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Portfolio Diversification, Strategic Restructuring and Competitive Advantage of Commercial Banks in Kenya

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Abstract

Commercial banks in Kenya operate in an increasingly competitive and regulated environment, shaped by new entrants, alternative financial intermediaries, digital innovation and changes in regulation. This study examined the influence of two corporate strategies, portfolio diversification and strategic restructuring, on the competitive advantage of commercial banks in Kenya. The study was anchored on Modern Portfolio Theory and the Burke-Litwin model of organizational change. A descriptive research design was adopted. From a target population of 400 senior employees of the 40 licensed commercial banks, a sample of 200 was determined using Yamane's formula. Data were collected using a structured questionnaire. Of the 149 questionnaires returned, 112 were complete and usable. Data were analysed using descriptive statistics, Pearson correlation and multiple linear regression. Respondents agreed that banks practised portfolio diversification (M = 4.20) and strategic restructuring (M = 4.11). Both strategies had positive and significant relationships with competitive advantage, with portfolio diversification at $r = 0.623$ and strategic restructuring at $r = 0.736$ ($p < 0.01$). The two strategies jointly explained 59.8% of the variance in competitive advantage, $F(2, 109) = 80.96$, $p < 0.001$. Strategic restructuring was the stronger predictor (Beta = 0.565, $p < 0.001$), followed by portfolio diversification (Beta = 0.292, $p < 0.001$). The study concludes that restructuring and diversification are the corporate strategies that most strongly support the competitive advantage of commercial banks in Kenya. It recommends a balanced, multi-faceted approach to restructuring and demand-driven, customer-focused diversification of products and investments.

Keywords: *Portfolio Diversification, Strategic Restructuring, Competitive Advantage, Corporate Strategy, Commercial Banks, Kenya*

INTRODUCTION

Banking and financial sector assume a crucial role in enhancing economic development. Banking plays an important role in the financial life of a business, and the importance of banks can be seen as the life-blood of modern economy. According to Blankson et al. (2022) the banking industry is the oil that greases the wealth of the economy, by providing financial resources needed for the production of goods and services. For the banking sector to play its role successfully there must be core professionals in the industry and other financial institutions facilitating the process of financial intermediation.

In Sub-Saharan Africa, financial sector liberalization over the last three decades has been accompanied by increased competition in banking (Adu, 2022). Several countries have also

reformed their banking sectors through recapitalization and restructuring. In Ghana, for example, bank efficiency improved markedly after the banking reforms that followed the 2016 Banking Act (Blankson et al., 2022). Banks are increasingly expected to compete through cost efficiency, product range and the quality of customer experience rather than through protected margins.

Kenya's financial system is among the largest and most developed in Sub-Saharan Africa. The banking sector has experienced sweeping changes, including mobile banking, credit referencing and tighter prudential regulation. The minimum core capital requirement for commercial banks is being raised progressively from Ksh 1 billion to Ksh 10 billion by 2029 (Central Bank of Kenya [CBK], 2025). Commercial banks have responded to these changes through retrenchment, cost-cutting and divestment of non-core assets, while others have treated them as opportunities to invest, innovate and expand into new markets in order to achieve or extend a competitive advantage. Two corporate strategies are particularly relevant. Portfolio diversification spreads a bank's products, investments and markets to manage risk and capture new sources of return. Strategic restructuring changes a bank's operational, investment, financing and governance structures to align it with its environment. Competitive advantage, in turn, refers to a firm's ability to create more value for customers than its rivals, through lower cost or differentiated offerings (Porter, 1985).

Statement of the Problem

A safe, stable and competitive banking system is critically important for a country's wellbeing. In Kenya, banking activity remains concentrated in a small number of large banks. In 2024, nine large banks accounted for 89.3% of the sector's profit before tax (CBK, 2025). The remaining banks face intense competition from each other, from new entrants and from mobile and fintech platforms (King'oku & Muathe, 2024). Regulatory changes have added cost and compliance pressures. Banks must therefore find ways of navigating these changes to remain competitive.

