EFFECT OF DIVERSIFICATION STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS IN KISUMU COUNTY, KENYA

BY

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DECLARATION

I declare that this Research Project is my original work and has never been submitted for examination in any university.

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Supervior

This Research Project has been submitted for examination with my authority as the university supervisor.

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I am forever grateful to my loving and supportive family for being patient with me as I worked late in the night on this project.

DEDICATION

I dedicate this work to the almighty God who has blessed me with life and good health, my parents, my siblings and friends.

To my Parents: My father Tobias Mbewa and my mother Theresa Mbewa for parental guidance throughout my life, prayers, encouragement and tireless efforts to have made me who I am today.

To my siblings: Vincent, David, Roselyne, Sylvia and Gordon; I thank you for your unbelievable support, patience, and as source of inspiration throughout my academic pursuits. I did all this for you.

To all my friends: They were source of inspiration and gave me challenge that I did not lose my Focus.

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 (β_1=.093 $P>.05$) and market diversification strategies (β_2= .141, $P>.05$) do not significantly contribute to performance. However internal growth diversification significantly contributed to performance (β_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

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ABBREVIATIONS AND ACRONYMS

ANOVA Analysis of Variance

CBK Central Bank of Kenya

GDP Gross Domestic Product

GoK Government of Kenya

HOD Head Of Department

NO. Number

ROA Return on Asset

ROE Return on Equity

OPERATIONAL DEFINITION OF TERMS

Commercial banks: Commercial banks are profit seeking business firms that deal in money and credit. A commercial bank is therefore a financial institution which deals with money in the in the sense that it accepts deposit of money from the public to keep in safe custody .Banks also deal in credit by advancing out funds received as deposits to needy people who are then obligated to pay at a later date.

Diversification; occurs when an organization moves into areas that are clearly differentiated from its current business

Organization Performance: extent to which an investment is profitable, and its capability to efficiently meet its goals

Strategies: outlines the fundamental steps an organization intends to take in order to achieve a set of objectives

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CHAPTER ONE

INTRODUCTION

This chapter focuses on the background of the study, the statement of the problem, the objectives of the study, research questions, and significance of the study. The scope and limitations of the study, theoretical framework and the conceptual framework are also given.

1.1 Background of the Study

In the contemporary competitive business environment, business organizations need to embrace new ideas in order to stay ahead of the competitors, so as to do that the management formulates and implements the strategies. Diversification is one of the strategies that have been used by several organizations across the globe in order to enhance their business objectives. Marinelli (2011) asserts that most organizations around the world consider diversification as one of the ways of value creation. In the context of turbulent business setting, organizations have to learn to acclimatize themselves to remain very competitive over time (Auster et al., 2011). Consequently, intentional and organized learning has to be there to an ongoing systematic shift between the business setting and the organizations strategies that result in efficiency and effectiveness improvement so as to increase their performance and achieve long term growth (Grant, 2008). He further argues that for organizations to remain successful businesswise, understanding the challenges, opportunities and threats provided by the external setting is needful, for the organization to take advantage of the opportunities and avoid threats by applying appropriate response strategies as well as developing the diversification strategies that will enhance their performance, survival and competitiveness. Diversification has been a key strategy employed by organizations in an attempt to improve their attractiveness and performance. In the banking industry, diversification boosts the performance as it helps in initiating actions which leverage in the existing internal as well as external resources which in turn support other venture hence complement the overall performance of the organization. Diversification helps organization build the urgency and the need of improving shareholders value by using existing resources. Ansoff (1965) argued that diversification is manifested through product development, market development and market penetration representing product market structure changes.

This study is anchored on the Survival based theory and Resource Based View (RBV) theory. Survival based theory suggests that diversification allows organizations to get bigger market power through vertical integration and by blocking out other competitors. More precisely, Miller (2009), contended that diversified organizations reduces their prices and subsidizing their businesses thus are able to raise barriers for entry and are able to squeeze their competitors out of the market. In the Resource Based View, it is argued by researchers that the allotment of assets in the various available markets with independent cash flows reduces the impact of un-universal risk coming from external eventualities in each of the various markets. The banking industry has been cited as one of the industries in which cut throat competition thrives. According to Nyatich (2009), competition has been on the rise in the Kenyan banking industry such that even international banks, in maintaining and enlarging their market shares, have been forced to change their strategies from the larger corporate strategy. Just like other financial institutions, commercial banks have in essence been provoked to better their performance in order to remain significant in the financial market. Diversification as espoused by Miller (2009) in the Survival based theory has been widely used by firms world over to ensure there is vertical integration and competitors are blocked thus relevancy in the market place and as well enhancing their absolute performance.

Product diversification as strategy has been widely discussed in the strategy field, where the majority of studies have examined the performance consequences of diversification even though the nature of this relationship still remains largely unresolved (Park, 2002). Early studies have argued that product diversification was valuable: from a conceptual perspective, increasing levels of product diversification should have a positive influence on performance due to economies of scope and scale, market power effects, risk reduction effects, and learning effects.

There are several definitions that have been provided in an effort to define diversification as a strategy. According to Ansoff (1965), a diversification strategy is the entry into new markets with new products, whereas Kamien and Schwartz (1975) define it as a firm’s degree of product and market involvement. Most scholars use the definition provided by Rumelt (1974) who refers to diversification as the strategy of adding related product or service lines to existing core business, either through acquisition of competitors or through internal development of new products or services, which implies increase in available managerial competence within the firm. From the above definitions, diversification is a matter of degree of relatedness among the activities carried out by a firm. Product relatedness is defined as the extent to which a firm’s different lines of business are linked by a common skill, market, purpose, or resource (Luo, 2002). In practice, diversification is normally measured as the number of activities a firm undertakes in different sectors. Constable and McCormick (2009) argued that among the managerial possibilities presumed as the explicit contributor to the economic functioning of organizations is the extent of diversification.

Therefore there is limited information on product diversification and those that have looked at product diversification as a strategy have not looked at the following parameters; mobile transfer services, mobile internet and banking, asset financing, bank assurance and agency banking.

Market diversification is a strategy where organizations take a bigger share of its prevailing markets with its current product range (Wheeller & Hunger, 2008). An organization builds on its current strategic abilities and requires not endeavoring into unchartered boundaries, essentially maintaining the range. Moreover, greater market share translates into increased control on the buyers and suppliers, economies of scale through more efficient manufacturing ,distribution, purchasing power and overhead sharing and lastly the experience curve benefits (Johnson et al., 2008).

According to Johnson et al., (2008), in market diversification strategies, the main concern is on the development and exploitation of expertise thoroughly in the limited competitive grounds. It involves increasing the use of present products in present markets. In the building on an organization‟s competencies and achievement of a competitive edge, organizations use concentrated progress by ensuring concentration in the product market segment it knows best. Pearce and Robinson, (2007) inferred that this strategy is helps in the growth thus increased production and better coverage the product-market segments.

According to Dibb (2007), diversification of organizations is by the extension of the operations‟ scope into multiple markets and a diversification strategy is trailed as explained by Chandler (2010), as when organizations have opportunities embedded in market structures and technology as well as opportunities for growth in the organization’s basic business. Boyd et al., (2004) reported that in multiple markets, the assumption is that there are some raised benefits that may be attained by diversification through a more competent utilization of organizational resources. Diversification increases profitability although only up to the limit of complexity, moreover organizations have to learn to acclimatize themselves in changing environment.

Much as there is information on market diversification, the existing literature is scanty on market diversification and thus the research will try to bring more literature to academia.

Westerlund and Leminen(2012)define growth strategy as a means in which organizations plan in order to increase in size, volume and turnover. Growth and expansion is used interchangeably to refer to the same thing by most scholars (Kuuluvainen,2011 and Geroski,2005)
For organizations to have a competitive advantage against their competitors, it is needful for them to engage proactively in strategies that will enable them to respond to the environmental challenges besides the organization's achievements and for their continued existence in the markets. According to Samara (2007), internal growth is business expansion rate achieved by increasing production in the organization as opposed to involvements outside the organization like mergers, acquisitions and take-overs. Emefiele, (2008); Emmanuel, (2008), argued that brand name and the trust from customers is key to a bank and thus in achievement of internal growth, there is need of having a strategy founded on customer retention and services offered, employee fulfillment, dynamism in branch management and availability of attractive value plans for each market segment and customer profitability (Atkearney, 2005; Emmanuel, 2008 & Highbeam, 2008).

Therefore there is little literature on reward schemes, retained earnings as a parameter of internal growth strategy under effect of diversification strategy on performance of commercial banks in Kisumu County.

1.1.1 Organization Performance

According to Murimiri, (2009), performance is the extent to which an investment is profitable. Basically, performance is the criteria through which an organization determines its capability to survive in the corporate world. Robbins (2000) argued that organization performance is related to the efficiency and effectiveness of the firm. Maxine, (2012) argued that banks are the intermediaries in the transactions between money demanders and suppliers at a given consideration.

