THE RELATIONSHIP BETWEEN GROWTH STRATEGY AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

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DECLARATION

I declare that this is my original work and has not been presented in any other University or College for Examination or Academic award.

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This project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I wish to dedicate this paper to my dear mother Rose Ndinda who has been a role model and a pillar of my strength. My siblings David and Doreen for their never ending support. My classmates who we have shared great moments and colleagues who played a great role in widening my thoughts are equally appreciated.

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ABSTRACT

Most of the research done so far has focused on growth and its antecedents in commercial banks. Firms are employing different strategies to accomplish growth and gain competitive advantage in the market. Among the key strategies that firms employ in attaining and sustaining competitive advantage is expansion. Commercial banks in Kenya have grown regionally as the industry has undergone internal and external expansion. The on-going regional integration efforts and the increasing competition in the banking sector has seen a number of Kenyan banks grow in order to increase their client base. This research therefore sought to establish the relationship between growth strategy and performance of commercial banks in Kenya. The main purpose of the study was to determine if there was a link between growth and performance. The research target was the entire population of commercial banks in Kenya data was collected from the senior managerial staff. Both primary and secondary data were used. Primary data was collected by means of a questionnaire. The data was coded, tabulated and analyzed using Statistical Package for Social Science (SPSS) software and Excel. Descriptive statistics such as frequency distribution and percentages were used to analyze the data. Research questions were analyzed using descriptive statistics. The study found out that commercial banks in Kenya had employed a myriad of growth strategies to enhance their performance. They included product development, market expansion, market penetration and diversification strategies. The study concludes that product development strategies have a positive and significant relationship on performance of commercial banks in Kenya. The study also concludes that market development and expansion strategies have a positive effect on performance of commercial bank in Kenya. The study concludes that diversification strategies have a positive and significant effect on performance of commercial banks in Kenya. The study recommends that commercial banks should increasingly apply a range of growth strategies highlighted in expanding the scope of markets and operations of their entities in a bid to improve performance of the banks.

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DEFINITION OF TERMS

CBK	Central Bank of Kenya
CMV	Common Method Variance
SPSS	Statistical Package for Social science
RBV	Resource-Based View

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The dynamic business environment demands continuous change in organization practices, hence organizations choose to adopt various ways to show change and one of the strategies is growing the organization to increase the market share. Expansion is adopted by different organizations to ensure that it attempts to achieve a high growth as compared to its past achievements. Organizations are becoming more competitive and their focus is on strategies that will ensure an increase in revenue. Growth can be as a result of innovations, technology advancement, and adapting to the changing customer demands (Ndwiga, 2011).Organizations should align their strategies with the structure, leadership, corporate culture and implement the strategies. This measures are important especially in the banking industry hence the need to evaluate the expansion strategies employed by banks in Kenya today (Laverty 2004)

There are two prominent theories which support the discussions on growth strategy. They present an in depth review of related literature such as, the transaction cost theory ,which assists researchers to understand the reason as to why firms need to expand or source various activities from the external environment. This theory states that when firms are making decisions to maximize their profits, they have to analyze the market so as to be in a position to know how the demand is like and the prices of products. With that information, the firm focus on allocating the resources to ensure that they meet the managerial objectives, which is to increase the firms size and growth (Marris and Mueller 1980) .This information assists the firms in making expansion plans. The resource based theory is used to determine the strategic resources available to a firm. These resources can be exploited by the firm in order to improve the performance of the firm through increase in profits which leads to increased market share which leads to a firm's growth. The theory was introduced by Werner felt (1984).

In the recent years firms have diversified their market expansion strategies as a result of increased competition. An analysis of the factors affecting firms reveals that there are several economic challenges affecting them .They include high cost of food, fuel, weather conditions, political interference and increased competition. Firms have responded to the changing business environment with several strategies aimed at growing their portfolio and they include adopting expansion and market penetration strategies.

1.1.1 Growth Strategy

Westerlund and Leminen (2012) define growth strategy as a means in which organizations plan in order to achieve its objective which is 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).

