

The Impact of Competitive Strategies on Firm Performance: Evidence from the Nepalese Financial Services Sector

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Abstract: *This study examines how cost leadership, product differentiation, and focus strategies influence perceived firm performance in Nepal's financial services sector. Using Porter's generic strategies and the Resource-Based View as an underpinning, a quantitative approach and cross-sectional research design were adopted to collect data from 219 senior executives and department heads across 31 financial institutions. Data were analysed using SPSS for descriptive analysis and PLS-SEM for structural-model analysis. The results indicate that cost leadership plays a stronger role in improving perceived firm performance than differentiation. The focus strategy did not have a significant impact. The results suggest that strategies based on operational efficiency and extensive market reach are the most effective in a price-competitive market such as Nepal. This study is significant for managers and policy makers as it shows that, in resource-constrained environments focused cost efficiency and differentiation can become sources of competitive, customer value, and strategic decision making.*

Keywords: competitive strategies, cost leadership strategy, differentiation strategy, focus strategy, firm performance, PLS-SEM.

I. INTRODUCTION

The financial services sector is considered as the backbone of Nepal's economic development. It aids capital formation, encourages financial inclusion and facilitates industrial and commercial growth. The liberalisation reforms of the 1990s paved the way for the brisk expansion of commercial banks, development banks and finance companies, increasing the nation-wide outreach of financial services in Nepal (Paudel, 2020). The sector has moved from explosive expansion to consolidation and now increased regulation in the last few years. The number of financial institutions in Nepal has rapidly declined accompanied by an enhancement in overall stability with the introduction of policies such

as minimum capital requirements and merger directives by the Nepal Rastra Bank (NRB, 2023). Consequently, the sector became increasingly consolidated and competition in this new performance based framework intensified.

A competitive framework also was transformed by the technological changes. Digital banking services and e-payment system have changed the game for the banks and even how the customers think. All of this coupled with the pressure on the Nepalese financial institutions to run business with tight profit margins, comply with laws and separate use cases that will further segment the upcoming financial market will put Nepalese financial institutions in a fix in a very small domestic market. The foundation upon which income models were built, loosely correlated to interest margins and branch footprint growth — is not a reliable basis for generating sustainable performance. Under such conditions, the strategic decisions of institutions gain more importance.

In strategic management research, there exists scholarly recognition that competitive positioning is one of the mechanisms in the delivery of organisational success. According to Porter (1980), there are three main strategies that a firm can follow to gain competitive advantage: cost leadership, differentiation, and focus. Cost leadership relates to tight cost control efficiency; differentiation relates regarding unique value; and focus refers to the target at specific segments in the market. The Resource-Based View highlights capabilities and configurations of resources specific to a firm, as contributors to performance (Barney 1991). These theories indicate that the relationship between competitive strategies and firm performance needs further investigation.

Existing empirical studies generally suggest that competitive strategies influence firm performance, although the findings are not entirely consistent. Prior studies have found that both cost leadership and differentiation strategies are positively associated with firm performance (Acquaah & Agyapong, 2015; Islami et al., 2020). Other studies, however, generate mixed findings about the effect of such strategies particularly in constrained or low resource settings (Danso et al. 2019). The evidence about focus strategies is similarly mixed. This variation suggests that the appropriateness of competitive strategies reflects more of an industry characteristic and an institutional environment than a general principle.

A similar lack of consistency is evident in Nepal. Previous studies on Nepalese commercial banks have reported positive relationship between firm performance and cost leadership and differentiation strategies (Thapa, 2010; Upadhyay & Adhikari, 2019). However, evidence from other fields has proven contradictory (Bhattarai, 2018; Sharma et al., 2025). Indeed, most of the studies we reviewed clearly focus on specific industries and certain types of organizations. As such, the overall financial services sector has not been reviewed. Hence, the extant literature provides a limited and fragmented understanding of how competitive strategies affect firm performance in this sector.

In light of these limitations, a comprehensive analysis is required, especially with the dynamic regulatory environment and increasing competition in Nepal's financial services sector. Since financial institutions are central to allocating credits and stability of the

economy their performance matters beyond this sector. Thus, studying their strategic approaches might make the case for managers and policy makers.