According to Pandey (1999), the three sources of variations in firm performance include analytical models that are usually used, information concerning the apparent determinants of variations in performance and finally the theoretical ideas. Financial measures of organizational performance include profit, profit ratios , market share and revenue growth . Kirkendall (2013) also asserts that there are many other measures for organizational performance measurement. One of these measures includes the use of financial measures such as profitability of the organization. Under this measure the outcome to input ratio is determined using ration such as the Return on Assets (ROA). An organization can also use quality in measuring performance. In this case the actual quality and its timeliness are measured against the expected. The level of productivity and innovation of an organization can also be used to measure performance. Innovation measures the ability of the organization to create change whereas productivity focuses on the ratio of output to input (Kirkendall, 2013). There are three economic objectives which describes an organization‟s performance as given by strategic direction **(**Pearce & Robinson, 2007). These include existence in the market, progress and prosperity. An organization‟s growth is connected explicitly to its existence and prosperity. Existence means having a long term strategy to ensure that business remains and the inability to do so implies that the organization is unable to meet the stakeholders‟ claims, progress in the number of markets served and the variety of products offered and finally in the technologies used in the provision of goods and services. Progress is shown by change, and a proactive change that is critical in a changing business setting.

Profitability is the main objective of business organization. No matter how profit is measured or defined, it indicates an organization’s ability to satisfy the claims of all stakeholders (Pearce & Robinson, 2007). Decisions must therefore be based on long term goals as short term goals more often produce misleading profit results which regulate the rising issues of customers, suppliers, creditors, ecologists and regulatory agents.

1.1.2 Banking Industry in Kenya

Banks are profit making financial institutions that play a significant role in the financial system. Commercial banks offer a wide range of corporate financial services that address the specific needs of private and public enterprise. They provide deposit, loan and trading facilities. Banks are also differentiated from retail banks that cater to individual clients only (Central Bank of Kenya, 2013). Banks in Kenya play a number of roles in the financial stability and cash flow of the country's private sector. They process payments through a variety of means including telegraphic transfer, internet banking and electronic funds transfers. They also issue bank cheques and drafts, as well as accept money on term deposits. They act as moneylenders, by way of installments loans and overdrafts. Loan Options include secured loans, unsecured loans and mortgage loans (Central Bank of Kenya, 2013). As at December 2013 there were forty three banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus.

According to the Central bank of Kenya (2013), there are a total of forty three licensed commercial banks in the country. Over the last few years, the banking sector in Kenya has continued to grow in assets, deposits, profitability and products offering. There are several important functions that are provided by banks in Kenya. These functions range from provision of letters of credit, performance bonds, security underwriting commitments and various types of balance sheet guarantees. Banks also take the responsibility for ensuring that the documents they provide are appropriately secured. In today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that commercial banks can exploit to establish a competitive edge. The banking industry in Kenya is facing very high competition from both local and foreign banks and the need for alternative strategies to enhance performance is eminent (Rajan & Zingales, 1998).

1.2 Statement of the Problem

The issue of diversification has assumed a position of centrality and universality in the management process. Diversification has become an increasingly important aspect of doing business in the world today. The relationship between diversification and firm performance has been the subject of abundant research in several fields. However, many concurred on the fact that there is no agreement on the precise nature of the relationship between diversification and performance. Commercial Banks in Kisumu County have implemented a number of diversification strategies. The strategies range from e-banking to geographical diversification in order to remain competitive. The aim of these strategies were to improve on banks' efficiency and effectiveness. However there is no evidence yet whether the diversification strategy has enhanced on the performance of the bank and little is known concerning the success of product diversification strategies, market diversification strategies and internal growth strategies and its effect when adopted within the banking institutions in Kisumu County.

1.3 Objective of the Study

The main objective of the study was to determine the effect of diversification strategies on the performance of Commercial Banks in Kisumu County.

1.3.1 Purpose of the study

To establish the effect of diversification strategies on the performance of Commercial Banks in Kisumu County.

1.3.2 Specific Objectives of the study

1. To examine the effect of product diversification strategies on performance of Commercial Banks in Kisumu County
2. To establish effect of market diversification strategies on performance of Commercial Banks in Kisumu County.
3. To establish the effect of internal growth diversification strategy on performance of Commercial Banks in Kisumu County.

1.4 Research Hypotheses

H_{01} There is no significant effect of product diversification strategies on performance of commercial banks in Kisumu County.

H_{02} There is no significant effect of market diversification strategies on performance of commercial banks in Kisumu County.

H_{03} There is no significant effect of internal growth diversification strategy on performance of commercial banks in Kisumu County.

1.5 Scope of the study

The study was carried out in Kisumu County, Kenya which lies on the western region of Kenya 0.0917°S; 3407680°E .It has a population of 968,909 and a land area of 2085.9km2 GoK (2009).The main economic activities are subsistence agriculture and fishery on Lake Victoria. Kisumu County is the major commercial center in Western Kenya. It has seven sub counties namely Kisumu East, Kisumu West, Kisumu Central, Seme, Nyando, Muhoroni and Nyakach. The study will use data covering a period two years (2015-2017)

1.6 Justification of the Study

Commercial Bank managers in Kisumu County will understand and appreciate the diversification strategies relating to the banking industry. Appropriate decisions will be made by managers in other financial institutions following the strategies that will be executed by the Commercial Banks in Kisumu County thus successfully expanding their operations. Challenges experienced in the adoption and implementations of diversification strategies will also be made aware to the managers thus helping them in the making of appropriate adjustments countering these challenges and in the achievement of optimal performance. The study will provide insights to regulators and policy makers on the diversification strategies enhancing the sector"s growth and functioning, which will help in regulation and policy formulation. Development of new policies and reviewing of existing policies will be possible thus achievement of synergy in the banking sector.

The study will also be of paramount help to the banking services users in understanding and appreciating the potential of development in the banking sector. This is crucial because any cost inferences which will need to be catered for by customers in exchange for better service delivery, will be accepted without bargain. Prediction and preparation to conformity by the users about the future of the Commercial Banks will be possible. Finally, to researchers and academicians, this study will provide future reference material on the similar area of diversification strategies. In addition, other topics of future research will be highlighted including relations amongst strategies taken up and industry entrants

1.7 Conceptual Framework

The framework below shows the interaction between product diversification, market diversification and internal growth diversification and performance. It further indicates external elements which may influence the performance of the commercial banks in Kisumu County which includes government subsidies available in the market and the level of employee skills, these are the intervening variables

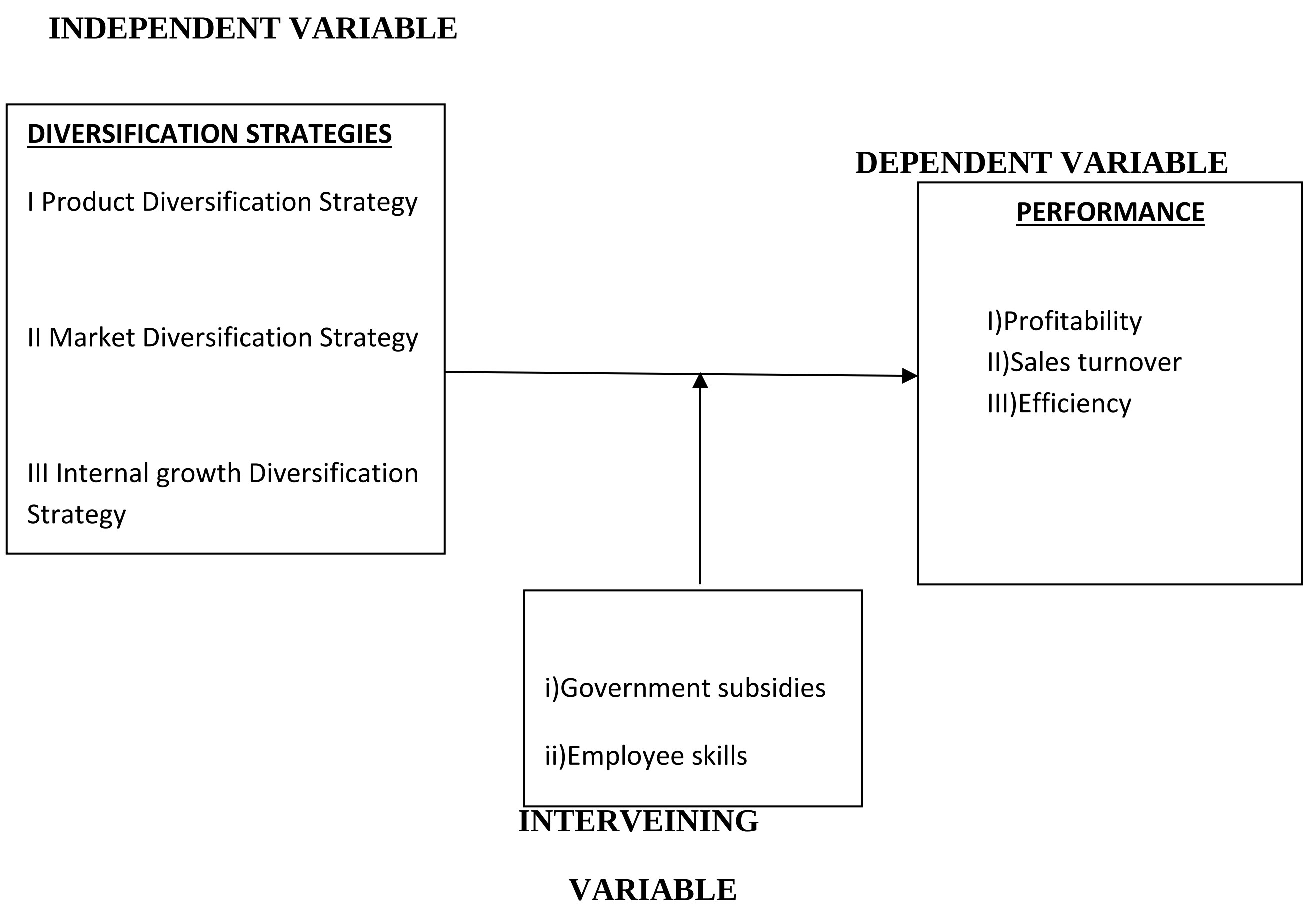

Fig 1.1 Effect of diversification strategies on performance of commercial banks in Kisumu County ,Kenya

Source: Adapted from Alison (2013), (Foss 1998) and (Abdullah2010)

CHAPTER TWO

LITERATURE REVIEW

This chapter reviews theoretical framework presentation for the study. These details the theories that attempt to explain the underlying causal relationship between the study variables. This is followed by a review of past studies done in this area and a critique of the same. Finally, the review presents the research gaps that need to be addressed as per the study objectives.