Growth strategies are normally adapted to expand firms business operations through market penetration, diversifying products, services, or stages of production to the existing business in order to improve and increase its performance. Growth normally allows organizations to venture into entities that are different from the current operations. When the new organization or business is strategically related to the existing lines of business, it is called concentric diversification (Gitman, 2007). In concentric diversification, the organization usually adds services and products which have a technological or commercial synergy with the existing products and will appeal to the new customer groups. The major objective is to benefit from synergy effects due to the complementary of the activities; this enables the organizations to expand their markets by attracting new groups of buyers (Cameron & Whetton, 2009).

Conglomerate diversification it is where there is no strategic fit or relationship between the current and previous lines of business. The old and new businesses are usually unrelated. Any organization's strategic emphasis is to increase sales volumes, boost market share and cultivating a loyal clientele. Profits are then re invested to grow the business. Price, quality and promotion are tailored to meet customer needs. It then presents opportunities for geographical market growth. The reason as to why they adopt this strategy is to improve the organizations flexibility, and profitability so as to better the capital markets as the business continues to grow. This type of strategy can be very risky or successful which can lead to numerous growth and portability the vice versa also applies in case of a risk (Kumar,2008).

Geographical growth starts with local, regional, national and international growth. Market penetration will vary form one geographical region to the other depending on the profit potentials (Thompson and Strickland,2005).The theories associated with expansion include Horizontal expansion is where by the organization or firms add new services or products which are technologically or commercially unrelated to the products which are already in existence, but they attract customers. This form of expansion is applicable in a situation where the clients are loyal to the existing products such that if a new product is introduced they will be in a position purchase if it is of good quality, well priced and well promoted. If the products are promoted like the existing products it leads to rigidity and instability. This shows that expansion strategy tends to increase the organizations dependence on various market segments (Fish and Rudolf,2006)

1.1.2. Commercial Banks in Kenya

The Central Bank of Kenya, which is the banks regulatory authority, analyzed the banks in Kenya (CBK, 2011), whereby there are 43 commercial banks, two credit reference bureaus and six Deposit taking microfinance. Thirty one banks are locally owned while twelve are foreign owned. Bank branches increased from 1,063 to 1,161 between year 2010 and 2011 showing there was increased demand for the banking products and services. The profitability of commercial banks is as a result of the income generating activates. Due to the profitability issue, it has resulted into stiff competition among banks which forced them to change the income sources, through diversifying income generating activities. (Teimet et al, 2011).

Not only was there an increase in the bank branches but also the number of Automated Teller Machines increased between year 2010 and 2011 from 1,979 to 2,205.This increase recorded a 62% of pre-tax profit in year 2011.The bank's profitability is highly dependent on profit generating activities. This is why over the years banks have come up with different products leading to stiff competition in the industry with an aim of generating more income. They have established the level of income, sourced diversification of commercial banks in Kenya and have a positive influence on the performance of commercial banks in Kenya. Kenya has the most diversified, mature financial sector in East Africa, and has made an effort to improve in retail banking and mobile money transfer this has resulted to growth in the banking industry (CBK, 2011).

1.2 Research Problem

The conventional studies conducted in the field of strategy are concentrated on firm and industry effects as determinants of the organization performance (McGahan & Porter, 1997). The focus has been to determine the sources, causes of growth and the influence of strategic variables on the organizations performance. Recently the focus has begun shifting towards the intermediate outcomes of growth strategies on the overall corporate performance of organizations. Gutmann, 1964 observed that the maintenance of growth rates in profits is higher than growth rates in sales which become progressively more difficult as the rate of expansion in sales rises. He further suggests that, the most important strategic decision in adopting expansion strategy is the choice of field of business. This choice must be made at least once and often requires subsequent revision based on environmental conditions. The choice is important because some areas yield larger opportunities, some grow quickly, while others stagnate or decline (Gutmann, 1964).