Existing research has largely examined the determinants of bank financial performance, and there is limited evidence on how banks' strategic responses to environmental change relate to competitive advantage. Kenyan studies on diversification have focused on financial performance measured through accounting ratios (Ogetange et al., 2022; Muriuki & Musau, 2024), while studies on restructuring have largely been confined to individual counties or bank tiers (Shurie, 2022; Juma, 2023). The evidence is also mixed. Some studies find that diversification and restructuring improve performance, while others find an inverse or minimal effect (Ogetange et al., 2022; Ogega, 2023). There is therefore a lack of clarity on how portfolio diversification and strategic restructuring influence the competitive advantage of commercial banks in Kenya. This study addressed this gap.

Objectives of the Study

The general objective was to assess the influence of portfolio diversification and strategic restructuring on the competitive advantage of commercial banks in Kenya. The specific objectives were:

i. To determine the influence of portfolio diversification on competitive advantage of commercial banks in Kenya.
ii. To evaluate the influence of strategic restructuring on competitive advantage of commercial banks in Kenya.

LITERATURE REVIEW

This section reviews the theoretical and empirical literature relevant to the study. It first discusses Modern Portfolio Theory and the Burke-Litwin model, which underpin portfolio

diversification and strategic restructuring respectively. It then reviews empirical studies on each strategy and identifies the gaps the study addresses.

Theoretical Review

Modern Portfolio Theory

Modern Portfolio Theory (MPT) was put forward by Markowitz (1952). It holds that risk-averse investors can construct portfolios that maximize expected return for a given level of risk. The risk of an individual investment should be assessed by how it varies relative to the whole portfolio, not in isolation. A portfolio's risk and return depend on its composition and on how its components correlate with each other, so combining assets whose returns are not perfectly correlated reduces overall risk. For each level of risk, there is an optimal allocation that produces the best balance of risk and return. For banks, the theory implies that spreading investments across securities, products and markets reduces the volatility of earnings and the exposure to any single shock. This study applies MPT to explain how diversification of a bank's product, investment and market portfolio is expected to strengthen its competitive position.

Burke-Litwin Model of Organizational Change

The Burke-Litwin model of organizational performance and change identifies the drivers of change in an organization and how they are interconnected (Burke & Litwin, 1992). The model distinguishes transformational factors, namely the external environment, mission and strategy, leadership and organizational culture, from transactional factors such as structure, systems, management practices and work-unit climate. Its central assumption is that the main driver of change comes from the firm's external environment, in response to which the firm adjusts its strategy, culture and structure. Organizations therefore need to identify these elements and make the necessary changes. This study applies the model to explain how restructuring of a bank's operational, investment, financial and governance structures in response to environmental pressures is expected to sustain its competitive advantage.

Empirical Review

Portfolio Diversification and Competitive Advantage

Diversification spreads risk and reward within a portfolio. In banking, it may involve combining commercial banking with securities trading, insurance and other financial services, offering a wider range of products, or serving more market segments. Muriuki and Musau (2024) examined 38 commercial banks in Kenya over 2019–2023 and found that fees and commissions, dividend income, foreign exchange trading income and transaction fees all had positive and significant effects on return on assets. They recommended that banks participate in the securities market and diversify their investment options. Across 45 African countries, Adem (2023) found that income diversification generally improved bank stability, consistent with portfolio theory, but that diversification beyond an optimal level reduced stability.

Other studies report weaker or mixed effects. Ogetange et al. (2022) examined 39 commercial banks in Kenya over 2011–2020 and found that income diversification had a significant inverse relationship with financial performance, geographical diversification had a significant positive effect, and asset diversification had no significant effect. These studies show that the effect of diversification depends on its form and context. Most, however, examine financial performance or stability rather than competitive advantage.

Strategic Restructuring and Competitive Advantage

Restructuring is the process of adapting a firm to its external or internal conditions by making major changes to its operational, investment, financing and governance structures. Shurie (2022) studied 32 small and medium commercial banks in Nairobi City County and found that the banks

applied restructuring strategies to a high extent and that the competitive advantage generated from them was high. Operations redesign and business portfolio restructuring had significant positive effects on performance, while cost cutting had a negative but non-significant effect. Competitive advantage partially mediated the relationship between restructuring and performance. Similarly, Juma (2023) found that loan, asset and operational restructuring and employee downsizing all had significant positive effects on the performance of tier III banks in Nairobi, with asset restructuring having the largest effect. Mwangi and Rugami (2021) also found that organizational restructuring had improved the performance of commercial banks in Mombasa County.