2.1 Theoretical Review

There are various models that attempt to explain the effect of diversification strategies on organization performance. In this study, Survival based theory and Resource-based view (RBV) attempts to synthesize those factors that influence diversification in organizations

2.1.1 Survival Based Theory

Herbert Spencer developed this theory, which suggests that the organization needs to constantly and continuously adapt to its competitive environment in order to survive (Abdullah, 2010). The environment is continuously changing. To be able to survive, the organization must be able to adapt to the changes. This will make the organization competitive within the environment. The theory follows the principle of nature that only the best and fittest in the environment will survive. The organization that is able to successfully adapt to its environment and become the most efficient and economic in the production and operation will survive. This can only be achieved by employing diversification strategies that would be focused on having efficient operations and being able to respond rapidly to the changes in the competitive environment (Khairuddin, 2005). Mc Donald is an example of a company that managed to survive. It's success was attributed to it ability to adapt to high level of efficiency in the modern place of life and efficient workplace (Abdullah, 2010). This theory is also applied to companies looking to diversify after a period of poor performance (Abdullah, 2010). Such companies are faced with a lot of problems that can stem from financial difficulties, products that are failing or losing key human resources. To diversify such companies will look into products,markets and internal growth. This will help in strengthening their position. It will also be key in operating the organization more efficiently and better adapt to the environment. This is in the hope that it would improve their profitability and achieve the ultimate goal of surviving.Moreover,survival based theory theory is useful in organization of new activities in firms which are within their boundaries and also its valuable in sharing of resources across various businesses in their own firm boundaries. This theory's framework submits that obtaining greater market influence is possible by obstructing competitors and vertical assimilation which firms get by diversification. More explicitly, Miller (2009) contended that it is possible to reduce prices in diversified companies thus able to block new entrants or crush competitors out of the market. According to Williamson (1985), this theory is grounded upon several critical postulations about the behaviour of human beings and characteristics of the environment.

2.1.2 The Resource-Based View (RBV)

The Resource-based view (RBV) has been said to provide the earliest theoretical arguments favouring diversification. Penrose (2009) pointed out that at any point in time a firm has certain productive resources, useful for exploiting productive opportunities to allow the firm to grow successfully. Researchers have identified a variety of resources that create an exceptional advantage for a company by sharing them across businesses. For example, Goold and Campbell (2008) gives the pros of sharing know-how and tangible resources, coordinated strategies, vertical integration, and pooling negotiating power. These resources permit an organization to produce economies of scale and scope by intensifying the efficiency in the use of these resources (Contractor, Kundu & Hsu**,** 2009). Hence, from the Resourced-Based View a firm should try to maximize exploiting. According to Foss (1998) resource-based theory does not escape the general problem of finding the appropriate unit of analysis. Most contributions within the RBV take the individual resource as the relevant unit of analysis to study competitive advantage. Further, Foss (1998) points out that this choice may only be legitimated if the relevant resources are sufficiently well-defined and free-standing. If, in contrast, there are strong relations of complementarily among resources, it is the way resources are clustered and how they interplay and fit into the system that is important to the understanding of competitive advantage. Foss (1998) recognizes that the capabilities and competences aim at grabbing this clustering and interplay. The conceptual framework takes this problem into account by relating competitive advantage to strategy rather than to individual resources.

2.1.3 Diversification

Traditionally, diversification refers to the involvement of a firm in markets (or industries) beyond the market (or industry) boundaries in which it originally belongs (Berry, 1975; Gort, 1962). However, Ramanujam and Varadarajan (1989, p. 525) in a review of the literature, concluded that diversification is „the entry of a firm or a business unit into newlines of activity, either by processes of internal business development or acquisition, which entail changes in its administrative structure, systems, and other management processes‟. Diversification can also be seen as a business development strategy allowing a company to enter additional lines of business that are different from the current products, services and markets.

Diversification is one of the most dominant concepts in the economics, finance, strategic management and marketing disciplines. Diversification has been used to explain firms‟ economic performance, financial efficiency, market dominance and risk reduction. Although most --of the available research focuses on large industrial firms, diversification seems to be important for other types of firms as well. For example, Nayyar (1990) demonstrated that diversification is equally important for service firms.

2.1.4 Product Diversification

Product diversification as strategy has been widely discussed in the strategy field, where the majority of studies have examined the performance consequences of diversification even though the nature of this relationship still remains largely unresolved (Park, 2002). Early studies have argued that product diversification was valuable: from a conceptual perspective, increasing levels of product diversification should have a positive influence on performance due to economies of scope and scale, market power effects, risk reduction effects, and learning effects.

2.1.5 Market Diversification

Market diversification is a strategy where organizations take a bigger share of its prevailing markets with its current product range (Wheeller & Hunger, 2008). An organization builds on its current strategic abilities and requires not endeavoring into unchartered boundaries, essentially maintaining the range. Moreover, greater market share translates into increased control on the buyers and suppliers, economies of scale through more efficient manufacturing ,distribution, purchasing power and overhead sharing and lastly the experience curve benefits (Johnson et al., 2008).

According to Johnson et al., (2008), in market diversification strategies, the main concern is on the development and exploitation of expertise thoroughly in the limited competitive grounds. It involves increasing the use of present products in present markets. In the building on an organization"s competencies and achievement of a competitive edge, organizations use concentrated progress by ensuring concentration in the product market segment it knows best. Pearce and Robinson, (2007) inferred that this strategy is helps in the growth thus increased production and better coverage the product-market segments.

2.1.6 Internal Growth Diversification

Westerlund and Leminen(2012)define growth strategy as a means in which organizations plan in order to increase in size, volume and turnover. For organizations to have a competitive advantage against their competitors, it is needful for them to engage proactively in strategies that will enable them to respond to the environmental challenges besides the organization's achievements and for their continued existence in the markets. According to Samara (2007), internal growth is business expansion rate achieved by increasing production in the organization as opposed to involvements outside the organization like mergers, acquisitions and take-overs.

2.2 Empirical Literature Review

This section of the project presents a review of the research related to the problem statement and objectives of the study. The part is categorized in accordance to the specific objectives to enhance the achievement of research problem. The literature discussed begins from product, market and finally internal growth diversification strategies and their relationship to the bank performance.

2.2.1 Product Diversification Strategies and Bank Performance

Product diversification as strategy has been widely discussed in the strategy field, where the majority of studies have examined the performance consequences of diversification – even though the nature of this relationship still remains largely unresolved (Park, 2002).

Amit and Livan (2008)did a study in Europe on product diversification strategies and economic performance of firms. The objective of the study was to determine whether product diversificaton had an ipact on economic performance.The study employed a descriptive research design .The study found that product diversification and economic performance of firms was valuable since it had a positive influence .

However the study above looked at the economic performance ofall firms while this reserach would seek to find how product diversification relates to bank performance in Kisumu County Kenya.

Cotugno and Stefanelli(2012) conducted a study in India on Geographical,Product diversification strategies and firm performance during instability in India.The study sought to find how geographical and product diversifications strategiesrelate to performanceduring instability.The study employed expolratory research design .They found out that firms that have highly diversified have low market power than ore focused firms.Thus geographical and product diversification strategies are found to be negatively related to performnce.

Kariuki(2012)conducted a study to determine the effect of product development on financial performance of commercial banks in Kenya.The study adopted a descriptive research design .This study categorized determinants into two categories namely internal and external factors where internal detereminats were rofitability which ware within thecontrol of the bank management and external factors are those considered beyond the control of the management of the bank .They found out that the new product development impacts positively on the financial performance of commercial banks in Kenya.

This study looks at both the internal and extrenal factors as parameters to determine the banks performance.

Mwangi (2016)conducted a studyon the effect of diversification strategies on performance of Saccos in Kenya.He did a descriptive study and looked at product diversification as one of the parameter of the independent variable whic was dieversification strategies and further under product diversification looked at related and unrelated products.The study found that the independent variable studied explained 53.7% of the effects of diversification strategies on performance of Saccos in Kenya.

Amit and Livant(2008) and Kariuki(2012) did studies on product diversification and performance and found out that product diversification indeed had a positive relationship on performance whenever it was develpoed.

Kariuki (2012),Amit and Livant(2008) looked at product diversification as an independent variable in their studies while Mwangi(2016) looked at product diversification as one of the parameters of diversification strategies.

Amit and Livant(2008),Kariuki(2012) and Mwangi (2016) all found that whenever product diversification was adopted within any organization then there was a positive result while Cotuno and Stefanelli(2012) realized a negative relationship between product diversification and performance.