In this context, the present study explores the relationship between competitive strategies and firm performance in the financial services sector of Nepal. Two objectives guide the analysis. The first is to measure the extent to which Nepalese financial institutions adopt cost leadership, differentiation, and focus strategies. Secondly, to examine how these strategies relate to the firm's performance. In this study, firm performance specifically refers to financial performance and is captured through senior executive perceptual measures.

This study contributes to the strategic management literature with empirical evidence from the under-researched context of Nepal's financial services sector. In this respect, research in this area investigates the effects of cost leadership, differentiation and focus strategies on perceived firm performance. The findings offer the chance to demonstrate potential improvements in productivity given the resource constraints, but they are also useful as concrete guidance for managers to inform strategic discussions in practice, and policymakers to achieve efficiency, innovation and long term competitiveness at the sectoral level.

II. LITERATURE REVIEW

Competitive strategies are an important element for sustainable firm performance and competitive advantage. Each company has their own way of creating value and obtaining more success. These strategic orientations are based mainly on two classic frameworks in the field of Strategic Management: Porters' Generic Strategies (1980, 1985) and the Resource-Based View (RBV) (Barney, 1991). According to Porter, firms can achieve a competitive advantage through three generic strategies: cost leadership, differentiation or focus. The cost leadership strategy prioritises producing goods at a lower price by providing standardised products with highly efficient operations and management. However, a differentiation strategy offers products or services at a unique value through quality, innovation, or brand identity. The focus strategy concentrates on specific market segments or niche markets.

The Resource-Based View (RBV), along with Porter, insists upon the role of unique resources and capabilities, tangible or intangible barriers to enter that are instrumental for a firm in successfully executing these strategies over other competitors. Firms that possess rare, valuable, and inimitable resources can convert strategic choices into competitive advantage. These combined frameworks offer a good starting point to study the impact of competitive strategies on firm performance especially in resource constrained environments like Nepal.

Cost leadership strategy. Cost leadership strategy is a strategy when a firm becomes the lowest cost producer in its industry. Reducing production and operational costs helps firms to provide competitive prices and to appeal to price-sensitive customers. According to Porter (1980), firms that pursue a cost leadership strategy can do so by taking advantage of economies of scale, simplifying operations, and implementing standardised processes. A firm can gain a larger share of the market by charging lower prices than its competitors.

Cost leadership can be very effective in intensely price-sensitive industries. For example, companies that improve efficiency, increase productivity levels and optimise their resources can become the clear choice for price sensitive consumers (Day & Wensley, 1988). However, this strategy can enhance market share but it also has risks especially in terms of customer loyalty. The price driven customer can easily switch to competition that offers a marginally better deal and an exclusive focus on cost reduction can lead to a reduction in the quality of service (Porter, 1980). Nevertheless, cost leadership is still a viable strategy in those sectors where customer demand is primarily driven by price, and where operational scale can be achieved.

Cost leadership enables firms to reduce the bargaining power of buyers and suppliers, discourages new entrants, and reduces the threat of substitutes, thereby defending the firm against competitive forces (Porter, 1990). But, companies that implement this approach have to take care of the balance between the cost-effectiveness and customer satisfaction and quality of service, as ignoring them can negatively affect the profitability in the long term.

Differentiation strategy. Differentiation strategy is creating products or services that are unique in the market due to their unique features, better quality or strong brand identity. Companies that can provide unique value can charge premium prices and develop customer loyalty. As Porter (1980) points out, firms trying to differentiate focus on innovation, customer service and branding. They offer something that competitors cannot easily copy.

When there is differentiation, consumers are willing to pay more for products and services that they believe deliver a unique value (Banker et al., 2014), which decreases price sensitivity. It also creates entry barriers because competitors may have difficulty in imitating the unique offerings that differentiate the firm (Porter, 1985). Differentiation requires the firm to be able to communicate effectively the unique value of its products or services. This can be achieved through better product design, better customer service or a better brand experience (Heskett et al., 2008).

But there are also challenges of differentiation. Firms must innovate and adapt to changing customer needs in order to remain competitive. Innovation and branding are costly and these costs can be a drain on resources, especially for firms facing stiff competition or operating in fast moving markets. Without ongoing investment in innovation, a firm's differentiated position can deteriorate rapidly (Hlavacka et al., 2001).

Focus strategy. Focus strategy is when the firm focuses on a specific market segment (or niche) either by cost leadership or differentiation. This enables a company to focus its resources on serving the specific needs of that group, giving it a competitive edge within the niche. This strategy enables the companies to customise their products and services for a specific target market, leading to stronger customer relationships and a better market position (Porter, 1980).

