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An Assessment of the Effect of Differentiation Strategy on Performance of Banking Industry in Rwanda: A Case Study of Equity Bank, Rwanda

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Abstract:
The purpose of this study was to establish the effects of differentiation strategy on performance of banks in Rwanda. The study was carried out in Equity bank in Kigali Rwanda. This study employed descriptive research design. Target population was 130 employees of the bank. A sample size of 99 employees was selected for the study. Stratified random sampling technique was used to select the samples. This research study used questionnaire as the data collection tool which was administered to the respondents by the researcher herself. The collected data was thoroughly examined and checked for completeness. The data was then be summarized, coded to enhance analysis using statistical package for social science (SPSS). Descriptive statistics for the study were frequency distribution and percentages which was generated through descriptive analysis. Inferential statistics for the study was Pearson correlation that was used to estimate the relationship between the study variables. Additionally, regression analysis was generated by regressing differentiation strategy against bank performance. Statistical Package for Social Science was used to generate both descriptive and inferential statistic.The study findings were presented in form of tables. Data presentation was done by the use of percentages and frequency distribution tables for easy of understanding and interpretations. Content analysis was used to analyze the respondents' views and opinions on differentiation and banks performance. The study findings revealed that product differentiation ($R=.352^{**}$, $P<0.01$), physical differentiation ($R=.598^{**}$, $P<0.01$) and service differentiation ($R=.227^{*}$, $P<0.05$) statistically and significantly correlated with bank performance. Further the study showed that 36% of bank performance can be explained by differentiation strategy. The study concluded that increasing the extent to which the bank carries out product differentiation would result into increased bank performance. Maintain low interest rates, simplicity of accessing bank products and reliability of the products are features that would make bank products unique compared to competitors.

Keywords: *Differentiation, performance*

1. Introduction

Over the last three decades, differentiation has been shown to involve offering product or service perceived as unique by the consumers (Barney, 2006). According to Yoo et al., (2006), the ability of a firm to perform better than its competitors and achieve its desired profits lies in pursuit of appropriate business strategy. Due to globalization business environment has become increasingly competitive and every firm is keen to implement any business strategy that would maximize its profit. In this regard differentiation strategy is being seen as an approach that can help firms boost their performance and remain competitive amidst the stiff competition. Differentiation strategy can be based on many dimensions such as brand image, innovativeness, product quality, firm reputation. However successful differentiation must be based on features that are difficult for rival firms to imitate. Allen and Helms (2006) posit that differentiation helps firm build customer loyalty by offering unique products or services thus helping them to perform better than competitors. Morshett et al., (2006) further state that through differentiation strategy firms are able to create and market unique products for varied customer groups. As a result, firms create superior fulfillment of customer needs in one or several product attributes.

Acquaah and Ardekani (2006) concurs that through differentiation firms are able to achieve competitive advantage over their rivals because of the perceived uniqueness of their products and services. Barney (2006) asserts that the uniqueness of a differentiation strategy depends on the ability of individual firms to be creative in finding new ways to differentiate their products. As rivals try to imitate these firms' last differentiation move, creative firm will already be working on new moves and therefore always remain one step ahead of competition. Baum et al., (2001) also suggest that firms implementing differentiation strategies strive to offer innovative and high-quality products to achieve the highest growth.

It is argued that Porter's generic differentiation strategy has been further developed into more specific strategies, such as differentiation by product innovation, customer responsiveness, or marketing and image management, in responding to the complexity of the environment (Lillis, 2002). Sashi and Stern's (1995) results indicated that product differentiation is based on "custom services" provided by manufacturers for high-search producer goods and on "intermediate services" provided by merchant wholesalers for low-search producer goods.

Globalization has led to more intense competition among manufacturing firms (Bainesand Langfield-Smith, 2003) as such a differentiation strategy provides greater scope to produce products with more value. Globally businesses are persistently striving to create mechanisms for differentiating themselves from their competitors within given markets (Barney, 2001). Because many financial markets are quite saturated with numerous firms endeavoring toward like core competencies, commercial banks are forced to dissect their business processes for the purpose of determining what product to develop and offer to the market and attain a sustainable competitive advantage and performance (Gold, 2002). One central measure of organizational effectiveness is the creation and continuance of a differentiation of organization products and services.

Currently commercial banks are viewing product differentiation as their most valuable and strategic resource for better performance (Zack, 1999). According to Kulkarni (2009) a product and services goes through 5 stages in life where at some point unless modifications are done, products and services becomes obsolete and irrelevant. It is important that businesses invest highly on market research programmes in order to identify changes in consumer needs as the product advances through its productive life.

This study conceptualized that product; differentiation, Service differentiation and physical differentiation (independent variables) affect bank performance (dependent variable) in Rwanda. In this study product differentiation is argued to comprise of products variety e.g. Credit card issuance and ATMs; service differentiation included; Mobile phone services, online banking services and ATMs services. Physical differentiation included: location of bank, accessibility.

1.1. Statement of the Problem

Business firms worldwide have attempted to imitate products of their competitors or make slight changes to their products to convince or confound their customers. This may bear fruits in a short run but the long term effects may not realize the intended objective. Differentiation strategy is one of the strategies used by firms to achieve competitive strategy and hence to better their performance.

Ndumbaro (2013) conducted a study in Tanzania to determine contribution of differentiation strategy on sales performance in banking industry. Although the study found a significant relationship between differentiation and sales performance, he observed that majority of banks were not differentiating their product while in other banks the level of differentiation could not guarantee any improvement in the performance. Additionally, the study found that some bank managers were not viewing service and physical differentiation as differentiation strategy that they could exploit for better performance. This implies that although various studies have been done of differentiation (Auka, 2014; Shajo, 2009; Ching et al., 2011), companies and organizations have not appreciated or implemented the strategies or even adopting the findings of the studies.

According to Singla (2011) realization and implementation of various aspects of differentiation has been linked to improved firm performance. Although the study conducted by Midane (2006) demonstrated a significant relationship between differentiation strategy and performance among banking sector in Ghana, the study found that most banks were mainly implementing service and product differentiation. This implies that physical differentiation was not being recognized as a differentiation strategy that could result in improved performance. The resource-based view emphasizes the value of uniqueness in as a strategy that organizations can use to improve on their performance and competitiveness (Barney, 2001). However, differentiation literature shows that not all firms are implementing differentiation and those that are doing so are only do it to a less extent.