The benefits of restructuring are not automatic. In a study of commercial banks in Nakuru City that examined restructuring alongside information technology, marketing and expansion strategies, Ogega (2023) concluded that restructuring had a minimal effect on the performance of financial institutions. These mixed findings suggest that the outcomes of restructuring depend on how and why it is undertaken. Most Kenyan studies are also limited to one county or one bank tier, so evidence on the relationship between restructuring and competitive advantage across the sector remains limited.

Research Gaps

The reviewed studies leave three gaps. Conceptually, most relate diversification and restructuring to financial performance or efficiency rather than to competitive advantage. Contextually, Kenyan restructuring studies are mainly limited to individual counties or bank tiers, while diversification studies rely on secondary accounting data. Empirically, findings are mixed, with some studies reporting positive effects and others reporting inverse or minimal effects. The present study addresses these gaps by examining portfolio diversification and strategic restructuring across commercial banks in Kenya, with competitive advantage as the outcome.

Conceptual Framework

The study conceptualized portfolio diversification and strategic restructuring as the independent variables and competitive advantage as the dependent variable. Portfolio diversification was conceptualized through investment in securities, mutual funds and stocks. Strategic restructuring was conceptualized through portfolio, operational, governance, financial and organizational restructuring. Competitive advantage was conceptualized through return on equity, competitiveness and market attractiveness. Figure 1 presents the conceptual framework.

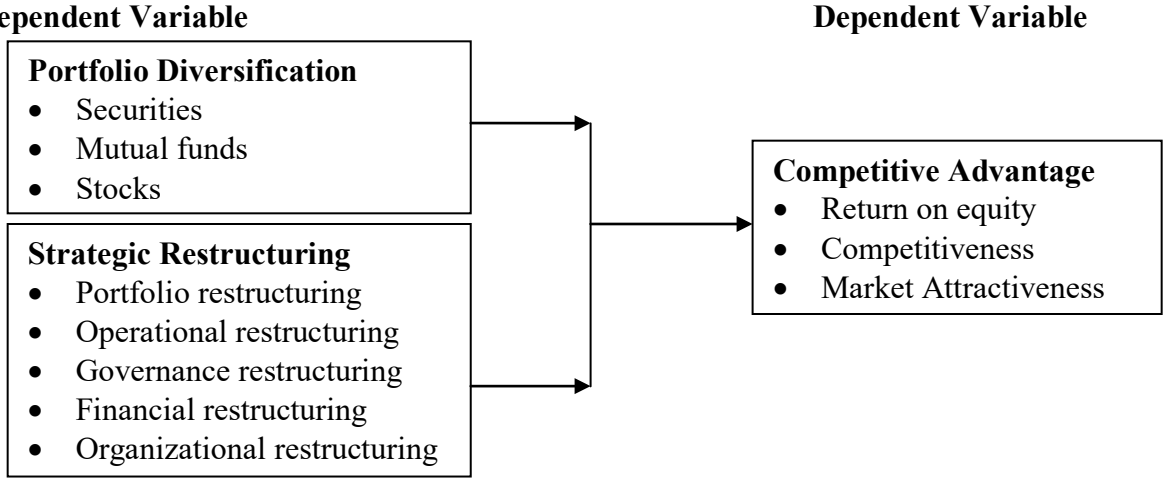


Figure 1: Conceptual framework

METHODOLOGY

Research Design

The study employed a descriptive research design, which is concerned with describing the characteristics of a population and the relationships among variables (Saunders et al., 2023). Data were collected from respondents at one point in time.

Target Population and Sample

The study targeted 400 senior employees of the 40 commercial banks licensed by the Central Bank of Kenya, which served as the sampling frame. The target population comprised chief technology officers, finance managers, chief commercial officers, human resources directors, chief operating officers, chief marketing officers, corporate communication officers, risk and compliance officers, and strategy and business development managers. These respondents were chosen because of their understanding of corporate strategies and their effect on competitive advantage. The sample size was determined using Yamane's (1967) formula, $n = N/[1 + N(e)^2]$, with $N = 400$ and $e = 0.05$, giving 200 respondents.