The focus strategy is useful in markets with different customer segments such as markets with unique needs or preferences. By focusing on these specific groups, firms can better understand customer needs and provide highly specialised products or services. The risk with this strategy, however, is that it caps a firm's market reach. If the target niche is too small or saturated, the firm may find it difficult to grow in a sustainable manner. Therefore firms must consider the possible size of the niche market, and ensure that it is sufficiently large to support long term success (Tidd & Bessant, 2009).

Firm performance. Firm performance is an important measure for the extent of a firm's achievement of its objectives such as financial and operational performance. In general terms it is measured in terms of financial metrics such as profitability, revenue growth, market share and key indicators such as Return on Assets (ROA), Return on Investment (ROI), Return on Equity (ROE), net profit margin growth and market share growth. Traditional performance metrics are financial-data based, while this study is based on perceived financial performance, which refers to the managers' evaluation of their firm's financial health in relation to their competitors (Taouab & Issor, 2019).

Perceived financial performance provides useful insights into managerial perceptions of profitability, competitive position and strategic success. Even though there might be objective financial data, subjective evaluations are helpful to explain how executives perceive these metrics and make strategic decisions (McDermott & Prajogo, 2012). This is especially true in sectors such as banking where a firm's success is determined by both financial and non-financial factors. Managers' views of financial performance play an important role in shaping strategic decisions and help explain how strategic initiatives affect overall performance and competitive position (Homburg & Jensen, 2007).

The literature, rooted in Porter and RBV, suggests that each competitive strategy can improve perceived firm performance if it is effectively implemented with firm-specific resources and capabilities. Together, these perspectives provide a clear foundation for developing hypotheses to examine how cost leadership, differentiation, and focus strategies are associated with perceived performance in Nepal's financial services sector.

Hypothesis development: Cost leadership strategy and firm performance. A cost leadership strategy enables a firm to compete by controlling operational and production costs without compromising an acceptable standard of quality (Porter, 1980). This strategy mentions that companies are usually efficient, realise economies of scale, use resources appropriately, and improve processes to provide products or services at lower prices than their competitors (Islami et al., 2020). This helps them to attract price sensitive customers and improve their market standing.

Earlier research on the relationship between cost leadership strategy and firm performance has reported mixed results. Some studies report a positive effect. For example, Kankam-Kwarteng et al. (2019) concluded that a strategy of cost leadership leads to improved performance at the firm level. In a similar way, the result of Islami et al. (2020) found that cost-leading practices result in better performance. Ali et al. (2022) stated that cost

leadership in turn achieves financial performance through being both efficient and profitable. But some research does show negative impacts. Yuliansyah et al. (2016) also pointed out that any over-concern with cost effectiveness may harm the quality of service and diminish the performance of firm. Birjandi et al. (2014) reported a similar finding. Their study found a negative relationship between cost leadership and return on assets. This suggests that cost reduction alone does not always lead to improved performance. Despite these mixed findings, most of the studies support the argument that successful implementation of cost leadership strategy can improve firm performance especially when firms strike a balance between cost efficiency and service quality. Based on the above discussion, the following hypothesis is suggested:

H1: Cost leadership strategy has positive effect on firm performance.

Differentiation strategy and firm performance. Differentiation strategy is the firm's effort to produce unique products or services that customers see as different and therefore allow it to gain a competitive advantage (Porter, 1980, 1985). Firms compete on product design, quality, innovative features, advanced technology, customer service and strong brand identity. These features are difficult to quickly replicate by competitors, making differentiation a more sustainable strategy than cost-based ones (Islami et al., 2020).

A differentiation strategy allows firms to charge premium prices, reduce price sensitivity and create customer loyalty. Thus it can improve the profitability and strengthen the market position. Several studies have found that differentiation has a positive effect on firm performance. For example, Soltanizadeh et al. (2016) and Islami et al. (2020) found that differentiation strategy positively influences firm performance. Ali et al. (2022) also conclude that differentiation is good for firm performance, as it provides value creation and competitive position. But some studies were inconclusive. Furthermore, it is also proven that differentiation still does not deliver superior performance if the products or services can be easily imitated by competing firms or firms do not possess sufficient resources within the firm (Acquaah & Agyapong, 2015; Kharub et al., 2015). Often the effectiveness of differentiation strategy depends on factors such as technological capability, managerial skills and marketing effectiveness (Ortega, 2015). In highly competitive industries, differentiation is more critical because firms need to stand out to attract and retain customers (Atikiya, 2015; Demba et al., 2018). The hypothesis proposed on the basis of the above discussion is as follows:

H2: Differentiation strategy has a positive and significant effect on firm performance.