Kenya's capital market is not well developed as compared to the financial sector (Ngugi et al., 2006). In the last ten years the Kenyan financial sector has gone through a number of regulatory and financial reforms which have led to structural changes this has encouraged the foreign firms to invest and grow their business activities in the country (Kamau, 2009). For example the banks total assets increased from Ksh 1.68 trillion to Ksh 2.02 trillion from 2010 to 2011 respectively. Kenyan firms are expected to keep growing through increased innovative practices and cost effective mechanisms of delivering financial services to the consumers.

A review of the research studies shows that most firms have focused on performance, based on product innovation assuming that heterogeneity across the firms operate on a macro-level perspective *(*Helpman & Aghion 1991; Howitt 1992).There has been little focus on firm expansion strategies and their influence on the firm performance. Recent studies have shown a positive correlation between a firms growth and age which has resulted to an innovative output of the firms activity (Das, 1995; Heshmati, 2001; Carrizosa, 2010).There are certain factors which affect the performance of the commercial banks of Kenya of which the liquidity variable does not interfere with the performance, but the effect of macroeconomic variable is inconclusive at a 5% significance level Ongore and Kusa (2013). Ogollah (2012) found that the strategy-structure configuration affects market share and non-financial measures but does not affect return on assets (ROA). Olweny and Sipho (2011) found that specific factors in the firms had a significant impact on profitability, while none of the market factors had a significant impact. All these studies have investigated the effect of bank specific and market factors on the performance of commercial banks in Kenya: none has addressed the relationship of growth strategies on performance. Hence, this study, seeks to fill this research gap by answering the question: what is the relationship between the growth strategies and performance of commercial banks in Kenya?

1.3 Research Objective

To determine the relationship between the growth strategies and performance of commercial bank in Kenya.

1.4 Value of the Study

The study would assist the commercial bank managers to make appropriate decisions regarding the expansion strategies which will positively influence the banks performance. This study also gives a guideline for ensuring the success of current growth strategies which are employed by various commercial banks.

This research creates awareness on the growth strategies that will improve the organizations growth and performance, it will assist regulators in coming up with various policies and strategies that will govern the banking industry in Kenya.

It will help customers to acquire knowledge on the banking industry, the changing trends and products that they need to invest in. It will enlighten the customers on the banking costs and why they need to be incurred and appreciate the work that banks are doing to deliver their services.

To the academicians and researchers it will avail reference material on the growth strategy. In addition it will highlight other topics for future research. It will support future studies by making recommendations for the study and gap in knowledge. It will also add value in the steadily growing body of literature on the performance of commercial banks in Kenya and growth strategies.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter shows important theories which discuss the literature involved in the growth and performance of organizations. These theories assist in predicting the situations and also linking the independent variables which are related to their performance to the dependent variable.

2.2 Theoretical Review of Growth Strategies and Performance

There are various theories which explain the growth strategies and performance. In this case the theories used in the literature review were transaction cost theory and resource based theory.

2.2.1 Transaction cost Theory

Transaction cost theory is normally used by researchers to explain the reason as to why firms expand or source various activities from the external environment. This theory states that when firms are making decisions to maximize their profits, they have to analyse the market so as to be in a position to know how the demand is like and the prices of products. With that information, the firm focus on allocating the resources to ensure that they meet the managerial objectives, which is to increase the firms size and growth (Marris and Mueller 1980) .In today's firms one of the growing area is modern economies and it attempts to move beyond the market institution and find alternative solutions so as to grow.

This theory views firms as different forms of organizing and coordinating transactions costs. When the external transaction costs are higher than the firms internal bureaucratic costs, the firm is likely to grow since the firm is in a position to perform its activities cheaply, than if the activities are performed in the market. In the case where the bureaucratic costs for coordinating the activities are higher than the external transaction costs, the firm is likely to be down sized .According to Ronald Coase 1937,a firm is likely to expand if the activities are performed in a cheaper way. For example outsourcing some activities such as recruitment of staff is done by external providers.

According to Williamson (1981), transaction cost occurs when a good or a service is transferred across technologically separable interface. Hence, transaction cost arise each time a product or service is being transformed from one stage to another that is when new sets of technological capabilities are needed to make the product or service.