Research Instrument, Validity and Reliability

Primary data were collected using a structured questionnaire. Closed-ended items used a five-point Likert scale on which respondents indicated their level of agreement with each statement. Validity was ensured by careful structuring of the questions and consultation with the supervisor. The instrument was pre-tested in a pilot study with 20 bank employees from four banks in Nairobi County, representing 10% of the sample, to identify and revise ambiguous or awkward items.

Reliability was assessed using Cronbach's alpha, with values of 0.60 and above taken as acceptable for exploratory research (Hair et al., 2022). All constructs met this threshold (Table 1).

Table 1: Reliability results

Variable	Number of items	Cronbach's alpha
Portfolio diversification	8	0.696
Strategic restructuring	6	0.799
Competitive advantage	6	0.763

Data Collection and Analysis

Questionnaires were administered through the drop-and-pick-later method or by email, so that respondents could complete them at their convenience. Completed questionnaires were checked for completeness and consistency, coded and analysed using SPSS Version 25. Means and standard deviations described the variables. Pearson's correlation coefficient established the direction and strength of the relationship between each strategy and competitive advantage. Multiple linear regression estimated the influence of the two strategies on competitive advantage. The model was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

where Y is competitive advantage, X_1 is portfolio diversification, X_2 is strategic restructuring, β_0 is the constant, β_1 and β_2 are the regression coefficients and ε is the error term. Significance was tested at the 0.05 level.

RESULTS AND DISCUSSION

Response Rate and Respondent Profile

Questionnaires were administered to all 200 sampled respondents, and 149 were returned, a response rate of 74.5%. Of these, 37 were incomplete or had multiple responses and were excluded, leaving 112 usable responses (56.0% of the sample) for analysis. Of the 112

respondents, 58.9% were male and 41.1% female. Most were aged 21–30 years (44.6%) or 31–40 years (34.8%). In total, 89.3% held at least a bachelor's degree, including 22.3% with a postgraduate degree and 4.5% with a doctorate. Nearly half (48.2%) had worked in their bank for 1–5 years, 27.7% for 6–10 years and 24.1% for more than 10 years.

Portfolio Diversification

Table 2: Descriptive statistics for portfolio diversification (n = 112)

Statement	Mean	SD
The bank continuously adds new products to its existing portfolio	4.17	0.858
Existing products are innovated to serve new and emerging market needs	4.18	0.797
The bank invests in diverse securities to spread risk and increase returns	4.21	0.799
The bank offers both debt and equity products to the customers	4.17	0.889
The bank has customized financial products that suit the needs of individual customers	4.16	0.823
The bank has diversified the portfolio of its market to serve both local and diaspora clients of varying sizes	4.29	0.853
Average	4.20	

Respondents agreed that their banks practised portfolio diversification (average M = 4.20). Diversification of the market portfolio to serve local and diaspora clients was rated highest (M = 4.29), followed by investment in diverse securities to spread risk and increase returns (M = 4.21). The provision of customized financial products for individual customers was rated lowest (M = 4.16), although still within the agree range. However, when asked to what extent portfolio diversification influences their bank's competitiveness, respondents were less certain (M = 3.79, SD = 1.255), indicating divergent views on how far diversification translates into competitive gains.

Strategic Restructuring

Table 3: Structures reviewed or changed in the last 10 years (n = 112)

Structure	Frequency	Percent
Operational structure	24	21.4
Investment structure	20	17.9
Finance structure	16	14.3
Governance structure	11	9.8
All of the above	37	33.0
None	4	3.6
Total	112	100.0

Most banks had reviewed or changed at least one of their structures over the previous ten years. A third of respondents (33.0%) reported that their bank had changed its operational, investment, finance and governance structures altogether. Where a single structure was changed, it was most often the operational structure (21.4%), while governance structures were least often changed (9.8%). Only 3.6% reported no structural change.