All the above studies on the reviewed studies failed to consider money transfer,mobile internet and banking,bank assurance and agency banking as their parameters under product diversification.Thus there is no adequate literature on the effect of product diversification on commercial banks in Kisumu County

2.2.2 Market Diversification Strategies and Bank Performance

Marketing diversification is a strategy where organizations take a bigger share of its prevailing markets with its current product range (Wheeller & Hunger, 2008). An organization builds on its current strategic abilities and requires not endeavoring into unchartered boundaries, essentially maintaining the range. Moreover, greater market share translates into increased control on the buyers and suppliers, economies of scale through more efficient manufacturing ,distribution, purchasing power and overhead sharing and lastly the experience curve benefits (Johnson et al., 2008).

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A study done by Gupter Gayatri's(2008) on Woolworths market strategies, the company focused on its customers needs and improved its market share making it the leading food retailer of Australia. The company transformed from being a company that was system driven to a company that others try to emulate. The company used innovation and customer satisfaction to become number one food retailer by early 1990‟s in Sidney Australia. The Company survived a scene when it‟s unprofitable ventures almost led to bankruptcy. However it's innovative initiatives didn't emphasize pricing, advertisingand branding.

David Conklin's(2008) study of Richard Ivey School of Business Study of Bionade Soda Company, the company focused on marketing strategies of the highy innovative organic drink in Germany.The bionate Soda was refused by distributors to stock, as it was unknown product. Fortunately, the product caught attention of some media and advertising professionals, who frequented a small bar in Munich Germany, where the bar owner fascinated by the product-added the drink to his menu. With the help of low budget marketing technics and below the line promotions Bionade Soda made a place for itself in the market. Having faced tough times in the initial years, the sales skyrocketed by 2007 and within a short span of time, its owners turned into millionaires. Following this incredible success in the German market, the makers of Bionade Soda aspired for international expansion.

Gupter Gayatari's(2008) and David Conklin's(2008) study both found ou that when martet diversification strategy are adopted ina business then the performance of the particular business will increase.

However, in David's study of the Bionade Soda Company the company used promotions so that it could penetrate into the market so that it boosts its sales while in Gupter's study on Woolworths market strategies the company focused on its customer need so that it improves its market share.

All the above studies on the reviewed studies did not consider pricing,advertising and branding as a way of diversifying within a market therefore there is no adequate literature on the how market diversification strategy affects performance of commercial banks in Kisumu as a parameter under diversificatin strategy.

2.2.3 Internal Growth Diversification Strategies and Bank Performance

According to Samara (2007), internal growth is business expansion rate achieved by increasing production in the organization as opposed to involvements outside the organization like mergers, acquisitions and take-overs. Emefiele, (2008); Emmanuel, (2008), argued that brand name and the trust from customers is key to a bank and thus in achievement of internal growth, there is need of having a strategy founded on customer retention and services offered, employee fulfillment, dynamism in branch management and availability of attractive value plans for each market segment and customer profitability (Atkearney, 2005; Emmanuel, 2008 & Highbeam, 2008).

Mutia (2013) investigated the effect of internal growth strategy on financial performance. The objectives of the study were to determine whether information technology and employee skills had an impact on financial performance of commercial banks. The study employed a descriptive research design .The study found out that the organization invest in information technology which was found to cause a huge growth in banking industry. The organizations also tapped the skills that its employee had so as to grow.

Obonyo (2015) conducted a study to identify the growth strategies on Safaricom Limited and to establish how the growth strategies influence performance of Safaricom Limited. The study adopted a descriptive research design. The main objective of the study was to identify the effect of growth strategies and how it influences performance of Safaricom Limited.The study concludes that Safaricom Limited has adopted various growth strategies to enhance its performance. In addition, the study concludes that Safaricom considers competition an impetus towards enhancing products and services and improving performance.

Tangus and Omar (2017) examined the effect of market expansion strategies on performance in Kenya Commercial Bank. The study found out that there was a strong correlation between firm performance and the market expansion strategies. Moreover the findings of the study substantiate the call for such like institutions to use market expansion strategies to enhance their performance.

Obonyo (2015) and Tangus and Omar (2017) both did case studies on particular organization on effect of growth strategies on performance and they found out that the strategy positively relates to performance whenever it is used.Whereas Obonyo and Tangus and Omar both looked at Case studies in their studies, Mutia looked at cross sectional study.

Whereas all the above studies on the reviewed studies agree that internal growth strategy improves performance, there is little literature on reward schemes, retained earnings as a parameter of internal growth strategy under effect of diversification strategy on performance of commercial banks in Kisumu County.

CHAPTER THREE:

RESEARCH METHODOLOGY

The chapter outlines the research design and methodology to be followed in conducting this study. It describes the research design, target population, the research instruments, the sample and sampling procedures, the data collection procedures and description of data analysis procedures.

3.1 Research Design

This study adopted a descriptive cross-sectional survey design in which information was collected at a single point in time from purposively selected officials from the commecrial banks operating within Kisumu County. The descriptive research design often describes data and characteristics about the population or phenomenon being studied. According to Coopers and Schindler (2004) descriptive studies are more formalized and typically structured with clearly stated hypotheses or investigative questions. The descriptive survey is usually concerned with describing a population with respect to important variables with the major emphasis being to establish the relationship between the variables. The survey design is appropriate for this study as it involves a careful analysis on the effect of diversification strategies on performance of commercial banks in Kisumu County.

3.2 Study Area

This study was conducted within Kisumu County which lies on 0.0917°S; 3407680°E. Kisumu serves as the principal city of western Kenya, the capital of the former Nyanza Province. Kisumu city is situated at an altitude of 1131m and has a direct access to the Winam Gulf, which leads to the vast expanses of the rest of Lake Victoria, covering a total area of 68.000 km2. Kisumu County is served by Kisumu Airport- the third busiest airport in Kenya, and serves as a business hub with many traders trading in various products and services. Over the past 20 years the population of Kisumu County has more than doubled. Today Kisumu town has a population of over 409,928 that was reported during the 2008 census (KNBS, 2009).

3.3 Target Population

According to Frederic *et al.* (2015), the target population is a set of individuals objects or cases with some common observable characteristics. The population of interest in this study comprised of 143 respondents; 109 HODs and all the 34 branch managers of commercial banks operating within Kisumu County (List of commercial banks in Appendix II). The census approach was used in selection of these 34 commercial banks operating within Kisumu County. This approach is necessitated when the target population is relatively small (Kothari, 2004) as it is the case with the current study. From each of the 34 banks, Branch managers and HODs was purposively selected to participate in this study. This is because this particular target is perceived to be more conversant with the topic of study hence likely to give the most accurate responses.

3.3.1 Description of the Sample and Sampling Procedures

According to **Amin (2005**), purposive sampling technique is used where a researcher normally selects a sample based on his or her experience of knowledge of the group to be sampled and has in mind that the respondents have the information that is needed. This survey used a purposive sampling technique to select the respondents in the 34 commercial banks operating in Kisumu County. The researcher used purposive sampling to ensure that branch managers and heads of departments are considered in the study to ensure that the study captures relevant staff with the required skills in the study.

3.4. Data Collection Procedures

The study collected primary data. Primary data will be collected by use of a structured questionnaire from HODs within each bank and the bank manager in each of the 34 commercial bank using a structured questionnaire which will be administered through a drop and pick later method. This method is preferred because it does not inconvenience the respondents since they could answer the questions during their free time.

3.4.1 Data Source

Primary data was collected by use of questionnaire to the HOD's and branch managers, secondary data was collected from published financial statements of the banks available from the banking supervision department. Kothari (2008) highlights that a questionnaire gives the respondents adequate time to think through respond to questions accordingly.This method is preferred because it does not inconvenience the respondents since they could answer the questions during their free time.

3.4.2 Data Collection instruments

The semi-structured questionnaire comprised of both open-ended and close-ended questions.

3.5 Instrument Reliability Test

According to Mugenda and Mugenda (1999) reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. Reliability in research is influenced by random error, of which if it's high, reliability is low. To assess the reliability of instruments, inter-rater reliability test was used.

3.6 Instrument Validity Test

According to Borg and Gall(1989),validity is the degree to which a test measures what it purports to measure .To enhance validity, the researcher exposed the instruments to experts in research for judgement.The researcher also conducted a pilot study where by inappropriate questionnaire items was discarded, rephrased and or merged.

3.7 Data Analysis

Analysis of the data was done using a combination descriptive and inferential statistics. The former included arithmetic mean values, standard deviations, percentages, bar and pie charts (Kothari & Pals, 1993). The mean values enabled the researcher to identify diversification strategies most used by banks and those that have the highest impact on bank performance. Standard deviations will show the extent to which the incidence of use and impact on performance departs from the mean value. Multiple linear regressions will be for modeling how independent variables relate to the dependent variables. The final form of the model enabled the researcher to predict values of the dependent variable given values of the independent variables.

The model to be used is as follows:

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon o$

With:

Y = Commercial Bank Performance which is a measure for the value of dependent variable

$\beta 0$ = Constant

$\beta 1$ = Coefficient of product diversification strategies

$\beta 2$ = Coefficient of market diversification strategies

$\beta 3$ = Coefficient of internal growth diversification strategies

X_1 = Determinants of product diversification strategies

X_2= Determinants of market diversification strategies

X_3= Determinants of internal growth diversification strategies

εo = Error term assumed to be a constant

CHAPTER FOUR:

DATA ANALYSIS, RESULTS AND DISCUSSION

This chapter gives a representation of the results drawn from the data collected in the field. Both the use of descriptive and inferential statistics has been used. This has been done through the use of regression and ANOVA in order to establish the fitness and significance of the model of study plus to determine the link that exists between diversification strategies and the performance of commercial banks within Kisumu County.