As a firm gets larger, there may be decreasing returns to the entrepreneur function, that is, the costs of organizing the firm may rise (Coase 1937). Naturally, a point must be reached where the costs of organizing an extra transaction within the firm are equal to the costs involved in carrying out the transaction in the open market, or; to the costs of organizing by another entrepreneur. With the increase in transaction cost, the business owners are unable to place the various factors of production in areas that will assure their greatest value. This is to mean that, it is unable to realize efficiency from the factors of production. Additionally, a level must be reached in that the loss incurred as a result of wastage of resources or due to the loss where another entrepreneur organized the transaction. Lastly, a case of one or more of the factors of production's supply price rising may occur since the firm's advantages are more than those of a bigger firm. In the case an expansion of a firm ceases, an actual point might be determined the various factors mentions above. Therefore, the first two reasons provided, presumably agrees to the ‘diminishing return to management’ phrase by the economists (Williamson, 1985).

A company can have external and internal transaction costs by which the coordination of economic transactions may be facilitated. The firm is likely to grow in a situation that the external transaction costs are more than the internal transaction costs. On the other hand, in a situation that the external transaction costs are lower than the internal transaction costs, downsizing by outsourcing will occur (Hart, 1995).

2.2.2 Resource Based Theory

Resource-Based View (RBV) is an economic tool used to determine the strategic resources available to a firm. These resources can be exploited by the firm in order to improve the performance of the firm through increase in profits which leads to increased market share which leads to a firm’s growth. The theory was introduced by Werner felt (1984) with the idea of resource position barriers being roughly analogous to entry barriers in the positioning school. Barney (1991) formalized the theory .Given that the firms possess heterogeneous resources, RBV proposed that they heterogeneous too.

Dunning and McQueen (2006) use economic theories to explain the strategies adopted by some large banking organizations when expanding their business. Some authors have questioned the process and the content of the classical expansion strategy theory which was advanced by Mintzberg (2008). They have explained that when an organization utilizes its resources tactfully it is able to gain a superior performance. These scholars refer the resource based expansion theory as the modern expansion strategy. They however stress that their approach is at par with the classical theories and mainly trace their theory on the work of Penrose (1959) and Schumpeter (1934*).*

This theory focuses on the economic rationale of the organizations in existence (Conner, 2009). It helps researchers to understand the organizations as value creators unlike focusing on value appropriative in traditional approaches. Resource based theory has several related branches which have dynamic capabilities and core competencies. (Williamson, 2004). There are several cornerstones of competitive advantage which have been identified by Peteraf (2005) they include imperfect mobility of strategic resources, heterogeneous competitors, future competition of assets and before the competition so as to overcome the economic rents. Derricks and Cool (2009) stated that the bridge between resource based theory and organizational learning discusses the strategic value of organizational learning process which is protected against emulation by ambiguity and time compression diseconomies. Resource based theory helps to understand better the multiphase side of various organizations and their interaction with the environment as they seek to achieve optimal performance through expansion.

2.3 Empirical Review

Mutia (2013) investigated the effect of internal growth strategies on financial performance. The objectives of the study were to determine whether information technology, customer satisfaction, employee reward scheme and retained earnings impact on financial performance of commercial banks. This study employed a descriptive research design. The study found that the organization invests in information technology. The organization used retained earnings for expansion to a very great extent. Information technology was found to cause a tremendous growth in banking industry. The organization also used retained earnings to pay debt to a moderate extent. The study concluded that monetary bonus, trips paid for by the company, gifts from a rewards catalog, or services such as cell phone or paid cable and job-contingent rewards affected the financial performance of the bank to a great extent.

Obonyo (2015) conducted a study to identify the growth strategies of Safaricom Limited and to establish how the growth strategies influence performance of Safaricom Limited. The study concludes that Safaricom Limited has adopted various growth strategies to enhance the Safaricom performance. In addition, the study concludes that Safaricom considers competition as an impetus toward enhancing products and services and improving performance design.