Table 4: Descriptive statistics for strategic restructuring (n = 112)

Statement	Mean	SD
The leadership and governance structures are flexible to the organizational needs as they unfold	4.12	0.918
The bank's operating systems and structures are simple to execute	4.13	0.773

Statement	Mean	SD
Part of the restructuring entails the adoption of ICTs and digital innovations for seamless delivery of banking products and services	4.30	0.745
The bank's capital structure is reviewed and adjusted in response to the market forces	4.09	0.766
The bank's loan products are restructured upon the customer's need or request for unconstrained business and sustainability	4.12	0.818
The bank has downsized its human resources in order to contain manpower costs	3.88	1.063
The bank adopts new systems and procedures to improve customer experience and value	4.12	0.825
Average	4.11	

Respondents agreed that their banks practised strategic restructuring (average M = 4.11). The adoption of ICTs and digital innovations as part of restructuring was rated highest (M = 4.30), while downsizing to contain manpower costs was rated lowest and showed the widest spread of opinion (M = 3.88, SD = 1.063). Respondents also believed to a large extent that restructuring influences their bank's competitiveness (M = 4.10, SD = 0.880). Restructuring in Kenyan banks therefore appears to centre on technology and systems rather than on staff reductions.

Competitive Advantage

Table 5: Descriptive statistics for competitive advantage (n = 112)

Statement	Mean	SD
The bank thrives in providing highly valued products and services at relatively low cost	4.01	0.905
The bank's operating systems and structures are superior	4.15	0.932
The bank adopts ICTs and digital innovations for seamless delivery of products and services	4.31	0.794
Products are narrowly tailored to each of the diverse market segments	4.02	0.977
Customers get better deals and benefits from the bank	4.17	0.826
The bank focuses on key market segments and provides unrivalled offerings to each of those segments	4.29	0.812
Average	4.16	

Respondents agreed that their banks enjoyed a competitive advantage (average M = 4.16). Digital delivery of products and services (M = 4.31) and focus on key market segments with unrivalled offerings (M = 4.29) were rated highest. Providing highly valued products at relatively low cost (M = 4.01) and tailoring products to diverse segments (M = 4.02) were rated lowest, suggesting that cost leadership and fine segmentation are less developed sources of advantage than digital delivery and segment focus.

Correlation Analysis

Table 6: Correlation between the strategies and competitive advantage (n = 112)

Strategy	Pearson r	Sig. (2-tailed)	Interpretation
Portfolio diversification	0.623**	< 0.001	Strong positive
Strategic restructuring	0.736**	< 0.001	Strong positive

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

Both strategies had strong, positive and statistically significant relationships with competitive advantage. Strategic restructuring had the stronger relationship (r = 0.736), followed by portfolio

diversification (r = 0.623). Since the study adopted a cross-sectional design, these correlations are interpreted as associations rather than evidence of causality.

Regression Analysis

Table 7: Model summary

Model	R	R^2	Adjusted R^2	Std. error of the estimate
1	0.773	0.598	0.590	0.422

Note. Predictors: (Constant), portfolio diversification, strategic restructuring. Dependent variable: competitive advantage.

The model yielded an R of 0.773, indicating a strong combined relationship between the two strategies and competitive advantage. The R^2 of 0.598 indicates that portfolio diversification and strategic restructuring jointly explained 59.8% of the variance in competitive advantage. The remaining 40.2% is explained by other factors not included in the model.

Table 8: Analysis of variance (ANOVA)

Model	Sum of squares	df	Mean square	F	Sig.
Regression	28.834	2	14.417	80.960	< 0.001
Residual	19.410	109	0.178		
Total	48.244	111			

The ANOVA results show that the model was statistically significant, $F(2, 109) = 80.96$, $p < 0.001$, indicating that it fitted the data well.

Table 9: Regression coefficients

Variable	B	Std. error	β	t	Sig.	Tolerance	VIF
(Constant)	0.308	0.307		1.002	0.318		
Portfolio diversification	0.304	0.078	0.292	3.894	< 0.001	0.657	1.523
Strategic restructuring	0.627	0.083	0.565	7.534	< 0.001	0.657	1.523

Note. Dependent variable: competitive advantage.