The study by Lepetit et al., (2007) on product differentiation in the European Banking Industry found that the level of differentiation among banks was not satisfactory. From the literature it is evident that differentiation strategy affects organization's performance however the strategy in not being practiced or it is being practiced to a less extent resulting to insignificant change in organizations performance. The banking industry in Rwanda is facing a very competitive environment coupled with different environmental changes. The competition in this industry triggers the need for banks to come up with competitive strategies for survival and sustained profitability. Rwanda banking industry has not yet realized the potential that lies in differentiation as regards building competitive advantage for increased profitability. As a result, the industry has continued to face challenges that could have been solved through differentiation. According to MINECOFIN report (2013) banking industry is currently facing challenges such as Rwanda's low savings rates as a result of low savings culture, limited access to banking products and services in the rural areas and low incomes that translate into low savings.

While more and more financial institutions are being established, they are all competing for the rapidly growing population within the Kigali city and few other major towns. This negatively affects their performance and threatens the survival of the less competitive ones. The potential and benefits that could be reaped from adoption of differentiation strategies seems not to have been realized by the banking industry. In this regard, this study will seek to determine the effect of differentiation strategy on performance of banking industry in Rwanda.

Although various researchers have shown evidence of relationship between differentiation strategy and performance, little has been done to provide evidence of physical differentiation as a potential strategy that entrepreneurs can exploit for better performance. This study focused on service differentiation, product and physical differentiation.

1.2. General Objective

The main objective of this study was to determine the effect of differentiation strategy on performance of banking industry in Rwanda

1.3. Specific Objectives
This study addressed the following specific objectives;

1. To determine the effect of product differentiation strategy on performance of Equity Bank, Rwanda
2. To establish the effect of physical differentiation strategy on performance of Equity Bank, Rwanda
3. To assess the effect of service differentiation strategy on performance of Equity Bank, Rwanda

2. Literature Review

2.1. Differentiation Concept
Pearce *et al.,* (2005) state that differentiation in business refers to the art of marketing a particular product or service in a way that makes it stand out against other products or services. At the core, all differentiation strategies attempt to make a product appear distinct. It is the strategy that firms use to provide superior value within the industry to customers. Porter (1980) argues that the perceived superior value as compared to industry competitors is the key for the firm to differentiate itself against competitors. The basic reason is that, through differentiation, firms charge premium prices on the superior value of the product or service and thus enjoy more profits than competitors in the industry. Usually, firms provide the superior value to customers through many ways such as unique product features, higher quality and all-round complementary services, in every aspect of the way that the firm relates to its customers (Grant, 2010).
The increased commoditization of retail banking products is a new reality that is putting pressure on banks to distinguish them in an intensely competitive environment (Allen et al., 2001). Banks are currently shifting from the traditional product focus to a more client-centric strategy. Although most banks have virtually identical products, their customers are obviously distinct and, hence, offer banks a pathway for differentiation. Banks that cultivates a deep knowledge of their customers i.e. their financial-services preferences, economic demographics, and consumer behavior can tailor offers to individuals in a timely manner based on activity in their accounts and lifestyle changes or choices (Jain and Shanker, 2015)
To remain competitive and profitable, Chinese banks need to be more innovative in offering products to their customers. Banks across the globe have utilized technology to grow their business in challenging environments as currently faced by banks in Rwanda. Large global banks have consciously moved away from diverse systems, spreadsheets and manual work. Instead, they embrace technology to consolidate their loan books under one system. The benefits reaped by these banks are multifold. Operationally, consolidation has delivered efficiency by removing manual interventions and allowing the business to get a real-time view of their lending portfolio without depending on multiple applications. This, in turn, allows them to serve customers more efficiently. Banks are also in a better position to launch new products to remain competitive. On the regulatory side, a bank is much better equipped to manage credit risk and meet requirements for capital and reserves due to better understanding of their lending book as well as exposures that they carry on a particular customer. This also leads to better liquidity management and avoids loss of opportunity

2.2. Empirical Literature
A study that aimed at determining the role of differentiation on Financial Performance of Banks in India was conducted by Singla (2011). Data was collected from 130 employees of HDFC Bank which is the largest bank in India. Both managers and non-manager employees were equally involved in the study. The study findings revealed that differentiation strategies adopted by the bank specifically service and product differentiation were positively influencing the performance of the bank. The study also found that majority of the services offered were customer oriented and the bank branches were strategically located to ease of access by the customers.
Ching et al (2011) studied the factors affecting Malaysian mobile banking adoption as a differentiation strategy for banks. The findings of this study revealed that perceived usefulness, perceived ease of use, relative advantages, perceived risks and personal innovativeness were the factors affecting the behavioral intention of mobile users to adopt mobile banking services in Malaysia. Meanwhile, the social norms were the only factor found to be insignificant in this study. The study also found that although bank products were differentiated, the differentiation was done to a less extent and the banks were yet to realize the effect
In Ghana Shajo (2009) conducted a study to evaluate the relationship between product differentiation strategy and performance of banking sector in Ghana. The study collected information from employees and customers of Ecobank Ghana bank. Study sample size was 273 respondents. The study findings revealed that product differentiation related significantly with bank performance. Further the study revealed that the bank had provided online banking services, however due to the low level of technology in the area where the bank was located majority of the customers could not utilize the service.
Ndumbaro (2013) conducted a study in Tanzania to determine contribution of product differentiation strategy on sales performance in banking industry. The independent variables for the study were costs of differentiating the products, preference of products which has been differentiated, perception of the customers on products which have been differentiated and knowledge of customers and employees on products which have been differentiated, while dependent variable is sales performance Data was collected from 25 employees and 250 customers of NMB bank. The study findings showed that there was significance relationship between product differentiation and sales performance. The study concluded that product differentiation strategy has a positive contribution to sales performance of banks.
Auka (2014) conducted a study in Kenya on the effect of Porter’s generic competitive strategies and customer satisfaction in commercial banks in Kenya. This study adopted a descriptive survey design and employed purposive sampling technique in the identification of the banks and systematic random sampling technique in the selection of the respondents. The study sample was

obtained from bank customers that have operated in Nakuru Municipality for a period of more than five years. A representative sample of 384 bank customers was chosen and data was collected over a period of one month. The study used a questionnaire to gather data from the respondents. The results revealed that most bank customers agreed that banks adopted the three Porter's generic strategies (Differentiation, Cost Leadership and Focus strategy) and they also agreed that the aspects of customer satisfaction are experienced by majority of the customers. Results also revealed that differentiation, cost leadership and focus strategy were significantly positively related to customer satisfaction. The study concluded that differentiation, cost leadership and focus strategy affect customer satisfaction positively.