Under growth strategy the dominant firms in the industry tend to use economies of scale to intimidate small firms in order to expand. There are three ways in which a firm could use it to establish itself to grow. Homburg and Harley (2009) he conducted a research of growth strategies in supermarkets which showed how to expand the total market where by the first way was to expand its total market. It was developed by applying strategies such as marketing in order to achieve market penetration which increased the number of consumers using its products or services, this lead to an increase in its branches resulting to growth. Secondly, the supermarkets had to find new uses for the existing products or target new markets. In identifying new markets, it resulted to source consumers in locations where its product was new. The focus of expanding the total market depended on where the product was in its life cycle. This strategy was used when a product was in the maturity stage. For example, the Japanese increased their production to enter new countries (Kathur i& Pals, 2007).

There are several researches which have been carried out before, and they show that growth is one of the most difficult decisions for an organization, since it reduces the risk of operating in a volatile market. When such decisions are being made it is important for the firm to put into consideration previous experiences so that they can help them in making future decisions (Jones, 2004) He. Firms should do a cost benefit analysis before making a strategic decision so as to ensure the decisions match with the organizations mission and objectives. The manager must also have knowledge of expansion so as know when and how to apply them in the organization to generate more profits.

The performance of an organization is not only determined by the sales figures but also by the market size or change in the economic conditions. The performance of an organization is determined by their competitors which is measured by the proportion of the market that the organization is able to capture the market share. Sales are usually determined by their value which is determined by a unit of sale whereas the sales figures are readily available the total market sales become difficult to determine (Jim, 2003). Majority of the organizations focus on increasing their sales so as to outdo the competitors, this enabled them to exploit the economies of scale.

Capar and Kotabe (2003) conducted a research on the effect of expansion strategies in microfinance, this research found out that the value of an organization is determined by the products and services and not by the time. Growth is not as liquid as an investment therefore selling and purchase of growth set up takes more time than an investment. Growth has intangible implications which may not be applicable with the investments. The role of microfinance is to ensure maximization of wealth, but organizations may have other objectives other than just generating profits, their focus maybe based more on entering new market segments, strategic move, brand imaging, forward integration, employment generation, and backward integration.

Kariuki (2012) conducted a study to determine the effect of product development on the financial performance of commercial banks in Kenya. This study categorised determinants of commercial banks financial performance into two categories, namely internal and external factors where internal determinants of profitability, which are within the control of bank management and external factors are those factors that are considered to be beyond the control of the management of a bank. The study found out that new product development impacted positively on financial performance of commercial banks in Kenya.

Tangus and Omar (2017) examined the effects of market expansion strategies on performance in Kenyan commercial banks. The study found out that there was a strong correlation coefficient between firm performance and the three market expansion strategies. Furthermore, the findings of this study substantiate the call for banking institutions to use market expansion strategies to enhance their performance.

Mwangi (2016) conducted a study on the effect of diversification strategies on the commercial banks performance in Kenya. The study found out that the independent variables studied explain 53.7% of the effects of diversification strategies on the performance of Commercial Banks of Kenya. The study recommended for application of the diversification strategies in a bid to ensure performance and sustainable competitive advantage in the banking industry.

2.4 Summary of the Literature Review

The study explored two theories. Transaction cost theory is used by researchers to explain the reason as to why firms expand or source various activities from the external environment. This theory states that when firms are making decisions to maximize their profits, they have to analyze the market so as to be in a position to know how the demand is like and the prices of products. With that information, the firm focuses on allocating the resources to ensure that they meet the managerial objectives, which is to increase the firms size and growth (Marris and Mueller 1980). The Resource-Based theory which determines the strategic resources available to a firm. These resources can be exploited by the firm in order to improve the performance of the firm to increase in profits which lead to increased market share which leads to a firm's growth. The theory was introduced by Werner felt (1984) with the idea of resource position barriers being roughly analogous to entry barriers in the positioning. The empirical review shows previous studies which have been conducted.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter tackled the research methodology which was used to address the research problem. It described the research design, target population, context of the study, sampling procedures, reliability and validity of instruments, data collection analysis and the procedures that were used.