Focus strategy and firm performance. Focus strategy is a strategy that focuses on a particular market segment or group of customers, and develops products or services to meet their specific needs (Porter, 1980). Targeting a well-defined group enables firms to understand customer preferences better and to provide more relevant and customised solutions. This helps to develop good relations with the customers and increases the loyalty of the customers which can enhance the performance of the firm. This strategy is

particularly useful for companies trying to differentiate themselves in a competitive market (Baker & Sinkula, 2005; Zahay & Griffin, 2010).

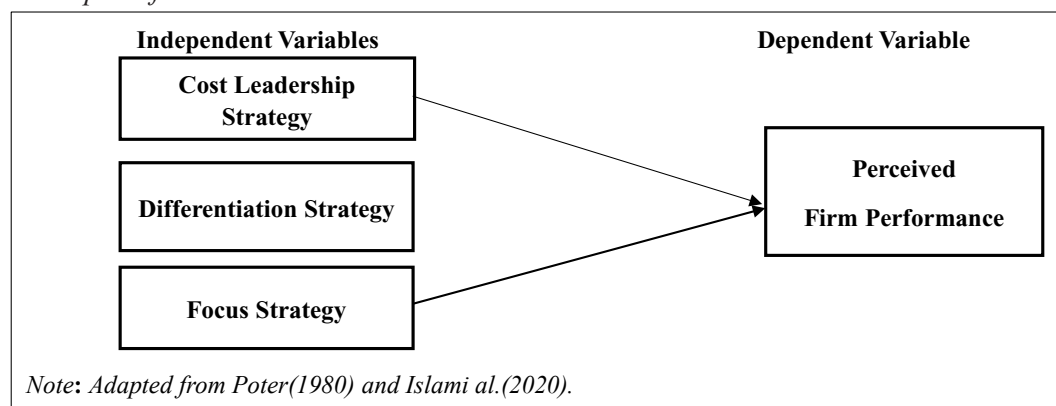
Focus strategy can improve the performance of firms by providing specialised products and keeping close contact with their customers, as demonstrated in previous studies. For example, Ge and Ding (2005) and Zahay and Griffin (2010) found that making a specific customer group the focus increases satisfaction and creates repeat business. Furthermore, this strategy enables firms to better focus their resources on the needs of customers, which increases their responsiveness to change in the market (Ge & Ding, 2005).

However, the success of this strategy depends on how much a firm can adapt to changing customer needs through time (Baker & Sinkula, 2005). Some studies also show that firms that adopt focus strategy can achieve higher profits through serving niche markets that are commonly neglected by larger competitors (Valipour et al., 2012; Alkasim et al., 2018). The above discussion leads us to the following hypothesis:

H3: The focus strategy significantly positively affects the firm's performance.

Based on the literature review and the proposed hypotheses, the research model is presented in Figure 1.

Figure 1
Conceptual framework



III. RESEARCH METHODOLOGY

This study is grounded in positivist research philosophy. A deductive approach is adopted to analyse the effect of competitive strategies on firm performance. The study employed both descriptive and causal research designs. The descriptive design was used to describe the study variables, while the causal design helped examine the relationships among them. The data collection was done by a structured questionnaire, quantitative and cross-sectional survey.

This study focuses Nepalese financial services sector include: commercial banks, development banks and finance companies. Microfinance institutions and cooperatives

were excluded to maintain comparability and keep the scope of the study manageable. At the time of data collection, the sector comprised 54 institutions in total. Of these, 20 were commercial banks, while development banks and finance companies accounted for 17 institutions each. From these, 14 commercial banks were selected by stratified sampling to represent different ownership structures (state-owned, joint venture and public). Purposive sampling was used to select 10 development banks and 7 finance companies.