4.1. Study Results

143 questionnaires were issued to the participants, of which 128 were successfully completed and returned for analysis. This indicates a response rate estimated at 92.26%.

Table 4.1: Response Rate

Respondents	Frequency	Percentage (%)
Questionnaires Issued	138	100.0
Questionnaires Returned	128	92.26
Questionnaires not Returned	10	7.74

Source: Research data, (2017)

From the table above, it can therefore be deduced that there was no non-response bias among the participants.

4.2 Composition of the Banks

The respondents were required to indicate the ownership composition of their respective banks. The respondent's bank ownership was required to establish the banks versatility in the decision making processes and banks' ability to out muscle competitors in terms of number of products/services. The ownership composition included foreign owned, locally owned, partly local and partly foreign owned. The findings are summarized in Figure 4.1. Findings indicated that 65% of the banks were locally owned, 30% partly foreign and partly locally owned while 5% of the commercial banks studied were foreign owned. This shows that the banks do not have a fair playing ground with the locally owned banks monopolizing the banking industry.

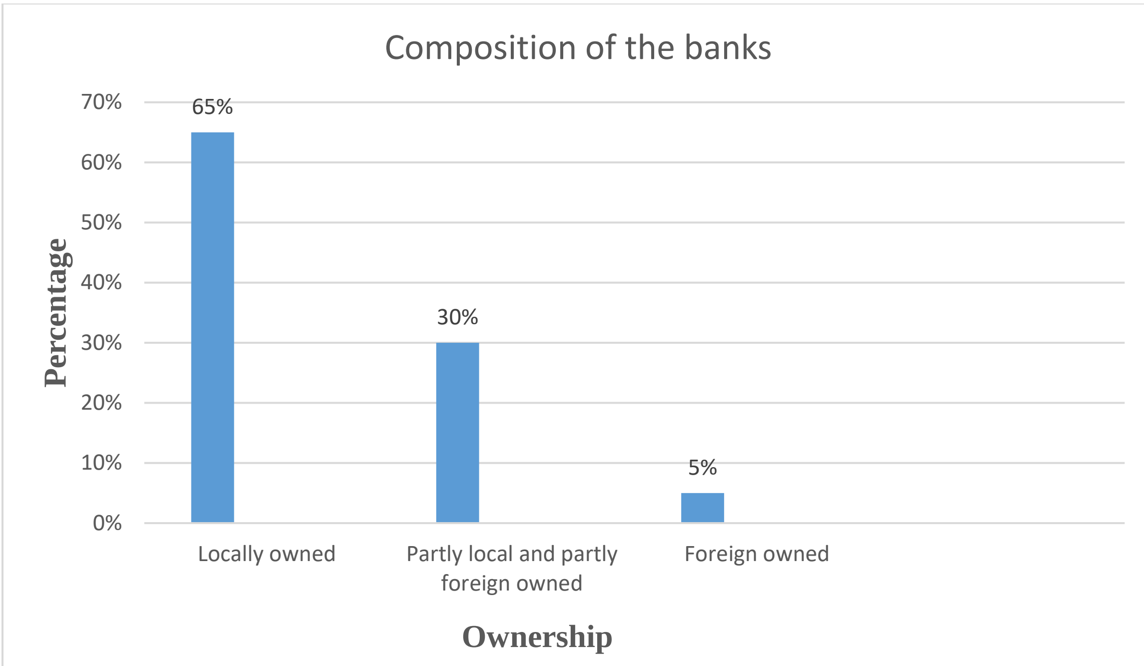

Figure 4.1: Ownership composition of the Banks

Source; Research data (2018)

4.2.1 Length of Time Working

The participants were to state the period they had worked in the different commercial banks. Their responses are summarized in Figure 4.2**.** Numbers of years were categorized into four that is less than 3 years, between 4 years and 7 years, between 8 years and 10 years and over 11 years. Results indicated that most respondents had worked for 4-7 years (49%). Further, respondents who had worked for over 11 years were 30% while 8-10 years and 0-3 years were 10% and 11% respectively. Findings from this study indicating that 30% of the respondents have a working experience of more than 11 years show that most respondents were aware of the challenges in the banking sector and strategies adopted to cope with challenges thereof. This indicates that the experience gained is very important in ensuring that there is growth in the banking industry.

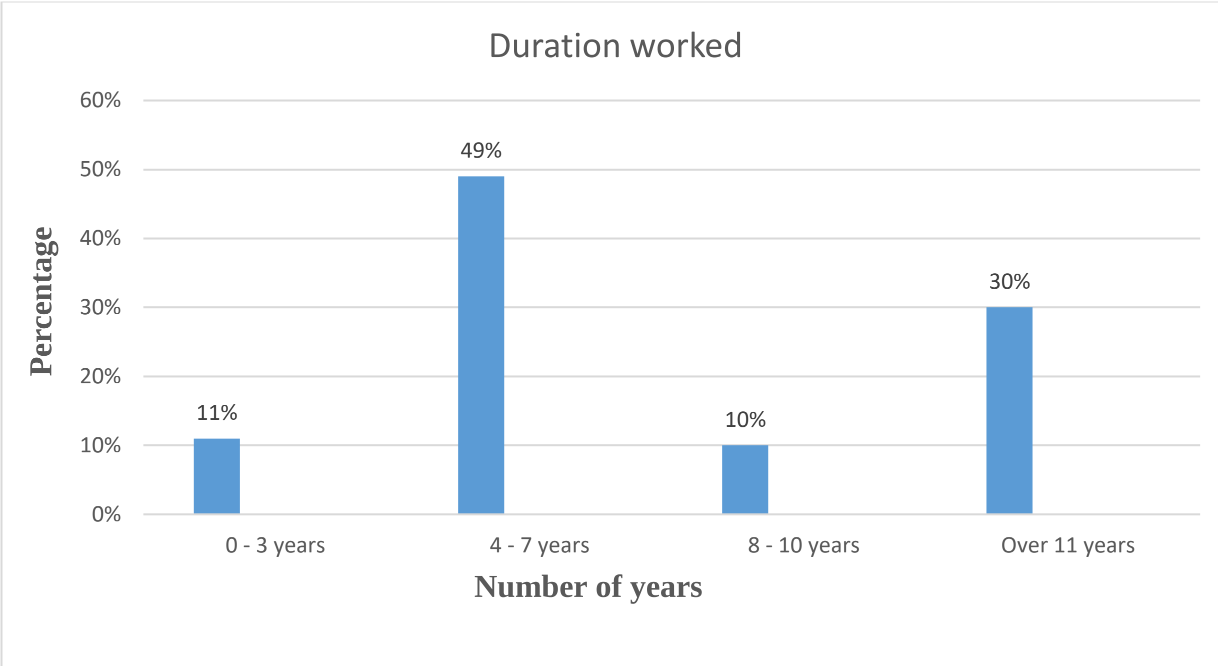

Figure 4.2: Period Worked

Source; Research Data (2018)

4.2.2 Dominant Services Offered by the Banks

The survey asked respondents to indicate the dominant services offered by the banks. The responses are summarized in Figure 4.3. Services offered included core banking services, offering loans, mortgage sales and stock brokerage. Findings indicated that core banking services were the most services offered by the banks with 38%. Offering loans and mortgage sales had 27% and 24%. Stock brokerage was the least services offered by the banks with only 11%.Thus financial institutions thus need to pride themselves in innovative ways of making the banking services efficient and effective hence great customer experience

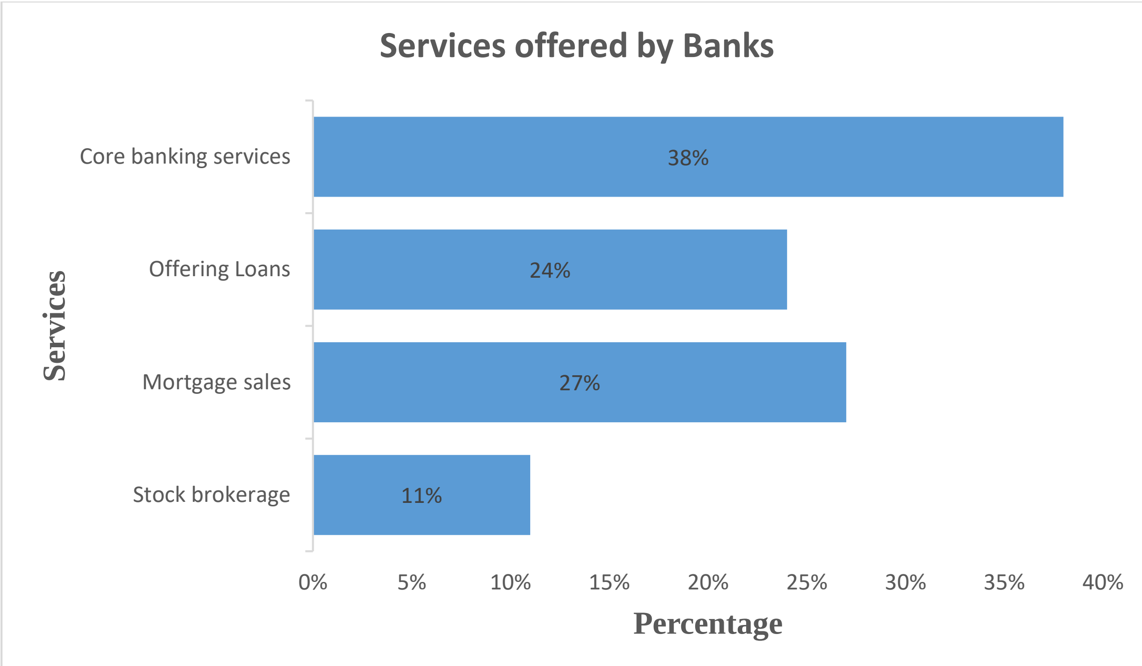

Figure 4.3: Dominant Services Offered by the Bank

Source; Research Data (2018)

4.3 Diversification Strategies

The respondents were to indicate whether diversification strategies enhance bank performance as shown in Figure 4.4. Findings indicated that 95% of the respondents agreed that diversification strategies enhanced bank performance while 5% were not sure.

