

ABSTRACT

Commercial banks contribute to; mobilising saving for capital formation, financing industry, financing trade, agriculture and also helps in monetary policy. Moreover in Kenya, the commercial banks have contributed to 20% of GDP and have generated averagely 45% of employment .Despite the importance of the sector, the commercial banks in Kisumu County are yet to reach with the optimal demands of the customers whose literacy level is steadily increasing by 15% as compared to other counties. Although much research has been done on e-banking and geographical diversification strategies, little has been done to realize the effect of diversification strategies and those done have not dwelt much on product, market and internal growth diversification .The purpose of this study was to determine the effect of diversification strategies on performance of commercial banks in Kisumu County. The specific objectives were to evaluate the product diversification strategies, to establish the effect of market diversification strategies and also to establish the internal growth diversification strategy on performance of commercial banks in Kisumu County. The study was guided by Survival based theory and Resource based- view (RBV) .The study assumed a cross-sectional research design. The target population was 143 respondents comprising 34 managers and 109 HODs drawn from the 34 banks in Kisumu County. Pilot study was done on 2 managers and 3 HODs, primary data was collected using structured questionnaire that was distributed to the 138 respondents. Inter-rater reliability was used to confirm how reliable the questionnaire was and an expert's view was used to confirm its validity. Quantitative and qualitative research approaches was applied. Descriptive Statistics like frequencies, percentages, means and standard deviation were used to analyse the data. Inferential statistics like linear regression and ANOVA was also used.The study set the diversification coefficient of multiple regressions revealed ($R^2= 0.537$, $P<0.05$).This indicated that the overall percentage explained by the model was 53.7%. Findings also revealed that product diversification strategies ($\beta_1=.093$ $P >.05$) and market diversification strategies ($\beta_2=.141$, $P>.05$) do not significantly contribute to performance. However internal growth diversification significantly contributed to performance ($\beta_3=.139$, $P<.05$) this implied that one standard deviation in internal growth diversification strategy will result to a change in 0.693 units in performance. Therefore it is concluded that an increase in internal growth strategy will lead to improved performance. The study therefore recommends for the commercial banks to adopt these strategies. Commercial banks can be enlightened on the benefits of applying internal growth diversification