The study relies predominantly on primary data collected using purposive sampling from senior executives and department heads as they are highly engaged, both practically and theoretically with strategic decision-making processes. The secondary data used for the literature review mainly consists of scholarly articles and books to explore pertinent concepts along with earlier findings regarding competitive strategies and firm performance.

Using Soper's (2025) online calculator that is commonly used in SEM and PLS-SEM, we computed the sample size required. The calculation used an anticipated effect size of 0.30, a target power of 0.95, four latent variables, 24 observed variables, and an alpha level of 0.05. Results indicated that the minimum sample size for model estimation was 200, while a sample size of 207 was necessary to detect effects. Thus, to obtain appropriate statistical power and trustful analyses, the target was set at least 207 valid responses.

A total of 250 questionnaires were distributed using self-administered methods. The response rates were enhanced by weekly follow-ups through e-mails and phone calls. A total of 228 questionnaires were submitted (response rate 91.2%). After screening all responses, 12 responses were found to be incomplete or inconsistent, and 219 valid responses (final usable rate of 87.6%) were included in the analyses. The sample size was deemed adequate for the study.

The questionnaire had two parts: demographic data (age, sex, position, and work experience) and items to measure the main study constructs. This study consisted of four main constructs. The independent variables were cost leadership, differentiation, and focus, and the dependent variable was perceived financial performance. All constructs were measured using a five-point Likert scale to categorise a subject's level of agreement from a response of 1 for strongly disagree to a response of 5 for strongly agree.

The cost leadership strategy (6 items), differentiation strategy (7 items), and focus strategy (4 items) constructs were measured through the scales illustrated in previous studies (Porter, 1985; Allen & Helms, 2006; Acquaah & Yasai-Ardekani, 2008). Perceived Financial Performance was assessed by seven items derived from Kaplan and Norton (2002), Danso et al. (2020) and Allen and Helms (2006), and adapted to the research context, namely ROA, ROI, ROE, profit margin growth, market share growth, competitive position, and overall financial performance, to ensure reliability and validity.

SPSS version 25 was used to perform descriptive statistics and demographic data analysis. The measurement and structural models were tested using Smart PLS-SEM version 4.1.1.7 (Hair et al., 2019).

IV. RESULTS AND DISCUSSION

Demographic profile of respondents. Table 2 presents the background characteristics of the respondents, including gender, age, education, position, and length of service. Data was collected from senior executives and heads of departments in selected financial institutions. The respondents are leaders in their managerial positions with relevant professional experience and are therefore well placed to provide reliable and insightful responses to the study.

Table 2
Respondents profile

Description	Frequency	Percentage (%)
<i>Gender</i>		
Male	156	71.2
Female	63	28.8
<i>Age</i>		
Below 30	2	0.9
31–40	52	23.7
41–50	103	47
51–60	62	28.3
<i>Education</i>		
Bachelor's	22	10
Master's	186	84.9
MPhil	9	4.1
PhD	2	0.9
<i>Position</i>		
CEO	13	5.9
Asst. CEO	13	5.9
Deputy CEO	13	5.9
CFO	11	5
HOD	169	77.2
<i>Service Period</i>		
Below 5 years	22	10
5–10 years	72	32.9
10–15 years	80	36.5
Above 15 years	45	20.5
Total	219	100

Note: SPSS output based on primary data (2025).

Descriptive statistics. Table 3 presents the descriptive summary of the study variables included in the analysis. The result reveals that the cost leadership strategy (CLS) has the highest mean score ($M = 4.028$, $SD = 0.554$), which shows that financial institutions

are highly focused on cost efficiency and operational control. The product differentiation strategy (PDS) ($M = 3.665$, $SD = 0.621$) is the next strategy and indicates a moderate level of focus on unique products and services. Similarly, focus strategy (FS) ($M = 3.589$, $SD = 0.633$) also indicates a moderate level of adoption. This indicates that institutions are targeting selected market segments. Finally, the perceived financial performance (FP) ($M = 3.790$, $SD = 0.566$) indicates that respondents perceive their institutions' financial performance as quite satisfactory. Overall, the mean values above the middle point show that all strategies are being implemented to a significant degree, with cost leadership as the most prominent strategy. The relatively low values of standard deviation across variables indicate that views of the respondents are fairly consistent.

Table 3

Descriptive statistics

Study variables	Mean	Standard deviation
CLS	4.028	0.554
PDS	3.665	0.621
FS	3.589	0.633
FP	3.79	0.566

Note: Cost Leadership Strategy (CLS), Financial Performance (FP), Focus Strategy (FS), Product Differentiation Strategy (PDS).

