 322 branches representing 21.83%, while the small peer group banks had 256 branches that accounted for 17.36%. Table 3 summarizes the aforementioned data.

Table 3: Branch Network in Kenya by Bank Peer Group

Peer Group	Number of Branches	Percentage of Total (%)
Large	897	60.81
Medium	32	21.83
Small	256	17.36
Total	1,475	100.00

Mortgage Performance

The study further sought to ascertain mortgage performance of respondent banks in relation to the competitive strategies that they employed. The performance was measured through mortgage market share that each competing bank commanded out of the total value of outstanding mortgages within the mortgage industry in Kenya. The performance of the banks was analyzed by grouping them based on the three peer groups namely; large peer group, medium peer group, and small peer group with respective mortgage book values and percentage of the totals being indicated as the specific parameters measuring mortgage performance. A trend analysis as per Table 4 shows that banks from the large peer group have consistently dominated the market, followed by the medium peer banks while the small peer group banks have commanded the least share of the mortgage market for the period from 2016 to 2022.

Table 4: Outstanding Mortgage Values by Bank Peer Group

Year	Large Peer Group (Kes. B)	Medium Peer Group (Kes. B)	Small Peer Group (Kes. B)	Totals (Kes. B)
2016	129,822 (59%)	74,879 (34%)	15,184 (7%)	219,885
2017	148,203 (66%)	66,942 (30%)	8,091 (4%)	223,236
2018	154,360 (68%)	60,114 (27%)	10,407 (5%)	224,881
2019	165,268 (69%)	56,415 (24%)	16,032 (7%)	237,715
2020	170,957 (74%)	42,232 (18%)	19,511 (8%)	232,700
2021	181,048 (74%)	49,917 (20%)	14,175 (6%)	245,140
2022	201,281 (77%)	42,192 (16%)	18,347 (7%)	261,820

The study also sought to assess the trend of Non-performing mortgages loans (NPLs) over the study period. Figure 2 indicates an initial sharp rise in NPLs between 2016 to mid-2018, which was as a result of banks tightening lending conditions as a response to the introduction of interest rate capping in September 2016. There was a plunge in NPLs from 2018 to 2020 owing to improved economic activities and repealing of the interest rate capping. The trend, however, shows a sharp increase in NPLs from 2020 to 2022; this is attributed the adverse effects of COVID-19 on borrowers' repayment ability, especially those in the Micro, Small and Medium Enterprises (MSME) sector (CBK, 2022).