2.3. Conceptual Framework

The study conceptualized that product; differentiation, Service differentiation and physical differentiation (independent variables) affect bank performance (dependent variable) in Rwanda. In this study product differentiation is argued to comprise of products variety e.g. Credit card issuance and ATMs; service differentiation included; Mobile phone services, online banking services and ATMs services. Physical differentiation included: location of bank, accessibility.

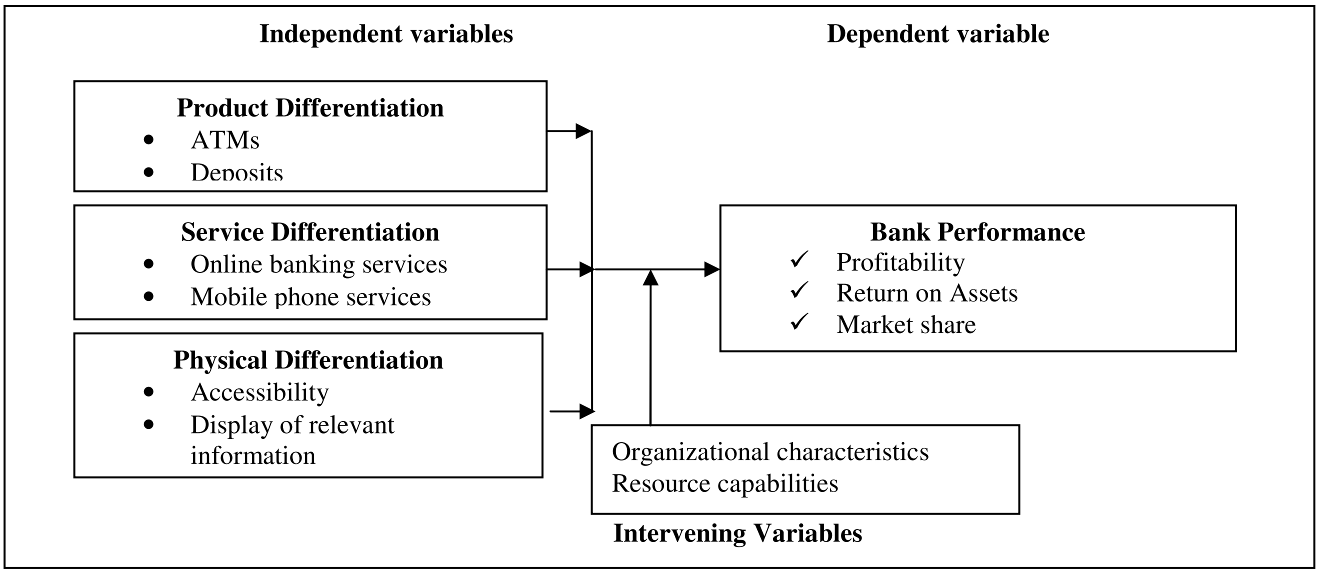

Figure 1: Conceptual Framework

2.4. Product Differentiation

In the recent past product differentiation has been perceived as an important strategy for enterprises that produce homogenous products to make themselves different from the competitors thus enticing more consumers. In recent years, differentiation has been a key aspect in retail banking (Duel, 2006). In the banking sector deposits are among the products that customers look for in any back. Banks have this main product and differentiation of the product could allow for better performance (Schneider and Bowen, 1995). According to Dutta and Dutta (2009) banks have for a long period used product bundling to differentiate their products. This has been possible since many banking products are complementary. For example, a consumer will tend to get more value from a transaction account if it is linked with an interest-bearing savings account. By providing bundled product, banks are able to attract more consumers and hence generate better performance. In transaction accounts in particular, physical presence, including ATM access is particularly important to consumers. Banks compete with each other by providing facilities such as ATMs in locations which are convenient to their customers (Tabak et al., 2012).

2.5. Service Differentiation

Business researchers King (2005) and Schneider and Bowen (1995) assert that service organizations must meet three key customer needs to deliver service excellence: security, esteem, and justice. Research identifies an array of service quality factors that are important for customers, including: timeliness and convenience, personal attention, reliability and dependability, employee competence and professionalism, empathy, responsiveness, assurance, availability, and tangibles such as physical facilities and equipment and the appearance of the personnel.

Fornell (1992) finds that, as a general psychological phenomenon, satisfaction is primarily a function of a customer's experience with a product or service. Assurance of bank service, quality of service, reliability of service, physical environments and internationalization have been cited by various researchers as influencing elements to customer satisfaction. A customer's perception about these elements of customer service will bring about an expectation in his mind. Performance above this expectation is customer satisfaction. A study conducted by Zeithaml, (2000) identified several aspects of the relationship between perceived service quality and profitability. In addition, Bates *et al.*, (2003) discuss about customers' expectations, perceptions, satisfaction and loyalty through the service quality of a local Malaysian bank. The study confirmed the linkages between service quality and customer satisfaction, and between service quality and loyalty.

ATMs services as studied by Massoud and Bernhardt (2002) and McAndrews (2002) consider the possibility that ATM surcharges can impact banks profitability, both directly as well as indirectly through a so-called customer relationship effect. This indirect effect results from a customer at a small bank with relatively few ATMs switching his/her deposit account to a larger bank with a larger number of ATMs in order to avoid paying ATM surcharges. If switching occurs then higher ATM surcharges should result in an increase in the market share of bank products (e.g. deposits) and profitability of larger banks and a decrease in the market share of deposits and profitability of smaller banks (McAndrews, 2002)

2.6. Physical Differentiation

A business location should be chosen with care, preferably in an area near target customer. If a firm is located close to customers, or in a location that is easy for customers to get to, it may have a product differentiation advantage compared to the other firms. A convenient parking space is also an element of physical differentiation strategies. Most customers would prefer a place that they can park their vehicles and walk in the bank with easy. Berina (2006) stated that bank location is as amongst the important criteria for selecting a bank. According to Eckman and Yan (2009), choosing a location is a strategic decision which is difficult to return. Enterprises have to be sensitive while choosing location, especially features like population, economic and competition difficulties must be considered.