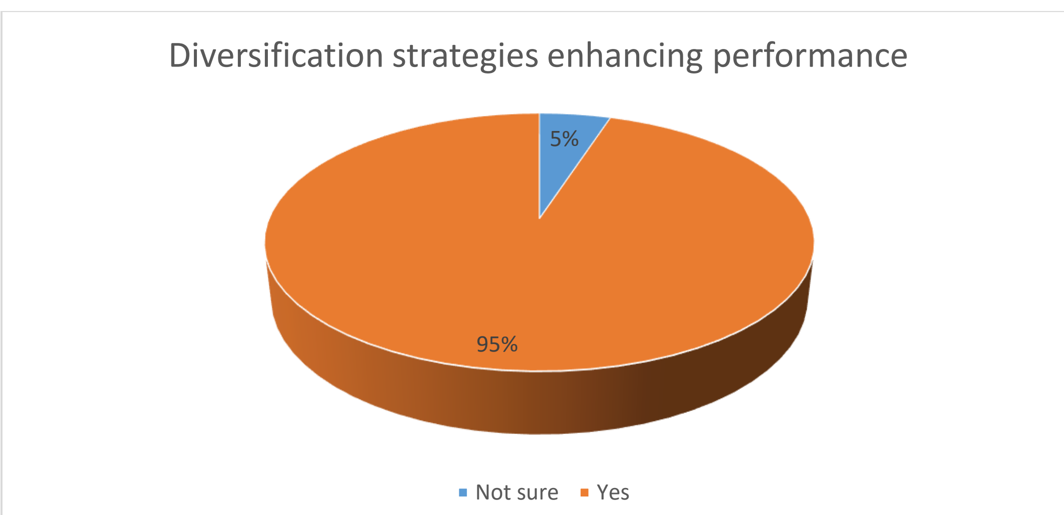

Figure 4.4: Diversification Strategies enhancing Bank Performance

Source; Research Data (2018)

4.3.1 Status of Product Diversification Strategies

The survey asked respondents to indicate the extent of their agreement on the various aspects of product diversification strategies. According to the statistics in Table 4.2, the respondents were to evaluate the extent their banks offer mobile and internet banking, agency banking, money transfer services, asset financing and bank assurance. The findings indicated that mobile and internet banking had the highest scores while money transfer services had the lowest scores.

Table 4.2: Descriptive Statistics for Product Diversification Strategies

Product diversification strategies	N	Min	Max	Mean	Std.Deviation	Variance	Z score
Money and internet banking	128	4.00	5.00	4.9459	.22924	.053	-2.0000097
Agency banking	128	2.00	5.00	4.7568	.64141	.411	-2.0000007
Asset financing	128	1.00	5.00	3.9459	1.5976	.553	-.0000003
Money transfer services	128	2.00	5.00	4.6486	.75337	.568	-2.000002
Bank assurance	128	2.00	5.00	4.7757	.74737	.559	4.000042
Valid (N)							
Aggregate score				2.810	1.000		

Source; Research Data (2018)

The adoption of product diversification strategies was strongly driven by individual factors. The most influential factor was found to be Mobile and internet banking with a Mean of (4.9459) with the lowest negative z-score of -2.000097, agency banking (4.7568) with negative z-score of -2.000007; asset financing (3.9459) with negative z-score -0.000003; money transfer services (4.6486) with negative z-score of -2.000002 and bank assurance (4.6757) with the highest positive score of 4.000042.

4.3.2 Status of Market Diversification Strategies

The survey asked respondents to indicate the extent of their agreement on the various aspects of market diversification strategies as shown in table 4.3.Addition of new product features to the existing product is frequently done in our bank (pricing), our bank has been creating awareness of existing products is upheld (advertising), our bank has been branding /rebranded most of the existing products and re-launching them into the market and Strategies for customer acquisition have been put in place in our bank were some of the marketing diversification strategies provided.

Table 4.3: Descriptive Statistics for Market Diversification Strategies

Market diversification strategies	N	Min	Max	Mean	Std.Deviation	Variance	Z score
Addition of new product features to the existing product	128	3.00	5.00	4.837	.44181	.195	-1.0000001
Creating awareness of existing products	128	2.00	5.00	3.9459	1.22352	1.497	-2.0000002
Re-aunching existing branded/rebranded products	128	3.00	5.00	4.6486	.67562	.456	1.0000089
Customer aquisition strategies	128	2.00	5.00	4.6216	.75834	.575	1.0000008
Aggregate score				3.87833	0.9815		

Source; Research Data (2018)

The study further shows the extent of influence of market diversification strategies through individual indicators. The most influential factor was found to be addition of new product features to the existing product with mean (4.8378) with a negative z-score of -1.000001. The findings of this study was ; banking/rebranded existing products and re-launching them had a mean of (4.6486) with the positive Z-score of 1.0000089; strategies for customer acquisition had a mean of (4.616) with a positive Z-score of 1.0000008; Creating awareness of existing products (advertising) scored the lowest mean of (3.9459) with lowest negative Z-score of -2.000002.

4.3.3 Status of Internal Growth Diversification Strategies

The survey asked respondents to indicate the extent of their agreement on the various aspects of internal growth diversification strategies. The responses are summarized in table 4.4. Internal growth diversification strategies given included, there is an established reward scheme in our bank where monetary, non-monetary or contingency rewards are offered to employees , our bank has been using retained earnings for the bank expansions, giving dividends to the stakeholders and paying bank's debts ,involvement of customers or customer representatives before investing to ensure customer satisfaction and finally there has been an and extensive acquisition and use of IT in our bank for services delivery. Results indicated that all the strategies given had a mean above four (4). Our bank has been using retained earnings for the bank expansions, giving dividends to the stakeholders and paying bank's debts had the highest score. On the other hand, involvement of customers or customer representatives before investing to ensure customer satisfaction had the lowest as indicated in the Table 4.3.

Table 4.4: Descriptive Statistics for Internal Growth Diversification Strategies

Internal growth diversification strategies	N	Min	Max	Mean	Std.Deviation	Variance	Z score
Established reward scheme where monetary,non-monetary or contingency rewards are offered	128	3.00	5.00	4.4054	.72493	.526	2.000043
Use of retained earning for expansion and pay of dividend and bank debt	128	3.00	5.00	4.8108	.46175	.213	-1.000001
Involvement of customer or Customer representatives for Customers satisfaction	128	1.00	5.00	4.2162	1.25023	1.563	-1.000009
Aquisition and use of IT in banks for service delivery	128	3.00	5.00	4.7027	.51988	.270	-0.000003
Aggregate score				3.92333	0.920833		

Source; Research Data (2018)

The table above shows the extent of influence of Internal Growth Diversification Strategies through individual indicators. The most influential factor was found to be Retained earnings for the bank expansions, giving dividends to the stakeholders and paying bank's debts (4.8108) with a negative z-score of -1.000001; Acquisition and use of IT in our bank for services delivery (4.7027) with negative Z-score of -0.000003; Established reward scheme where monetary, non-monetary or contingency rewards are offered to employees (4.4054) with the highest positive Z-score 2.000043; Involvement of customers or customer representatives for customer satisfaction (4.2162) with a negative Z-score of -1.000009.

4.4 Bank Performance

Several performance indicators were evaluated to check the extent of their impact on bank performance. Profitability, sales turnover and branch network were among the aspects evaluated as shown in Table 4.5. Results indicated that branch network had the highest score while profitability had the lowest mean score.

Table 4.4: Descriptive Statistics for Bank Performance

Bank Perfoemance	N	Min	Max	Mean	Std.Deviation	Variance	Z score
Profitability	128	3.00	5.00	4.6216	.68115	.464	-4.0000002
Sales turnover	128	3.00	5.00	4.6486	.67562	.456	1.0000089
Efficiency	128	3.00	5.00	4.7027	.66106	.437	-2.0000007

Source; Research Data (2018)

Table 4.4 above shows bank performance through individual indicators. The most influential factor was found to be Efficiency (4.7027) with the negative Z-score of -2.0000007.Sales turnover (4.6486) with a positive Z-score of 1.0000089; the indicator with the lowest effect was profitability (4.6216) with the lowest Z-score of -4.0000002.