Both strategies had positive and statistically significant effects on competitive advantage. Strategic restructuring was the stronger predictor ($\beta = 0.565$, $t = 7.534$, $p < 0.001$), followed by portfolio diversification ($\beta = 0.292$, $t = 3.894$, $p < 0.001$). Holding the other variable constant, a one-unit increase in strategic restructuring was associated with a 0.627-unit increase in competitive advantage, and a one-unit increase in portfolio diversification with a 0.304-unit increase. The tolerance (0.657) and VIF (1.523) values show that multicollinearity was not a concern. The fitted model was:

$$Y = 0.308 + 0.304X_1 + 0.627X_2$$

Discussion

The first objective sought to determine the influence of portfolio diversification on competitive advantage. Portfolio diversification had a strong positive relationship with competitive advantage ($r = 0.623$, $p < 0.01$) and a significant effect in the regression model ($\beta = 0.292$, $p < 0.001$). Banks that add new products, invest in diverse securities, offer both debt and equity products and serve wider markets tend to enjoy a stronger competitive position. This supports Modern Portfolio Theory, which holds that spreading investments across assets that are not perfectly correlated improves the balance between risk and return (Markowitz, 1952). It is consistent with Muriuki and Musau (2024), who found that diversified revenue streams improved the financial performance of Kenyan banks, and with Adem (2023), who found that income diversification improved bank stability in Africa. The smaller effect of diversification relative to restructuring,

and respondents' uncertainty about its influence on competitiveness, echo Ogetange et al. (2022) and Adem (2023), who showed that the benefits of diversification depend on its form and level.

The second objective sought to evaluate the influence of strategic restructuring on competitive advantage. Strategic restructuring had the strongest relationship with competitive advantage ($r = 0.736$, $p < 0.01$) and the larger effect in the regression model ($\beta = 0.565$, $p < 0.001$). Banks that keep their governance structures flexible, simplify their operating systems, adopt ICTs and adjust their capital structure in response to market forces tend to be more competitive. This supports the Burke-Litwin model, which holds that organizations sustain performance by adjusting strategy, structure and systems in response to their external environment (Burke & Litwin, 1992). It is consistent with Shurie (2022), who found that restructuring generated a high level of competitive advantage among small and medium banks in Nairobi, and with Juma (2023) and Mwangi and Rugami (2021), who found that restructuring improved bank performance. The finding contrasts with Ogega (2023), who found that restructuring had a minimal effect among banks in Nakuru City. This difference may reflect the emphasis of Kenyan banks on technology-driven restructuring rather than on downsizing, which was the lowest-rated restructuring practice.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study concludes that portfolio diversification has a positive and significant influence on the competitive advantage of commercial banks in Kenya. Banks that diversify their products, investments and markets are better positioned to compete, although respondents were less certain about how far diversification translates into competitive gains.

The study further concludes that strategic restructuring has a positive and significant influence on competitive advantage and is the stronger of the two strategies. Restructuring that emphasizes flexible governance, simple operating systems, digital technology and responsive capital structures is associated with a stronger competitive position. Together, the two strategies explained 59.8% of the variation in competitive advantage.

Recommendations

Commercial banks should adopt a balanced, multi-faceted approach to restructuring rather than focusing on a single structure. Operational, investment, financial and governance restructuring should be planned together, with particular attention to governance structures, which were the least often reviewed. Restructuring should continue to prioritize ICT and digital systems that improve efficiency and customer experience, while downsizing should be used cautiously.

Banks should also ensure that diversification is demand-driven and customer-focused. Rather than simply adding products, they should design products that address specific customer needs, extend customization to individual and segment needs, and diversify investments in line with a deliberate risk–return strategy. Since respondents were uncertain about the competitive benefits of diversification, banks should track whether new products and markets actually improve their competitive position.

Limitations and Suggestions for Further Research

The study used a cross-sectional design and perception-based data from a single questionnaire, so the results show associations rather than causal effects and may be affected by self-reporting bias. The usable response rate was 56.0% of the sample. Competitive advantage was measured through respondents' perceptions rather than objective indicators such as market share or return on equity. Future studies could combine survey data with bank-level financial and market data, compare listed and non-listed banks, and extend the analysis to other financial institutions such as insurance companies and savings and credit cooperatives.

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