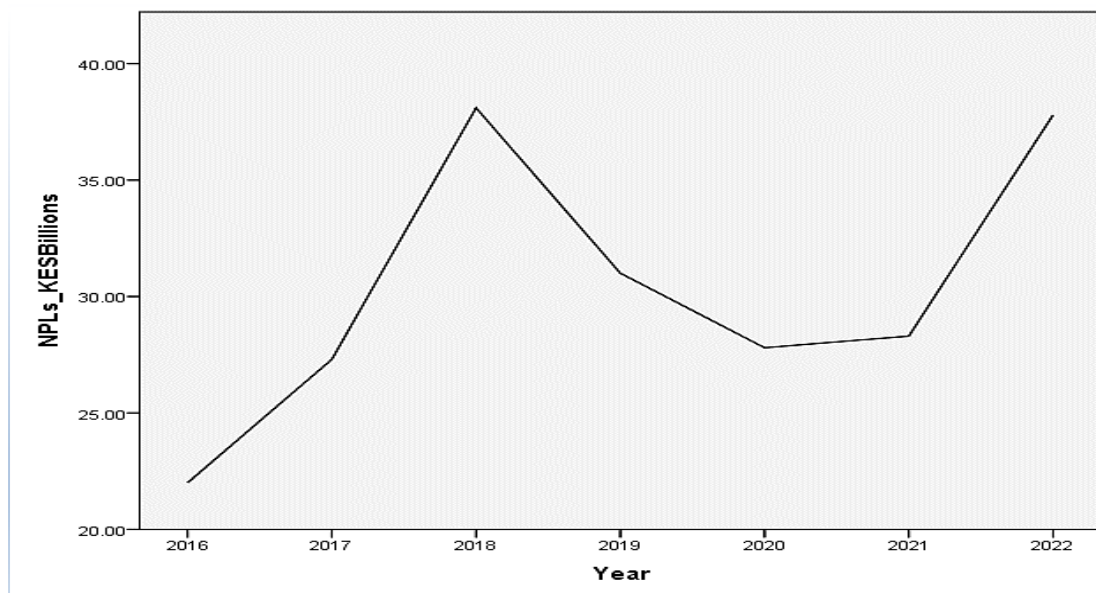


Figure 2: Non-Performing Mortgage Loans Trends in Kenya (2016 to 2022)

Inferential Statistics

The study further proceeded to conduct inferential statistical analysis through correlation analysis, linear regression and moderated regression analysis.

Correlation Analysis for Differentiation Strategy and Mortgage Performance

The study used correlation analysis to establish the association between differentiation strategy and mortgage performance. Pearson correlation coefficient of analysis, which gives a statistic that lies between -1 and +1 was used to determine the strength and direction of the relationship. Table 5 summarizes the results of the correlation test which indicates $r=0.349$ and $p=0.000$. This positive r value indicates a moderate association between differentiation strategy and mortgage performance. This implies that an increase in the adoption of differentiation strategy would result in a corresponding increase in mortgage performance.

Table 5: Correlation Analysis for Differentiation Strategy and Mortgage Performance

		Differentiation Strategy	Mortgage Performance
Differentiation Strategy	Pearson Correlation	1	.349**
	Sig. (2-tailed)		0.000
	N	118	118
Mortgage Performance	Pearson Correlation	.349**	1
	Sig. (2-tailed)	0.000	
	N	118	118

** . Correlation is significant at the 0.01 level (2-tailed).

The findings of this study are in agreement with results from studies conducted by Gwangwava and Muranda (2022) on the effect of competitive strategies and innovation on firm performance of Zimbabwean textile and clothing firms. The results indicated that differentiation directly impacts firm performance. Photis (2010) studied competitive strategies and

organizational performance in ship management and found out that differentiation is positively associated with improved performance. The findings are however, in contrast with studies by Demba et al (2018) which examined the effect of differentiation strategy on performance by selected car rental business in Nairobi City and indicated that there was no significant association between differentiation strategy and performance with a p-value of 0.49.

Linear Regression for Differentiation Strategy and Mortgage Performance

The study set out to test the impact of differentiation strategy on mortgage performance of banking institutions within the mortgage industry in Kenya; this was tested using standard linear regression analysis. The results as summarized in Table 6 indicates the linear correlation coefficient, $R=0.349$ which implies a weak positive relationship between differentiation and performance. The coefficient of determination, R-squared of 0.122 implies that differentiation explains 12.2% of variability in mortgage performance while the remaining 87.8% is explained by other variables not included in the model.

Table 6: Model Summary for Differentiation Strategy

Model	R	R-Squared	Adjusted R-Squared	Std Error of the Estimate
1	0.349 ^a	0.122	0.114	0.612

a. Predictors: (Constant), Differentiation Strategy

b. Dependent Variable: Mortgage Performance

To test the suitability of the study model in explaining variations in mortgage performance, an F-test was conducted with the resultant ANOVA Table 7 indicating an F-value of 16.109, p-value 0.000 which is <0.05 confirming that the model was a good fit for the data set and sufficiently explains variations in mortgage performance.

Table 7: ANOVA for Differentiation Strategy

Model		Sum of Squares	df	Mean Square	F	P-Value
1	Regression	6.031	1	6.031	16.109	0.000 ^b
	Residual	43.427	116	0.374		
	Total	49.458	117			