Physical facilities in the physical environment of a service firm influence behavior of customers and their future purchase decisions (Burgers et al., 2000). Consumers look at tangible elements and assume about the service firm and its performance (Lenka et al., 2009). Better tangible aspects of service quality of the bank branches enhance customers' satisfaction (Lenka et al., 2009). Apart from the physical appearance of the workplace, tangible aspects also include display of current guidelines regarding rate of interest in each investment plan, required service charges for different bank transactions, and other facilities provided by the banks (Lenka et al., 2009). Physical evidence is important for banks as this is the environment in which the service is delivered and where the bank employees and customers interact. Furniture, equipment, staff members, pass book, cheque book, information boards, etc. provide tangibility to banks. Customers use tangible cues to assess the quality of services provided. According to Bitner (1992) physical environment helps to distinguish a service provider from its competitors and facilitates to influence customer behavior.

2.7. Summary

In summary, differentiation strategy has received a great deal of academic attention; its literature has been successful in providing practical implications. There is a relationship between differentiation strategy and firm performance. This paper seeks to determine the influence of differentiation strategy on performance of banking industry in Rwanda. Product differentiation, service differentiation and physical differentiation will be considered as the independent variables for this study.

2.8. Research Gaps

The study by Singla (2011) that aimed at determining the role of differentiation on Financial Performance of Banks in India focused on service and product differentiation. The study showed that a significant relationship existed between banks performance and service and product differentiation. However, the study did not demonstrate how physical differentiation would affect banks performance. Likewise, the studies by Ching et al (2011); Shajo (2009) and Ndumbaro (2013) only focused on how service and product differentiation affect organizational performance. This shows a gap in the literature in that while much research has been done on differentiation in the banking industry, focus has been on product and service differentiation leaving out other differentiation strategies such as physical differentiation. This study will reduce the gap by assessing the effect that physical differentiation would have on bank performance.

3. Methodology

3.1. Research Design

The study used descriptive research design. Descriptive correlation research design was used because it enabled the researcher to generalize the findings to a larger population. Additionally, this research design portrays accurately the characteristics of the study population (Kothari, 2004).

3.2. Target Population

Population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. Similarly, Cooper and Schindler (2003) define a population as a total collection of elements from which the researcher wish to make inferences. The target population of this study was 130 employees of Equity bank located in Kigali, Rwanda. According to Human resource manager of Equity bank this are the employees who are involved in various aspect of differentiation.

3.3. Sample Frame

According to Kothari (2004), sampling frame is a list of all the population subjects that the researcher wishes to target during the study.

Area of Operation	Branch	Population	Proportions
Managers	City Market Branch	5	5
Marketing Department staffs		4	4
Customer service staffs		23	17
	Main Branch		
Managers		8	6
Marketing Department staffs		41	31
Customer service staffs		49	36
Total		130	99

Table 1: Sampling Frame

3.4. Sample size

From the study population of 130 employees, a sample size of 99 employees calculated using Solvin's formula was selected to the study

$$n = N/1+ N (e)^2 (1960)$$

Where;
nis the sample size,
N is the population size (130)
e is the desired level of precision (0.05)

$$n = \frac{130}{1+130(0.05)^2} = 99$$

3.5. Sampling Procedure

Sampling is the selection of samples of study participants from the population such that the samples are representative of the entire population under study (Griffiths, 2009). This study employed stratified random sampling technique to obtain samples that are representative of the strata population. Strata for the study included different departments namely marketing department, customer service, and managers. The study population was first divided into stratum after which simple random sampling was applied to each stratum.

3.6. Data collection Instrument

A questionnaire was used as primary data collection instrument which was divided into two parts. The first part was designed to collect demographic characteristics of the respondent, while the second part focused on issues pertaining to differentiation and bank performance. The questionnaires included closed and open ended questions which sought the views and opinion of the respondents which might not have been captured by the closed ended questions. The questionnaires were administered through drop and pick method.

3.7. Data Analysis and Presentation

The collected data was thoroughly examined and checked for completeness. The data was then summarized, coded to enhance analysis using statistical package for social science (SPSS). Descriptive statistics frequencies and percentages were generated through descriptive analysis. Data was presented using percentages and frequency distribution tables for easy of understanding and interpretations. The content analysis was used to analyze the respondents' views and opinions on differentiation and banks performance. Correlation was used to portray the relationship between performance and product differentiation, physical differentiation and service differentiation. The outcome for the descriptive analysis was presented using summary tables. Differentiation strategy was regressed against bank performance to determine the effect of differentiation strategy on bank performance.
The regression equation estimated is: -

$$Y' = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

The model above was used for this study where,
Y' Denoted the predicted performance of the bank
a Is the intercept, it is the value of Y when X = 0
$b_1, b_2 b_3$ Are constants, X_1 Service differentiation, X_2 Physical differentiation, X_3 Product differentiation, e- Is the random error term
The assumptions of this study is that the relationship between X and Y is linear and that the expected value of the error term is zero. Also the study was based on the assumption that that there was no autocorrelation in the data and that all variables were normal.

4. Research Findings and Discussion

4.1. Demographic Information

This section presents the findings in respect to the general characteristics of the respondents which include category of respondents, gender, working years and current job roles. The statistical description results are presented in table 2.

	Frequency	Percentage (%)
Gender		
Male	64	65
Female	35	35
Total	99	100
Years of working		
< 1years	17	17
1-3 years	13	13
>3 years	69	70
Total	99	100
Job description		
Manager	11	11
Marketing	33	33
Customer care	55	56
Total	99	100

Table 2: Distribution of demographic Information

Table2 shows that majority of the respondents (65%) were male while 35% were women. This shows that men are the majority in banking industry although women are fairly represented. Further the table shows that 70% of the respondents have been working in Equity bank for more than 3 years, 13% worked between 1 to 3 years while 17% had been working in Equity bank for less than 1 year. This implies that majority of those who were sampled had stayed in the bank for sufficient time that could guarantee provision of reliable information regarding the bank affairs. Also the table show 11% of the respondents were managers, 33% were responsible for marketing while majority (56%) were customer care providers. This shows that departments that are directly or indirectly responsible for differentiation in the bank were well represented in the study.