Measurement model assessment. Before testing the structural model, the measurement model was assessed using PLS-SEM to ensure the reliability and validity of the constructs (Barclay et al., 1995). As all constructs were modelled reflectively, the analysis covered indicator reliability, internal consistency, convergent validity, and multicollinearity.

Indicator reliability. The reliability of the indicators was assessed by using outer loadings of every item on its construct. Hair et al. (2019) suggested dropping items with factor loadings less than 0.70 to improve the quality of measurement. Therefore, CLS5 and CLS6 of cost leadership strategy, PDS1, PDS2 and PDS7 of product differentiation strategy and FS4 of focus strategy were removed for the further analysis. The rest of the items had acceptable loadings with most of the items exceeding the recommended threshold. Some items with slightly lower loadings (e.g., CLS3 = 0.673 and FS3 = 0.604) were retained as acceptable and added construct validity.

Internal consistency reliability. Internal consistency of the constructs was evaluated using Cronbach's alpha and composite reliability (CR). The Cronbach's alpha values ranged between 0.701 and 0.871, while composite reliability values fell between 0.799 and 0.900. Since all values exceeded the recommended cut off value of 0.70, the constructs demonstrated satisfactory reliability.

Convergent validity Average Variance Extracted (AVE) served as the basis for evaluating convergent validity. All constructs had AVE values from 0.526 to 0.596 which were greater

than the minimum threshold of 0.50 (Fornell & Larcker, 1981), indicating that convergent validity was obtained.

Multicollinearity. The Variance Inflation Factor (VIF) was used to assess multicollinearity. All VIF values were between 1.255 and 2.461, which is well below the threshold of 3.3 (Diamantopoulos & Siguaw, 2006) confirming no multicollinearity issues.

Overall, the measurement model demonstrates satisfactory reliability and validity. The detailed results are presented in Table 4.

Table 4
Measurement model

Construct	Item	Loadings	Cronbach's alpha	Composite reliability	AVE	VIF
Cost Leadership Strategy	CLS1	0.72	0.701	0.815	0.526	1.269
	CLS2	0.714				1.32
	CLS3	0.673				1.289
	CLS4	0.788				1.373
Product Differentiation Strategy	PDS3	0.864	0.779	0.854	0.596	1.687
	PDS4	0.784				1.55
	PDS5	0.729				1.585
	PDS6	0.702				1.379
Focus Strategy	FS1	0.889	0.702	0.799	0.576	1.255
	FS2	0.756				1.431
	FS3	0.604				1.306
Firm Performance	FP1	0.73	0.871	0.900	0.563	2.146
	FP2	0.774				2.461
	FP3	0.758				2.129
	FP4	0.793				1.777
	FP5	0.656				1.569
	FP6	0.747				1.88
	FP7	0.786				1.999

Note: Average Variance Extracted (AVE), Variance Inflation Factor (VIF)

Discriminant validity. The results of the HTMT ratios and the Fornell–Larcker criterion for discriminant validity are presented in Table 5. The results show that the HTMT values are below the recommended level of 0.90, indicating that the constructs are distinct from each other. In the Fornell–Larcker matrix, the square root values of AVE presented along the diagonal were greater than the correlations between constructs. This indicates that each construct was more strongly associated with its own indicators than with other constructs in the model. The results therefore provide additional support for discriminant validity. Overall, these results provide strong evidence of discriminant validity, confirming that the measurement model is reliable and robust.

Table 5*Discriminant validity*

HTMT ratio					Fornell-Larcker Criterion			
	CLS	FP	FS	PDS	CLS	FP	FS	PDS
CLS					0.725			
FP	0.445				0.359	0.75		
FS	0.406	0.144			0.262	0.125	0.759	
PDS	0.674	0.345	0.605		0.502	0.315	0.437	0.772

Note: Cost Leadership Strategy (CLS), Financial Performance (FP), Focus Strategy (FS), Product Differentiation Strategy (PDS).

Structural model evaluation. After confirming that the measurement model was satisfactory, the structural model was assessed using PLS-SEM in SmartPLS 4. To test the significance of the hypothesised relations, a bootstrapping procedure with 5,000 resamples was used. The analysis focused on direct effects only; therefore, the structural model was evaluated using path coefficients, coefficient of determination (R^2), and effect size (f^2).