3.2. Research Design

This research adopted a cross-sectional study which collected data to make inferences about a population of interest at one point in time. The research study was chosen because it enabled collecting data of a given area in this case -growth strategies on a given outcome which was the -organizational performance from a number of institutions (Orodho & Kombo, 2002). Cross-sectional study was observational and it enabled the researcher to record the information without interfering with the study environment (Babbie, 2010).

The process had greater control over measurement and it maximized the completeness of key data which required no follow-up (Mugenda & Mugenda, 2003). It enabled collection of empirical data to assist in testing of the hypotheses to answer the research questions since it supported inferences of cause and effect. It facilitated collection of data on the same subject from different respondents over the same period and during the same time (Babbie, 2010).

Cross-sectional study was prone to variance use and it reduced causal inference. Multiple informants were employed during the study so as to reduce systematic method error due to the use of a single rater which is known as the common method variance (CMV) and to enhance causal inference which had the ability to infer causation from empirical relations (Erdem, Swait, and Valenzuela 2006).

3.3. Population of the study

A target population is a group of elements or persons in which samples are taken from since they have one thing which is similar (Kombo and Tromp,2006). The annual banking survey report 2016 indicated that there were a total of 43 banks in Kenya; six of them were described by CBK as large banks (Central Bank of Kenya, 2016). Strategic growth decisions were spearheaded by senior management in the commercial banks. The study's target population was the senior managers of each bank.

3.4. Data Collection

The research had both primary and secondary data which was collected by the researcher. Primary data was collected by use of a questionnaire as shown in appendix I. Secondary data was obtained from published financial statement and other internal and external publications. Questionnaires were preferred since they were easy to distribute and there was confidentiality since the respondents did not need to write their names (Kombo & Tromp, 2006).

The questionnaires used had both open-ended and close-ended questions. Close-ended questions were used in the case where the researcher needed a definite response while open ended ones were used to gauge the respondent's answers and get their opinion in a clear manner and stimulate their thinking to bring out their interests and decisions (Mugenda, 2003).

A research assistant was used to drop and pick the questionnaires from the respondents in the commercial banks. Initial follow up was done by contacting the contact persons via telephone a week after the questionnaires had been dropped.

3.5. Data Analysis

The data used was coded, tabulated and analysed using the Statistical Package for Social science (SPSS) software and Excel. The descriptive statistics such as the frequency distribution and percentages were used to analyse the demographic data. Graphs and tables were used to present the responses for each item used. The responses got from the number of people in the total group were converted to a percentage value.

A regression model was used to examine the relationship between the variables. Growth strategies in commercial banks constituted the dependent variable while the independent variable was performance. This research analysis was used to combine the information gathered through the questionnaires.

The regression model took the following form:

$P = \beta 0+ \beta_1 X_1+ \beta_2 X_2 +\beta_3 X_3+ \beta_4 X_4+\varepsilon i$

Where: Y = Performance

X_1 = Product Development

X_2 = Market Expansion

X_3 = Diversification

X_4 = Market Penetration

$\beta_{0\ =}$ the intercept (value of EY when X = 0)

$\beta_{1\ =}$ the regression coefficient or change included in Y by each χ,

ε_i = error term

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND FINDINGS

4.1 Introduction

This chapter covers the data analysis, interpretation and presentation of the research findings. It analyses the data on the relationship between growth strategy and performance of commercial banks in Kenya. This chapter provides major findings and discusses the results against the literature review.

4.2 Response Rate

The study sample size was 43 senior managers from the forty three commercial banks in Kenya. Questionnaires were sent to the senior managers in all the commercial banks, whereby 28 out of the 43 banks managed to respond. This represents a 65 percent response rate as shown in the Table 4.1 below.

Table 4.1 Response Rate

Response Rate	**Frequency**	**Percentage**
Responded	28	65.0
Non- response	15	35.0
Total Sample Size	**43**	**100.0**

4.3 Demographic Information

This section of the study presents the profile information of the respondents and the banks that participated in the study. The study sought to establish the number of years that they had worked in their current bank and the number of years they had worked as senior managers.