4.2. Products Differentiation

The study sought to determine the features that the respondents thought were making their products unique, how the respondents rated their bank's product features relative to those of competitors and the frequency of adding new features to the bank products.

		Frequency	Percent (%)
	Low interest rates	52	53
	Conveniently placed	22	22
	Reliable	25	25
	Total	99	100

Table 3: Respondents view on features that made their products unique

Table 3 indicates that 53% of the respondents stated that low interest rates, products conveniently placed (22%) and reliability of the products (25%) were features that made bank products unique.

		Frequency	Percent (%)
	Excellent	79	80
	Fair	20	20
	Total	99	100

Table 4: Respondents rating of Equity bank products features relative to those of competitors

Table 4 shows that majority (80%) of the respondents rated the bank product features as excellent while 20% thought that the features ware just fair relative to those of their competitors.

		Frequency	Percent (%)
	Once a year	39	39
	Twice a year	60	61
	Total	99	100

Table 5: Frequency of adding new features to bank products

Table 5 shows that 39% of the study participants stated that new features were added to the bank products once a year while majority (61%) stated that the addition of new feature was done twice a year. This implies that the bank is committed to product differentiation and it is aware of the competition in the industry.

4.3. Respondent's Rating on Level Product Differentiation in Equity Bank

The respondents were requested to respond to questions by indicating their preference on product differentiation in their bank. Table 4.6 indicates the analysis of their responses.

Statement	Strongly Agree %	Agree%	Not sure%
Bank's products are distinct from its competitors	58 (59%)	30(30%)	11(11%)
Use of credit cards offer convenient payment services	70(71%)	24(24%)	5(5%)
Bank's products are accessible to customers	64(65%)	30(30%)	5(%)
Bank's debit cards are reliable in all payments channels	60 (61%)	36(36%)	3(3%)

Table6: Respondent's rating of Equity Bank's use of product differentiation

Table 6 indicates that 59% of the respondents strongly agreed with the statement that the bank's products are distinct from its competitors, 30% just agree while 11% were not sure of the statement. Also majority (71%) of the respondents strongly agreed with the statement that use of credit cards offers convenient payment services, 24% agreed while 5% were not sure. Further, the table shows that 65% of the respondents strongly agreed that the bank's products are easily accessible to customers, 30% agreed while 5% were not sure. Additionally, 61% of the study respondents strongly agreed that the bank's debit cards are reliable in all payments channels, 36% agreed while 3% were not sure of the statement.

4.4. Effect of Product Differentiation on Bank Performance

The study sought to determine the respondent's perceived effect of product differentiation on their bank performance.

Statement	Yes %	No%
Bank product uniqueness influences bank profitability	92 (93%	7(7%)
Bank product uniqueness leads to attraction and retention of customers	97(98%)	2(2%)
Agent banking materially improves performance of your bank	85(86%)	14(14%)

Table 7: Effect on bank performance from product differentiation

Table 7 indicates that 93% of the respondents felt that their bank product uniqueness influences bank profitability while 7% felt otherwise. Also the table shows that 98% stated that their bank product uniqueness has led to attraction and retention of customers. Further, 86% were of the opinion that agent banking materially improves performance of their bank.

Financial results growth for Equity Bank Rwanda as published from 2013 to 2015 reflects the positive effects of products differentiation. That is, Frw 1.1billion loss in 2013; Frw 1.3billion profit in 2014 and Frw 2.1billion profit in 2015.

4.5. Relationship between Product Differentiation and Bank Performance

The study sought to determine the relationship between product differentiation and bank performance.

		Bank performance	Product differentiation
Bank performance	Pearson Correlation	1	.352**
	Sig. (2-tailed)		.000
	N	99	99
Product differentiation	Pearson Correlation	.352**	1
	Sig. (2-tailed)	.000	
	N	99	99
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 8: Correlation between product differentiation and bank performance

Table 8 shows that there is a statistically significant relationship between product differentiation and bank performance ($r=.352^{**}$, $P<0.01$). This implies that increasing the extent to which the bank carries out product differentiation would result into increased performance. These findings are consistent with those of Teeratansirikool (2013) that showed a positive significant relationship between product differentiation and firm performance. The findings also agree with those of a study conducted by Ndumbaro (2013).

4.6. Physical Differentiation

The study sought to determine how the respondents rated various physical aspects in their bank. Also the study collected respondent's information regarding their preference on physical differentiation in their bank.

	Frequency	Percentage (%)
Accessibility of the bank		
Excellent	44	44
Fair	55	56
Total	99	100
Display of relevant information		
Excellent	49	49
Fair	50	51
Total	99	100
Atmosphere of the bank		
Excellent	36	36
Fair	63	64
Total	99	100
Bank facilities		
Excellent	31	31
Fair	68	69
Total	99	100

Table 9: Respondent's rating of various physical aspects in their bank

Table 9 shows that 44% of the study respondents rated bank accessibility as excellent while 56% felt that the accessibility was just fair. Likewise, 46% felt that display of relevant information by the bank was excellent while 51% felt it was fair. Bank Atmosphere was rated as excellent by 36% and fair by majority (64%) of the study respondents. Regarding the Bank facilities, 31% of the respondents rated excellent while 69% felt the rating was fair. This implies that the respondents felt that in all this aspects of physical differentiation there was room for improvement if the bank is to remain competitive.

4.7. Respondent's Rating on Level of Physical Differentiation in Equity Bank

The respondents were requested to respond to questions by indicating their preference on physical differentiation in their bank.

Statement	Strongly Agree%	Agree%	Not sure%
Bank branches are located in strategic towns	29 (29%)	40 (40%)	31(31%)
Information displayed by the bank is relevant to customers	32 (32%)	52 (53%)	15 (15%)
Accessibility of your bank's branches is convenient to customers.	43(43%)	44 (44%)	12 (12%)

Table 10: Respondent's rating on level of physical differentiation in Equity bank

Table 10 indicates that 29% of the respondents strongly agreed with the statement that the bank branches are located in strategic towns, 40% just agree while 31% were not sure of the statement. Also 32% of the respondents strongly agreed with the statement that Information displayed by the bank is relevant to customers, 53% agreed while 15% were not sure. Further, the table shows that 43% of the respondents strongly agreed that the accessibility of your bank's branches is convenient to customers, 44% agreed while 12% were not sure.