4.5 Results and Discussions

This part discusses the results found on the different objectives chosen with their relationship with the banks performance

4.5.1 Effect of Product diversification strategies on performance

The first hypothesis was that there is no significant effect of product diversification strategies on performance of commercial banks in Kisumu County .This was tested and the results in table 4.1 shows that product diversification strategies does not significantly predict commercial banks' performance (β_1=.093 P >.05).The null hypothesis therefore was adopted. The results are consistent with Cotugno and Stefanelli (2012) who found out that geographical product and diversification strategies are found to be negatively related to performance. However, those of Amit and Livan (2008) found out that product diversification and economic performance had a positive relationship, moreover Kariuki (2012) in his research on effect of product development on financial performance established that new product development impacts positively on the financial performance. Therefore the effect of product diversification strategies and the banks' performance was not established

4.5.2 Effect of Market diversification strategies on performance

The second hypothesis was that there is no significant effect of market diversification strategies on performance of commercial banks in Kisumu County .This was tested and the results in table 4.2 shows that market diversification strategies does not significantly predict commercial banks' performance (β_2= .141, P>.05)The null hypothesis therefore was adopted. The results are consistent with those of David's study who found out that market diversification strategies is not positively related with performance of an industry. The results however contrasts Pearce and Robinson (2007) who found out that market diversification increases production thus better performance as well as Gupter Gayatri's study(2008) who found out that whenever market diversification is employed in an organization ,then it impacts positively to the performance.

Therefore the effect of market diversification strategies and the banks' performance was not established.

4.5.3 Effect of Internal growth diversification strategies on performance

The last hypothesis was that there is no significant effect of internal growth diversification strategies on performance of commercial banks in Kisumu County .The objective was tested and the results in table 4.3 shows that internal growth diversification strategies had significant effect on commercial banks' performance (β_3=.139, P<.05).The null hypothesis therefore was not adopted. The results are consistent with those of Mutia (2013) investigated the effect of internal growth on performance and found that it had an impact , Obonyo (2015) also found out that internal growth diversification strategies and performance had a positive relationship.Tangus and Omar(2017) also found out that there was a strong correlation between firms performance and market expansion strategies. Therefore this study also confirms that there is a positive effect of product diversification strategies and the banks' performance.

4.6 Inferential Statistics

This part involves results of a multi-regression analysis on the variables used in the study.

Strength of the relationship between diversification strategies and performance of commercial banks

Table 4.6: Model Summary

Model R	R^2	Adjusted R Square	Std.Error of the Estimate	Sig.	Durbin Watson
.759[a]	.537	.575	.44890	.000	2.475

Source; Research Data (2018)

From the finding in the above summary table, R square (co-efficient of determination) =0.537, indicating that 53.7% of the total variation in performance of commercial banks is accounted for by corresponding change in product diversification, market diversification and internal growth diversification strategies respectively.

Table 4.7: Anova Analysis

Anova [b]					
Model	Sum of Square	df	Mean Square	F	Sig.
Regression	9.014	3	3.005	.405	.05[a]
Residual	6.650	33	.202		
Total	15.664	36			

a. Predictors:(Constant),Product, Marketing, Internal growth diversification strategies

b. Dependent Variable: Bank performance

Source; Research Data (2018)

The above ANOVA indicate that the data is ideal for making a conclusion on the population's parameter as the value is significant at P<0.05.it indicates that the regression relationship was significant in predicting how the variables; product, market and internal growth strategies influence the performance of commercial banks.

4.7. Regression between the Dependent and the Independent Variables

Table 4.8: Diversification Strategies Determinants

	Unstandardized Coeffficients		Standardized Coefficients		
Model	B	Std.Error	Beta	t	Sig.
Constant	.887	.916		-.968	.340
Product	.225	.142	.093	1.586	.122
Market	.193	.171	.141	1.123	.269
Internal Growth	.778	.144	.139	5.385	.000

a. Dependent Variable: Bank performance

Source; Research Data (2018)

The linear regression model used in this study was;

Y= βo + β1X1+ β2X2+ β3X3+ εo

Where:

Y = Bank Performance

β0 = Constant

β1 = Coefficient of product diversification strategies

β2 = Coefficient of market diversification strategies

β3 = Coefficient of internal growth diversification strategies

εo = Error term assumed to be a constant

The equation translates to:

Bank Performance = 0.887+ 0.093X1 + 0.141X2+ 0.139X3

Where; Bank performance = Constant + Product diversification strategies + Marketing diversification strategies + Internal Growth diversification strategies

From the above coefficients, the established regression equation was:

Y= 0.887+ 0.093X1 + 0.141X2+ 0.139X3

The equation reveals that holding diversification strategies at a constant, performance of commercial banks in Kisumu County would be at .887. The study shows a positive relationship between product diversification strategies, market diversification strategies and internal growth strategies and performance of commercial banks in Kisumu County. 0.093X1: shows that one unit change in product diversification strategies results in 0.093 units increase in bank performance. 0.141X2: shows that one unit change in marketing diversification strategies results 0.141units increase in bank performance. 0.139X3: shows that one unit change in internal growth diversification strategies results 0.139units increase in bank performance.

Having collected and done the analysis of the data, an attempt to internalize the information obtained from respondents of 128 commercial banks who participated in the study has been made with the aim of identifying the various diversification strategies adopted by commercial banks in Kisumu County and an evaluation of the relationship of these strategies on bank performance. Most of the respondents indicated that core banking services were the dominating services offered by the banks. The findings were in agreement with Adamson et al., (2003) who found out that core banking services, once put in place, should be vigorous, sealable and ensure business sustainability for longer periods. There is therefore need for financial institutions to pride themselves in innovative ways of making the banking services efficient and effective hence great customer experience.

Findings from the study also showed that mobile and internet banking among agency banking, money transfer services, asset financing and bank assurance as product diversification strategies used by banks was the main product that most banks have diversified into. This incorporation of related financial services is part of Kenyan banking industry's solidification strategy that ensures customers have a one stop shop for all their financial services. According to Lepetit et al., (2007), in their research in the financial industry concluded that this eventually leads to commercial banks achieving a balanced way to both risks reduction and leveraged synergies. There are several marketing diversification strategies adopted by commercial banks to enhance their performance. In this study, customer acquisition strategies, improving the existing products, advertising and branding/ rebranding strategies among others were evaluated. Kumar (2009) contended that pricing matters to banks because it impacts on customer satisfaction and profitability. This means that pricing is key to customers as it determines whether the customers will acquire the products offered in the market or not which is in line with the findings of this study.

Earnings retained by banks are key sources of financing growth that enhances business performance. Findings from this study are in agreement with Gilchrist and Himmelberg, (2015) who contended that the level of internal funds gives information about the growth prospects of any firm/ organization. Growing firms will pay lower dividends, plan to reinvest more of their earnings, and will provide a greater percentage of their total returns as capital gains. On the other hand, firms with a few major investment opportunities would limit paying out a larger percentage of their earnings. Consequently, higher dividends are paid in stable, low-growth industries. On the other hand, high-growth companies with lots of investment opportunities are likely to pay low dividends because they have profitable uses for the capital. So, growth is likely to place a greater demand on internally generated funds.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Findings

The first research was to establish the effect of product diversification strategies to the performance of commercial banks within Kisumu County. The study revealed that commercial banks have adopted several product diversification strategies to enhance their performance. Mobile and internet banking, agency banking, money transfer services, asset financing and bank assurance are some of the strategies that are being employed. Mobile and Internet banking is highly employed among the strategies evaluated. Additionally, findings indicated that money transfer services are the least employed product diversification strategy by the commercial banks. The study established that product diversification strategies do not significantly affect the performance of commercial banks when adopted.

The second objective was to establish the effect of market diversification strategies on banks' performance in Kisumu County.There are several market diversification strategies that commercial banks employ. Among the strategies evaluated in this study included strategies for customer acquisition being put in place and addition of new product features to the existing product (pricing) , creating awareness of existing products (advertising) and branding most of the existing products and re-launching them into the market are some of the marketing diversification strategies.

The study revealed that addition of new product features to the existing product (pricing) and branding most of the existing products and re-launching them into the market are major marketing approaches employed by the population to improve performance. The study further found that creating awareness of existing products through advertising was the least employed marketing diversification strategies. The results revealed that there was no significant contribution to performance when the strategy is adopted in the banks.

The third research objective was to establish effect of internal growth strategies to performance of banks in Kisumu County.Internal growth diversification strategies used by commercial banks in Kisumu County,Kenya include but not limited to extensive acquisition and use of IT for services delivery, involvement of customers or customer representatives before investing to ensure customer satisfaction, using retained earnings for the bank expansions, giving dividends to the stakeholders and paying bank's debts and having established reward scheme where monetary, non-monetary or contingency rewards being offered to employees. Results from this study revealed that using retained earnings for the bank expansions, giving dividends to the stakeholders and paying bank's debts is a significant internal growth diversification strategy that commercial banks can adopt to enhance their performance. On the other hand, involvement of customers or customer representatives before investing to ensure customer satisfaction is the least internal growth diversification strategy that can be adopted. The results revealed that there was a significant contribution to performance when the strategy is adopted in the banks

5.2 Conclusion

Based on the research findings of the first objective of the study concludes that commercial banks in Kisumu County, Kenya should adopt product diversification strategies to enhance their performance. Further, the results of the study confirmed the existence of a positive relationship between diversification strategies and bank performance though not significantly.

Based on the research findings on second objective the study concludes that banks employing market diversification strategies attain a competitive advantage in the region thus improving performance of the banks. The study further concludes that for banks to reach the target market more conveniently and swiftly, they have to embrace diversification strategies as one of their focus in the overall strategy.