Direct effects (hypothesis testing). The results of the direct relationships are shown in Table 6. The analysis shows that cost leadership strategy (CLS) positively and significantly affects perceived financial performance ($\beta = 0.271$, $t = 3.712$, $p < 0.001$). Therefore, H1 is supported. This suggests that firms focused on cost efficiency and operational control are more likely to have better financial outcomes. Similarly, product differentiation strategy (PDS) also shows a positive and significant impact on financial performance ($\beta = 0.192$, $t = 2.468$, $p < 0.05$). This indicates that the provision of unique products and services is associated with better financial performance. On the other hand, focus strategy (FS) is negatively and insignificantly related to financial performance ($\beta = -0.030$, $t = 0.356$, $p > 0.05$), which implies that focusing on particular market segments does not significantly improve performance in this context.

The coefficient of determination (R^2). The R^2 value for financial performance is 0.154. This means that cost leadership, differentiation and focus strategies jointly explain 15.4% of the variance of financial performance. This means that the model is moderately explanatory.

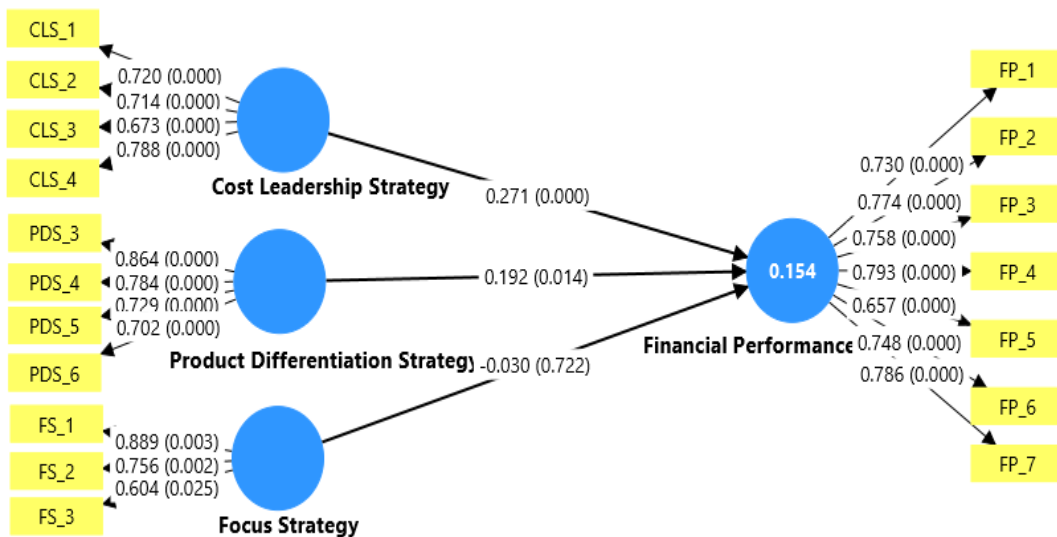
Effect size (f^2). The effect size results show that the cost leadership strategy has a small but meaningful effect on financial performance ($f^2 = 0.064$), while the product differentiation strategy has a weaker effect ($f^2 = 0.028$). In contrast, focus strategy exhibits a negligible effect ($f^2 = 0.001$), confirming its limited contribution to performance outcomes.

Model evaluation. The fit indices of the model are acceptable. The SRMR value is 0.075 which is lower than the recommended threshold of 0.08. The NFI value is 0.81 which indicates an acceptable level of model fit.

Table 6*Results of direct relationship hypotheses, R^2 and f^2*

Hypotheses	Effect between	β (O)	T-statistics	P-values	R^2	f^2
H1	CLS $\rightarrow$ FP	0.271	3.712	0.000***	0.154	0.064
H2	PDS $\rightarrow$ FP	0.192	2.468	0.014**	0.154	0.028
H3	FS $\rightarrow$ FP	-0.03	0.356	0.722	0.154	0.001

Note: ** $p < 0.001$, * $p < 0.05$, Cost Leadership Strategy (CLS), Financial Performance (FP), Focus Strategy (FS), Product Differentiation Strategy (PDS).