4.8. Effect on Bank Performance from Physical Differentiation

The study sought to determine the respondent's perceived effect of physical differentiation on their bank performance.

Statement	Yes %	No%
The bank display of relevant information lead to more transactions increasing profitability	55(56%)	44(44%)
Your bank accessibility lead to a bigger percentage of total bank sales	73(74%)	26(26%)
Your bank location lead to attraction and retention of customers	70(70%)	29 (29%)

Table 11: Effect on bank performance from physical differentiation

Table 11 indicates that 56% of the respondents felt that their bank display of relevant information lead to more transactions increasing profitability while 44% felt otherwise. Further, the table shows that 74% stated that their bank accessibility lead to a bigger percentage of total bank sales. Also 70% were of the opinion that the bank location lead to attraction and retention of customers.

4.9. Relationship between Physical Differentiation and Bank Performance

The study sought to determine the relationship between physical differentiation and bank performance.

		Bank performance	Physical differentiation
Bank performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	99	
Physical differentiation	Pearson Correlation	.598**	1
	Sig. (2-tailed)	.000	
	N	99	99
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 12: Correlation between physical differentiation and bank performance

Table 12 shows that there is a statistically significant relationship between physical differentiation and bank performance (r=.598**, P<0.01). This implies that the more the banks invest in physical differentiation the more the bank perform.

4.10. Service Differentiation

The study sought to determine characteristics that respondents thought were making them of the banking services outstanding, respondents rating of their service quality relative to those of your competitors and the frequency of reviewing and updating features of bank services.

		Frequency	Percent (%)
	Low cost	53	54
	Customer oriented	26	26
	Easily accessible	20	20
	Total	99	100

Table 13: Respondents views on characteristics making Equity banking services outstanding

Table 13 indicates that 54% of the respondents stated that low cost, customer oriented services (26%) and ease of accessing the products (25%) were features that were making banking services outstanding.

		Frequency	Percent (%)
	Excellent	80	81
	Fair	19	19
	Total	99	100

Table 14: Respondents rating of Equity banking services relative to those of competitors

Table 14 shows that majority (81%) of the respondents rated the banking services as excellent while 19% rated the services as fair relative to those of their competitors.

		Frequency	Percent (%)
	Once a year	70	71
	Twice a year	13	13
	>Thrice a year	16	16
	Total	99	100

Table 15: Respondents views on frequency of reviewing and updating features of Equity bank services

Table 15 shows that 70% of the study respondents stated that reviewing and updating features of the bank services was done once a year, 13% stated it was done twice a year while 16% indicated that updating of banking services was being done more than thrice a year. This shows that the frequency of service differentiation in the bank is not satisfactory basing on the growing competition in banking industry.

4.11. Respondent's Preference on Service Differentiation in Equity Bank

Statement	Strongly Agree%	Agree%	Not sure%
Bank ATMs services are accessible to customers in rural areas	33(33%)	56 (57%)	10(10%)
Your mobile phone banking services are stable	33(33%)	48(49%)	18(18%)
Bank frontline staff handles customers in friendly manner all the time	49(50%)	44(44%)	6(6%)
The bank ATMs are user friendly for ease of services usage	35(36%)	44(44%)	20(20%)

Table 16: Respondent's rating on level of service differentiation in Equity bank

Table 16 indicates that 33% of the respondents strongly agreed with the statement that the bank ATMs services are accessible to customers in rural areas, 57% just agree while 10% were not sure of the statement. Majority (49%) of the respondents agreed with the statement that bank's mobile phone banking services are stable, 33% strongly agreed while 18% were not sure. Further, the table shows that 50% of the respondents strongly agreed that the bank's frontline staff handles customers in friendly manner all the time, 44% agreed while 6% were not sure. Additionally, 36% of the study respondents strongly agreed that the bank's ATMs are user friendly for ease of services usage, 44% agreed while 20% were not sure of the statement.

4.12. Effect on Bank Performance from Service Differentiation

The study sought to determine the respondent's perceived effect of service differentiation on their bank performance.

Statement	Yes %	No%
Your bank's online services encourage more transactions	92 (93%)	7(7%)
Your digital financial services substantially improve customers' satisfaction	94(95%)	5(5%)
Your ATMs access to customers in rural areas encourages more usage increasing fees and commissions	86(87%)	13(13%)

Table 17: Effect on bank performance from service differentiation

Table 17 indicates that 93% of the respondents felt that their bank bank's online service encourages more transactions while 7% felt otherwise. Further, the table shows that 95% stated that their bank digital financial services substantially improve customers' satisfaction. Also 87% were of the opinion that ATMs access to customers in rural areas encourages more usage increasing fees and commissions.

4.13. Relationship between Service Differentiation and Bank Performance

The study sought to determine the relationship between service differentiation and bank performance.

		Bank performance	Service differentiation
Bank performance	Pearson Correlation	1	.227*
	Sig. (2-tailed)		.024
	N	99	99
Service differentiation	Pearson Correlation	.227*	1
	Sig. (2-tailed)	.024	
	N	99	99
*. Correlation is significant at the 0.05 level (2-tailed).			

Table 18: Correlation between service differentiation and bank performance

Table 18 shows that there is a statistically significant relationship between service differentiation and bank performance ($r=.227^{*}$, $P<0.05$). This implies that increasing the extent to which the bank carries out service differentiation would result into increased performance. These findings are consistent with those of a studies conducted by Ching et al., 2011; Singla, 2011; Heiko et al., 2011.

4.14. Regression Analysis

Regression analysis was done to determine the relationship between differentiation and bank performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599[a]	.359	.338	.210
a. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation				

Table 19: Model Summary

Table 19 shows a coefficient of determination (R squared) of 0.359. This implies that 36% of bank performance can be explained by differentiation strategy. The remaining 64% could be attributed to factors that are not covered in this study.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.333	3	.778	17.702	.000[b]
	Residual	4.173	95	.044		
	Total	6.505	98			
b. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation						

Table 20: ANOVA[a]

The F statistics was used as a test for the model goodness of fit. Table 20 shows that the F-value was F=17.702 and p value <0.01.