a. Dependent Variable: Mortgage Performance

b. Predictors: (Constant), Differentiation Strategy

The study further conducted a t-test to test the significance of the influence of differentiation on mortgage performance. The unstandardized regression coefficient β_1 and the intercept or slope β_0 were considered to test the null hypothesis, which assumes β_0 to be zero implying no significant influence of differentiation on mortgage performance. The linear regression coefficient results were summarized in Table 8. The result show that $\beta_0=1.387$ which is significantly different from zero, $\beta_1=0.325$, and p-value = 0.000 which is <0.05 , which meant that differentiation had a statistically significant positive influence on mortgage performance. The interpretation of the β_1 value is that for every unit increase in adoption of differentiation strategy, there would be a corresponding positive change in performance by 0.325 units. From the model $Y = \beta_0 + \beta_1 X_1 + \epsilon$, (Where Y =Mortgage Performance, β_0 =constant, β_1 =regression coefficient, X_1 = Differentiation Strategy, and ϵ = Error Term) the study developed the following model:

$$\text{Mortgage Performance} = 1.387 + 0.325 (X_1) + 0.261$$

Table 8: Regression for Differentiation Strategy and Mortgage Performance

Model		β	Std. Error	Beta	t	P-Value
1	Constant	1.387	0.261		5.316	0.000
	Differentiation Strategy	0.325	0.081	0.349	4.014	0.000

a. Dependent Variable: Mortgage Performance

The findings of this study are in agreement with results from studies by Makina and Oundo (2020) who concluded that there was a positive and significant influence of differentiation strategies on the performance of small and medium enterprises. On the other hand, these results contrast with those of Demba et al (2018) who examined the effect of differentiation strategy on performance by selected car rental business in Nairobi City, and concluded that differentiation strategy did not have statistically significant influence on performance. They argued that the most likely reason for this scenario was due to inconsistent customer demand. Mohamed and Aliqah (2012) in their study on the effect of product differentiation on stock exchange performance concluded that there was no positive relationship noted.

Moderated Linear Regression Analysis

This study adopted hierarchical linear regression to test the moderating effect of bank size on the relationship between differentiation strategy and mortgage performance of banking institutions within the Kenyan mortgage industry. When the interaction term between the moderating and independent variables was added to the model, there was a marginal decrease of 0.7 percent as per model 2, that is, adding the interaction term implies that only 11.5% of variability in mortgage performance can be explained by the differentiation strategy whereas the remaining 88.5% can be explained by other variables not included in the model. Table 9 provides a model summary of the hierarchical model developed.

Table 9: Model Summary

Model	R	R-Squared	Adjusted R-Squared	Std Error of the Estimate
1	0.349 ^a	0.122	0.114	0.612
2	0.339 ^b	0.115	0.099	0.617

a. Predictors: (Constant), Differentiation Strategy

b. Predictors: (Constant), Differentiation Strategy, Bank Size, Interaction Term

Further, ANOVA was used to test the statistical significance of the moderated regression model. The results indicated that the model was statistically significant at $F = 16.109$, $p < 0.05$. It was, therefore, concluded that the model was a good fit for the data and as such adequate enough to explain the variance in mortgage performance of banking institutions within the Kenyan mortgage industry. The predictor variables moderated by bank size were all statistically significant to predict mortgage performance. The results from the model are presented in Table 10.

Table 10: ANOVA - Moderating Effect of Bank Size

Model		Sum of Squares	df	Mean Square	F	P-Value
1	Regression	6.031	1	6.031	16.109	0.000 ^b
	Residual	43.427	116	0.374		
	Total	49.458	117			
2	Regression	5.672	2	2.836	7.449	0.001 ^c
	Residual	43.786	115	0.381		
	Total	49.458	117			

a. Dependent Variable: Mortgage Performance

b. Predictors: Predictors: (Constant), Differentiation Strategy

c. Predictors: Predictors: (Constant), Differentiation Strategy, Bank Size, Interaction Term