Based on research findings for the third objective, there is a significant effect when internal growth strategies are adopted and implemented within the banks. According to Survival Based and RBV theories, it is important to diversify and organize firms' activities in a more efficient way as compared to the prevailing market or their contenders. In this study, it was found that diversification strategies evaluated were significant at 95% thus the results were in agreement with the postulations of this theory.

5.3 Limitations of the Study

The major limitation of this study was accessibility of the relevant information for the study. This was due to the sensitivity nature of the information required thus the some of the respondents were very reluctant to cooperate with the researcher in giving out what they perceived as the bank’s secrets of success. Secondly, a majority of the respondents were holding management positions and therefore were relatively busy and not readily available.

The findings of this study are only applicable to commercial banks in Kisumu County. It therefore means that they cannot be directly applicable to other regions with different geographical diversifications and sectors. The findings can only be valid for a limited period of time since new developments may cause remarkable changes to diversification and performance of the bank.

5.4 Recommendations

There is the necessity for commercial banks to use diversification strategies to improve performance .Several suggestions are therefore made in the light of the findings and conclusions to assist the management of commercial banks in Kisumu County, Kenya to improve on their performance relative to the use of diversification strategies.

The study recommends that bank managers and other high level stakeholders should apply the range of diversification strategies highlighted in expanding the scope of markets and operations of their entities in a bid to ensure sustainable competitive advantage.

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APPENDICES

Appendix I QUESTIONNAIRE

Bank Bio-Data

1. Please indicate the name of your bank ____

2. Below, indicate the ownership composition of your bank.
i. Foreign Owned ( )

ii. Locally Owned ( )

iii. Partly local and partly foreign owned ( )

3**.** How long have you worked in the bank?

0-3Years [ ] 4-7 years [ ] 8-10 years [ ] Over 11 years [ ]

4. What are the dominating services offered by your Bank? (Please tick appropriate)
a) Core banking services [ ]
b) Offering loans [ ]
c) Mortgage sales [ ]
d) Stock brokerage [ ]

Diversification strategies

5. To what extent does your bank offer the following product diversification services/products?
Where, **1=** Strongly disagree **2=** Disagree **3=** Neither disagree nor agree **4=** Agree **5=** Strongly agree

Product diversification strategies	1	2	3	4	5
Money transfer service					
Mobile internet and Banking					
Asset Financing					
Bank assurance					
Agency banking					

6. To what extent do you agree with the following statements in relation to how the bank has used market diversification strategies to improve bank performance
Where, **1=** Strongly disagree **2=** Disagree **3=** Neither disagree nor agree **4=** Agree **5=** Strongly agree

Market diversification strategies	1	2	3	4	5
Addition of new product features to the existing product is frequently done in our bank (pricing)					
Our bank has been creating awareness of existing products (advertising)					
Our bank has been branding /rebranded most of the existing products and re-launching them into the market					
Strategies for customer acquisition have been put in place in our bank					

6. To what extent do you agree with the following statements in relation to how the bank has used internal growth diversification strategies to improve bank performance
Where, **1=** Strongly disagree **2=** Disagree **3=**Neither disagree nor agree **4=** Agree **5=** Strongly agree

Internal growth diversification strategy	1	2	3	4	5
There is an established reward scheme in our bank where monetary, non-monetary or contingency rewards are offered to employees					
Our bank has been using retained earnings for the bank expansions, giving dividends to the stakeholders and paying bank’s debts					
There has been involvement of customers or customer representatives before investing to ensure customer satisfaction					
There has been extensive acquisition and use of IT in our bank for services delivery					

7**. BANK PERFORMANCE**
To what extent has the bank experienced improved performance in the following areas:
Where, **1=** None **2=** Fairly **3=** Moderate **4=** High **5=** Very High

Bank performance	1	2	3	4	5
Profitability					
sales turnover					
Efficiency					

Appendix II

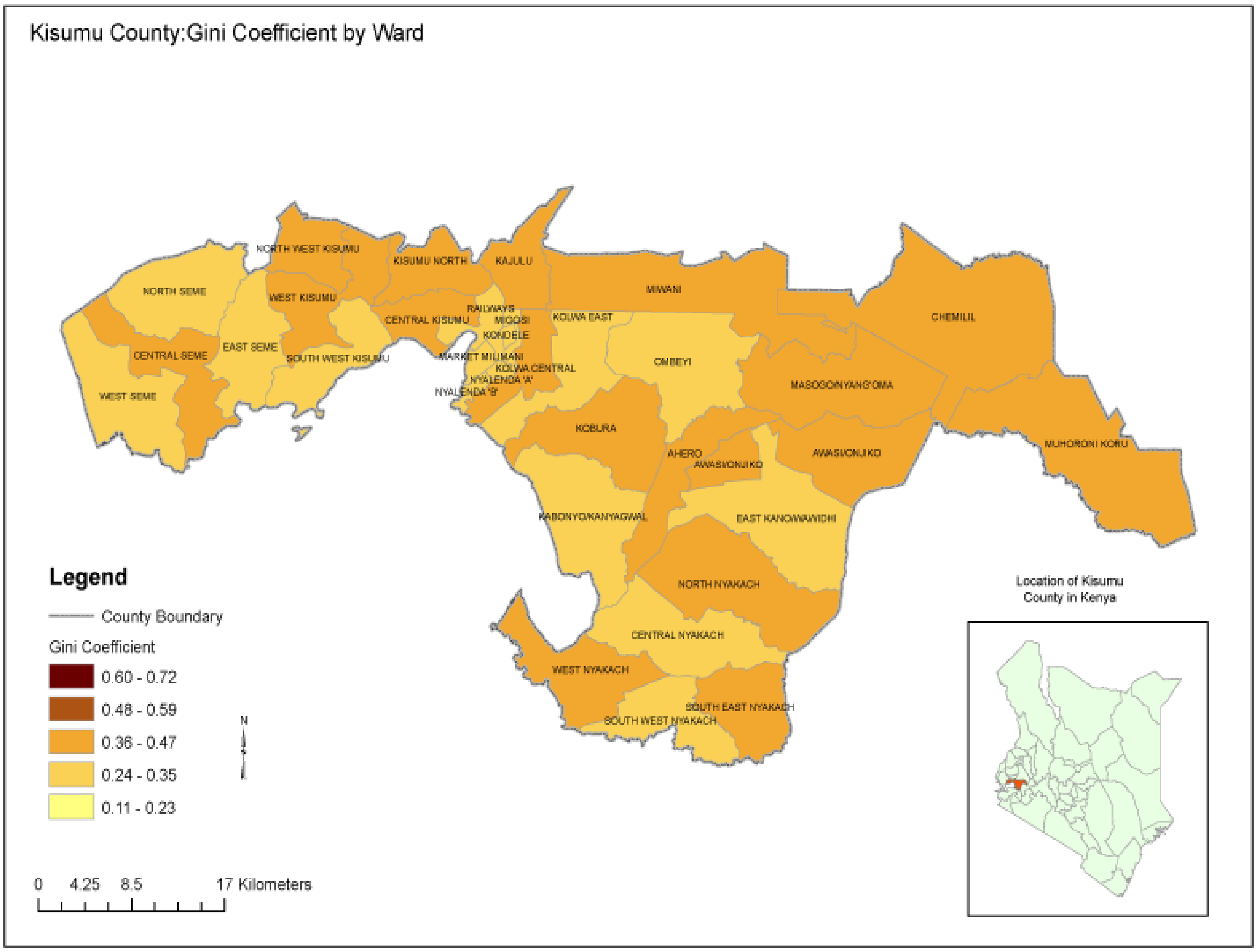
Commercial Banks in Kisumu

Name of Bank	NO. of Branch Managers	No.of HODs
1.ABC Bank (Kenya)	1	3
2.Bank of Africa	1	3
3.Bank of Baroda	1	3
4.Bank of India	1	3
5.Barclays Bank of Kenya	1	5
6.CFC Stanbic Holdings	1	3
7.Chase Bank	1	4
8.Cooperative Bank of Kenya	1	6
9.Credit Bank	1	2
10.Commercial Bank of Kenya	1	4
11.Consolidated Bank of Kenya	1	3
12,Diamond Trust Bank	1	4
13.Ecobank Kenya	1	4
14.Equity Bank	1	4
15.Family Bank	1	5
16.First Community Bank	1	3
17.Giro Bnk	1	2
18.Guaranty Trust Bank Kenya	1	3
19.Gulf African Bank	1	3
20.Housing Finance Company of Kenya	1	4
21.I&M Bank	1	2

22.Kenya Commercial Bank	1	3
23K-Rep Bank	1	7
24.National Bank of Kenya	1	5
25.NIC Bank	1	3
26.New Fmily Bank	1	3
27.Jamii Bora Bank	1	2
28.Prime Bank Kenya	1	3
29.Platinum Bank	1	3
30.Paramount Universal Bank	1	2
31Post Bank	1	5
32.Sidan Bank	1	3
33.Standard Chartered Bank	1	4
34.Trans National Bank Kenya	1	3
Total	34	109

Source: (Kisumunewsinfo.blogspot.com),(www.bank-Kenya.com/kisumu-bankskenya. htm/#WHMZNVMrliu)

Figure 2 Map of Kisumu Conty,Kenya



Source; **:** (Kisumunewsinfo.blogspot.com),(www.google maps-Kenya.com/kisumu-countykenya. htm/#XWHRXLrliu)