Figure 2*PLS bootstrapping (Structural model)*

Discussion. This study examines how competitive strategies influence firm performance in Nepal's financial services sector. The findings provide important insights into the effects of different strategic approaches on financial outcomes in a competitive environment.

The results showed that cost leadership strategy ($\beta = 0.271$, $p < 0.001$) and product differentiation strategy ($\beta = 0.192$, $p < 0.05$) had a positive and statistically significant influence on firm performance. Thus, H1 and H2 are supported. Companies that emphasise cost efficiency, operational control and differentiated services tend to perform well. These results are consistent with the previous studies (Porter, 1985; Powers & Hahn, 2004; Parnell, 2011; Anwar & Shah, 2021; Upadhyaya & Adhikari, 2019; Islami et al., 2020) which confirm that the firms can achieve competitive advantage through cost efficiency or differentiated services.

From a theoretical perspective, these findings support Michael E. Porter's (1985) competitive strategy theory, which posits that firms can achieve a competitive advantage through either low-cost production or differentiation of their offerings. This is also consistent with the

Resource-Based View (RBV) (Barney, 1991) focusing on the importance of efficient utilisation of internal resources and capabilities for superior performance.

Differentiation strategies enhance performance through unique and innovative services. This creates superior customer value, builds loyalty and improves competitive positioning and helps firms to attract and retain customers. However, the greater impact of cost leadership than differentiation indicates that efficiency could be more important than innovation in the Nepalese financial services sector. As the competition intensifies and customers become more price sensitive, firms are more likely to respond on cost advantages than on differentiated offerings.

On the other hand, focus strategy ($\beta = -0.030$, $t = 0.356$, $p = 0.722$) does not have a significant effect on financial performance. Therefore, H3 is not supported. In contrast to such past studies (e.g., Allen and Helms, 2006; Spanos et al., 2004) that argue targeting niche markets (cost leadership or differentiation) may yields customized solution for target segments and enhance customer loyalty and competitive advantage. These results are also consistent with the report of Thapa (2010) and Sharma et al. (2025). However, Parnell (2011) and Pertusa-Ortega et al. (2009) argue that focus strategy is effective only in the presence of favourable market structure, competition and available resources. A focus strategy may not be a good strategy in the highly competitive and resource-constrained Nepalese financial services sector especially if firms are resource constrained or competition is intense.

The Resource-Based View (RBV) also justifies these results. However, a focus strategy seldom yields the performance gains observed with market leaders when firms lack the resources to target individual market segments effectively. The RBV theory argues that firms maintain a competitive advantage only by the possession of valuable and rare resources. In fact, narrowing the target may restrict the accessing of these resources.

V. CONCLUSION AND IMPLICATIONS

This study examined how competitive strategies influence firm performance in Nepal's financial services sector. The results indicate that cost leadership strategy is the most common strategy and has the strongest positive and significant impact on firm performance followed by product differentiation strategy which has a positive but relatively weak impact. Focus strategy is a practiced strategy which have a negative and insignificant relationship to performance.

In Nepal's price sensitive and competitive financial market, firms do better with strategies that emphasise cost efficiency and wide market reach. Cost leadership increases efficiency and competitiveness, and differentiation increases customer value through additional services. However, strategies aimed at narrow market segments do not seem to be as effective. This suggests that efficiency-led strategies are more preferred than niche-led strategies in this context.

On the practical side, financial institutions must pay attention to cost effectiveness, better process efficiency, and service improvement to improve their performance. The core competitive priority is cost leadership; however, service differentiation should be implemented as an additional strategy to increase customer value and market position. Our analysis shows that policymakers can facilitate digital transformation initiatives in the financial services industry to enhance competitiveness by delivering greater operational efficiency. The findings also confirm Porter's competitive strategy framework and the Resource- Based View by demonstrating the significant role of positioning and the successful deployment of firm resources in determining superior performance.

This study provides valuable information; however, some limitations exist. Cross-sectional data make it impossible to assess long-term effects; hence, longitudinal studies should be conducted in the future. A focus on a single sector means limited generalisability. Future research may investigate other industries or countries. More generally, perceptual data can reflect individual sense perceptions, and future studies could therefore apply objective standards or a range of measures. Finally, pure quantitative approaches may neglect the depth of knowledge; future studies should consider mixed methodologies to develop a multi-faceted understanding of the strategy–performance relationship within a dynamic and uncertain market environment.

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