Table 11 presents a summary of the hierarchical moderated linear regression model that tested the moderating effect of bank size on competitive strategies and mortgage performance of banking institutions within the mortgage industry in Kenya. Model 2 shows that the interaction term has a significant p-value of 0.000 and a negative beta coefficient of -0.018 which implies that when bank size increases, adoption of differentiation strategy results in a marginal reduction in mortgage performance. These findings concur with those of Mutunga and Owino (2017) who found that firm size moderates the relationship between micro factors and financial performance of manufacturing firms in Kenya. The findings are, however, in contrast with those of Ali et. al. (2016) who concluded that firm size does not moderate the

influence of strategic planning dimensions on performance of manufacturing firms in Kenya. The following model was developed from the moderated linear regression: (Where Y =Mortgage Performance, β_0 =constant, β_i =regression coefficient, X = Differentiation Strategy, M =Bank Size, XM = interaction term and ϵ = Error Term)

$$Y = \beta_0 + \beta_1X + \beta_2M + \beta_3XM + e$$

$$\text{Mortgage Performance} = 2.021 + 0.156(\text{DS}) - 0.691(\text{M}) - 0.018(\text{XM}) + 0.192$$

Table 11: Moderated Linear Regression Coefficients

Model		β	Std. Error	Beta	t	P-Value
1	(Constant)	1.387	0.261		5.316	0.000
	Differentiation Strategy	0.325	0.081	0.349	4.014	0.000
2	(Constant)	2.021	0.192		10.504	0.000
	Differentiation Strategy	0.156	0.220	0.182	0.709	0.480
	Bank Size	-0.691	0.354	-0.369	-1.951	0.054
	Interaction Term	-0.018	0.005	-0.573	-3.661	0.000

a. Dependent Variable: Mortgage Performance

5. CONCLUSION

The study objective of this study was to determine the influence of differentiation strategy on mortgage performance of banks within the mortgage industry in Kenya. Descriptive results indicated that banks, mostly those from the small and medium peer groups greatly adopted differentiation strategy. These banks also controlled under 20 percent of the mortgage market in Kenya. Correlation and Linear regression analysis conducted revealed that differentiation was a somewhat important factor in influencing mortgage performance since the calculated p-value was statistically significant. The null hypothesis was, therefore, rejected and the study concluded that there was a significant relationship between differentiation and mortgage performance. The regression model summary showed that differentiation explained 17.7% of variability in performance with the other predictor variables held at zero. Further, the resultant model noted that for every unit increase of adoption of differentiation strategy, mortgage performance increased by a corresponding 0.325 units. Under moderation, however, it was noted that the model explained a paltry 11.5% of variations in mortgage performance. This could be attributed to the price sensitivity of the mortgage market in Kenya. When banks increase in size, continued adoption may lead to reduced mortgage performance since creation of unique product attributes demands large resource capacity.

6. RECOMMENDATIONS

This study, based on its findings, recommends that banks from the small and medium peer groups within the Kenyan mortgage industry should align their focus more to the adoption of differentiation since it has a positive and significant influence on mortgage performance. Since cost of mortgages is such a key concern for most borrowers, it is imperative that banks within the Kenyan mortgage industry vehemently seek for more inexpensive long-term deposits that support their mortgages, which are long-term in nature. In particular, there is need for more banks to apply to be enjoined in the affordable mortgage programme fronted by the government through the Kenya Mortgage Refinance Company (KMRC). Such moves shall ensure that more banks are able to implement differentiation strategy.

The Central Bank of Kenya (CBK), on the other hand, should regularly conduct review of not only the prevailing Central Bank Rate (CBR) but also the required asset base for industry players. Strategies such as mergers, joint ventures, takeovers and acquisitions should be supported by CBK in an attempt to give rise to stronger and more influential players in the industry. Such practices, as seen from the study findings, are likely to enhance overall performance of industry players leading to enhanced profitability. The Kenyan government could also consider offering incentives such as tax holidays and cheaper long-term deposits to enable banks pass the concessionary benefits to consumers whilst also improving their overall mortgage performance.

SUGGESTIONS FOR FUTURE RESEARCH

Future studies ought to consider comparative elements of differentiation along with other factors that may influence mortgage performance; this is justified by the fact that differentiation strategy only accounted for 12.2 percent of variations in mortgage performance. The negative but significant moderating effect of bank size on the relationship between differentiation strategy and mortgage performance is also an exciting prospect for academicians, especially those with a bias towards overall business strategy and real estate. Finally, the area of mortgage financing presents a lot of room for prospective research; comparatives can be conducted among the local, regional and global contexts whilst factoring environmental influences.

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CONFLICT OF INTEREST

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