This implies that there is a significant relationship between differentiation strategy and bank performance.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.663	.070		9.507	.000
	Service differentiation	.176	.047	.361	3.767	.000
	Physical differentiation	.464	.095	.359	3.543	.001
	Product differentiation	.547	.064	.436	4.380	.000
a. Dependent Variable: Bank performance						

Table 21: Coefficients[a]

The study also sought to determine the relationship between differentiation strategy and bank performance. Regression analysis was conducted to estimate the relationship between the variables and the percentage of the variation in bank performance that could be explained by differentiation strategy. The study adopted the following regression model

$$Y' = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Table 21 shows that fitting the coefficients to the model the following regression equation was generated;

Y = 0.663 + 0.176 (Service differentiation) + 0.464(Physical differentiation) + 0.547 (Product differentiation). The regression equation revealed that for every unit increase in the level of Service differentiation, a 0.176 unit increase in performance is predicted, holding all other variables constant. Additionally, a unit increase in physical differentiation leads to increase in bank performance by a factor of 0.464 holding all other factors constant. Further, for every unit increase in the level of product differentiation, a 0.547 unit increase in performance is predicted, holding all other variables constant. The p-values for all variables were less than 0.01 indicating that all the variables were statistically significant in influencing performance of banks. Different researchers have found a significant relationship between differentiation strategy and organizational performance (Zeithaml, 2000); McAndrews, 2002; Kagan et al., 2005; Shajo, 2009). However, a study by Khaled (2012) indicated that differentiation strategy has not significant effect on organizational performance.

4.15. Bank Performance

	Financial Years		
	2013	2014	2016
Profitability Frw Millions	1051	1291	1705
Return on Asset (RoA)	-2.18%	1.46%	1.84%
Market share by Accounts	4.23%	8.95%	13.40%

Table 22: Bank performance from 2013-2015

Table 22 indicates that bank profitability, RoA and market share has been increasing since 2013.

4.16. Bank Profitability

Regression analysis was done to determine the relationship between differentiation and bank profitability which was picked from quarterly and annual financial results as published by Equity Bank Rwanda Ltd.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599[a]	.554	.549	.101
a. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation				

Table 23: Model Summary

Table 22 shows a coefficient of determination (R squared) of 0.554. This implies that 55% of bank profitability can be explained by differentiation strategy.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.863	4	.708	15.102	.000[b]
	Residual	4.002	89	.013		
	Total	6.865	93			
b. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation						

Table 24: ANOVA[a]

Table 24 shows that the F-value was F=15.102 and p value <0.01. This implies that there is a significant relationship between differentiation strategy and bank profitability.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.610	.065		9.507	.000
	Service differentiation	.123	.053	.305	3.007	.000
	Physical differentiation	.501	.033	.312	2.997	.001
	Product differentiation	.592	.026	.473	4.023	.000
a. Dependent Variable: Bank profitability						

Table 25: Coefficients[a]

The study also sought to determine the relationship between differentiation strategy and bank profitability. The study adopted the following regression model

$$Y' = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Fitting the coefficients to the model;
Y = 0.610 + 0.123 (Service differentiation) + 0.501(Physical differentiation) + 0.592(Product differentiation). The regression equation revealed that for every unit increase in the level of Service differentiation, a 0.123 unit increase in profitability is predicted, holding all other variables constant. Additionally, a unit increase in physical differentiation leads to increase in bank profitability by a factor of 0.501 holding all other factors constant. Further, for every unit increase in the level of product differentiation, a 0.592 unit increase in profitability is predicted, holding all other variables constant. The p-values for all variables were less than 0.01 indicating that all the variables were statistically significant in influencing profitability of banks.

4.17. Return on Asset

Regression analysis was done to determine the relationship between differentiation and ROA, where ROA= Profitability/Total Assets as picked from quarterly and annual financial results published by Equity Bank Rwanda Ltd.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.618[a]	.604	.601	.131
a. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation				

Table 26: Model Summary

Table 26 shows a coefficient of determination (R squared) of 0.604. This implies that 60% of ROA can be explained by differentiation strategy.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.102	23	1.008	16.332	.001[b]
	Residual	5.232	47	1.103		
	Total	8.334	70			
b. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation						

Table 27: ANOVA[a]

Table 27 shows that the F-value was F=16.332 and p value <0.01. This implies that there is a significant relationship between differentiation strategy and bank ROA.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.211	1.947		11.177	.000
	Service differentiation	.099	.617	.213	2.108	.000
	Physical differentiation	.632	.301	.395	3.347	.000
	Product differentiation	.501	.097	.367	4.212	.000
a. Dependent Variable: Bank ROA						

Table 28: Coefficients[a]

The study also sought to determine the relationship between differentiation strategy and bank ROA. The study adopted the following regression model

$$Y' = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Fitting the coefficients to the model;
Y = 5.211 + 0.099 (Service differentiation) + 0.632(Physical differentiation) + 0.501(Product differentiation). The regression equation revealed that for every unit increase in the level of Service differentiation, a 0.099 unit increase in ROA is predicted, holding all other variables constant. Additionally, a unit increase in physical differentiation leads to increase in bank ROA by a factor of 0.632 holding all other factors constant. Further, for every unit increase in the level of product differentiation, a 0.501 unit increase in ROA is

predicted, holding all other variables constant. The p-values for all variables were less than 0.01 indicating that all the variables were statistically significant in influencing ROA of banks.

4.18. Market Share

Regression analysis was done to determine the relationship between differentiation and market share that was on basis of active accounts, that is, Market Share (by accounts) = Number of Accounts at Equity Bank Rwanda/ Number of bank accounts in Rwanda.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892[a]	.796	.761	.246
a. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation				

Table 29: Model Summary

Table 29 shows a coefficient of determination (R squared) of 0.604. This implies that 79% of market share can be explained by differentiation strategy.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.896	13	.224	21.002	.000[b]
	Residual	5.184	58	.108		
	Total	10.08	71			
b. Predictors: (Constant), Service differentiation, Physical differentiation, Product differentiation						

Table 30: ANOVA[a]

Table 30 shows that the F-value was F=21.002 and p value <0.01. This implies that there is a significant relationship between differentiation strategy and bank market share.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.221	.141		11.177	.000
	Service differentiation	.218	.165	.113	1.613	.000
	Physical differentiation	.324	.217	.205	1.358	.000
	Product differentiation	.209	.201	.219	2.312	.000
a. Dependent Variable: Market share						

Table 31: Coefficients[a]

The study also sought to determine the relationship between differentiation strategy and bank market share. The study adopted the following regression model

$$Y' = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Fitting the coefficients to the model;

Y = 3.221 + 0.218 (Service differentiation) + 0.324(Physical differentiation) + 0.209 (Product differentiation). The regression equation revealed that for every unit increase in the level of Service differentiation, a 0.218 unit increase in market share is predicted, holding all other variables constant. Additionally, a unit increase in physical differentiation leads to increase in market share by a factor of 0.324 holding all other factors constant. Further, for every unit increase in the level of product differentiation, a 0.209 unit increase in market share is predicted, holding all other variables constant. The p-values for all variables were less than 0.01 indicating that all the variables were statistically significant in influencing market share of banks.

From the coefficient of determination (R squared) of 0.359 as shown in Table 19, we deduce that 36% of bank performance can be explained by differentiation strategy while the remaining 64% of bank performance could be attributed to factors that are not covered in this study.

5. Summary, Conclusions and Recommendations

5.1. Summary

The purpose of this study was to establish the effects of differentiation strategy on performance of Banks in Rwanda. The study was carried out in Equity bank in Kigali Rwanda and employed descriptive research design. Target population for the study was 128 employees of the bank and the sample size was 99 employees. Stratified random sampling technique was used to select the samples. Questionnaire was used as the data collection tool. Descriptive statistics for the study that included frequency distribution and percentages was generated through descriptive analysis. Inferential statistics for the study included Pearson correlation and regression analysis. Statistical Package for Social Science was used to generate both descriptive and inferential statistic.

5.1.1. Effect of Product Differentiation Strategy on Bank Performance

The study findings indicated that low interest rates, convenience of accessing bank products and reliability of the products were features that made bank products unique compared to the competitors. The findings also showed that most of the respondents rated the bank product features as excellent relative to those of their competitors. Regarding the frequency of adding new features to bank products, 39% of the study participants stated that new features were added to the bank products once a year while majority (61%) stated that the addition of new feature was done twice a year. Study findings also showed that majority (93%) of the respondents felt that their bank product uniqueness influences bank profitability. Likewise, 98% stated that their bank product uniqueness has led to attraction and retention of customers. Further, the study findings indicated that 86% were of the opinion that agent banking materially improves performance of their bank. A statistically significant relationship between product differentiation and bank performance ($r=.352^{**}$, $P<0.01$) was realized.

5.1.2. Effect of Physical Differentiation Strategy on Bank Performance

The findings showed that 44% of the study respondents rated bank accessibility as excellent while 56% felt that the accessibility was fair. Likewise, 46% felt that display of relevant information by the bank was excellent while 51% felt it was fair. Bank Atmosphere was rated as excellent by 36% and fair by majority (64%) of the study respondents. Regarding the Bank facilities, 31% of the respondents rated excellent while 69% felt the rating was fair. The study finding also indicated that 56% of the respondents felt that their bank display of relevant information lead to more transactions increasing profitability. Further, the findings showed that 74% stated that their bank accessibility lead to a bigger percentage of total bank sales. Also the findings showed that 70% felt that the bank location lead to attraction and retention of customers. A statistically significant relationship between physical differentiation and bank performance ($r=.598^{**}$, $P<0.01$) was discovered.

5.1.3. Effect of Service Differentiation Strategy on Bank Performance

The study findings indicated that low cost, customer oriented services and ease of accessing the service were features that were making banking services outstanding. Also majority (81%) of the respondents rated the banking services as excellent relative to those of their competitors. The study findings further indicated that 93% of the respondents felt that their bank's online service encourages more transactions. Also 95% stated that their bank digital financial services substantially improve customers' satisfaction and 87% were of the opinion that ATMs access to customers in rural areas encourages more usage increasing fees and commissions. Additionally, the findings showed that there is a statistically significant relationship between service differentiation and bank performance ($r=.227^{*}$, $P<0.05$).

5.2. Conclusions

Basing on the summary of the findings of this research the following conclusions were drawn in line with the specific objectives

The study concluded that increasing the extent to which the bank carries out product differentiation would result into increased bank performance. Maintain low interest rates, simplicity of accessing bank products and reliability of the products are features that would make bank products unique compared to competitors. Bank product uniqueness is likely to attract customers and positively influence bank profitability.

The study concluded that physical differentiation influences bank performance. Bank accessibility can influence total bank sales to a bigger percentage. The location of the bank is likely to attract customers.

Increasing the extent to which the bank carries out service differentiation would result into improved performance. Outstanding banking services would be enhanced by ensuring low cost, customer centric services and ease of accessibility. Banks can as well adopt digital financial service as a method of encouraging more transactions. Digital financial services can substantially improve customers' satisfaction. 87% of the respondents were of the view that ATMs availability to customers in rural areas encourages more usage increases fees and commissions.

5.3. Recommendations

In reference to findings of the study, it is advisable that banks need to substantially invest in product differentiation to improve their performance. Evidence from the study reveals that product differentiation has greater effect on bank performance as compared to other forms of differentiations. Additionally, Banks need to also focus on physical and service differentiations since the two to have been proven to create positive impact on bank performance.

In pursuit of product differentiation strategy, it is recommendable from study that banks need to endeavor to maintain low interest rates, simplicity to access and reliability of banking products. These features have significant potential to make bank products unique and encourage customers' attraction.

From the study, it is recommendable that banks need to ensure that their physical channels such as branches and ATMs are located at easily accessible locations to encourage customer access.

5.4. Suggestion for Further Research

From the study it is advisable that further research be undertaken to determine the effect of differentiation strategy in various banks in Rwanda, so as to obtain broader understanding of the effect of differentiation strategy on performance of banking industry. The study also suggest that future researchers should conduct a longitudinal study that will purposes to determine if the revealed significant relationship between differentiation strategy and bank performance will be consistent.

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