4.3.1 Years of Employment with the Current Bank

The respondents who were the senior managers were asked to indicate the number of years they had been employed in the current bank. It was important to establish the duration the senior managers had been serving in their respective bank, because it would inform how well they understand the banks environment and growth strategies that their institutions have employed over time. The findings are presented in Table 4.2.

Table 4.2: Years of Employment with the Current Bank

Range of years worked	Respondents	Percentage
Less than 1 Year	0	0
1-5 Years	4	14
6-10 Years	15	53
Over 10 Years	9	33
Total	**28**	**100**

The study results in Table 4.2 show that majority of the respondents (53%) had worked for the respective banks for a duration of between six and ten years while 33% revealed that they had been with the current employer for over 10 years. Out of the senior managers who responded to the questionnaire, none had worked for the current employer for less than a year while only four representing 14% of the respondents had worked in their current employer for between 1-5 years.

From the findings, it shows that majority of the senior managers had worked in their respective banks for a period of more than five years. This is a substantial period for one to have a better understanding of the institution’s operations, strategies employed and how they influence performance. The fact that majority of the senior managers had worked for a such a duration in their current banks improves the reliability of the information given for the purpose of this study.

4.3.2 Number of Years as a Senior Manager

The respondents were asked to indicate the number of years they had served as senior managers in the commercial banks. This was important so as to establish whether the senior managers had experience and whether they had worked for an adequate period to understand the strategic operations of their specific banks over the period they have served as senior managers. The study findings in Figure 4.1 below.

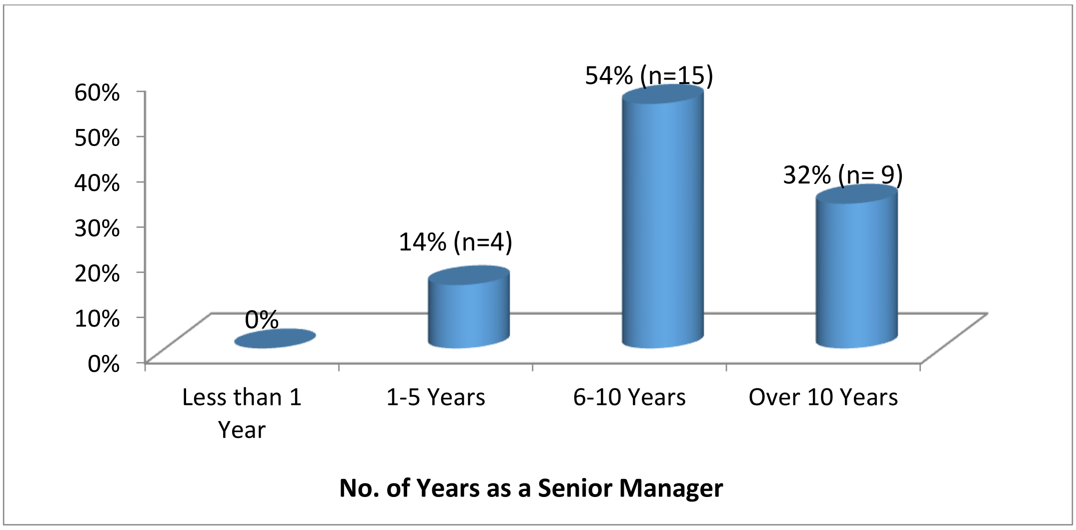

Figure 4.1: Number of Years as a Senior Manager

The study findings in Figure 4.1 shows that majority of the respondents (54%) had worked as senior managers for a period of 6-10 years while 32% had served as senior managers for a period of more than 10 years. This shows that majority of the respondents (86%) have served as senior managers for period of 6 years and above. Only 14% of the respondents indicated that they had served as senior managers for a period of 1-5 years.

The results show that majority of the senior managers had worked for six years and more in their respective position as senior managers. This therefore improves the reliability of the information given by the respondents in regard to the relationship between the growth strategies on the performance of commercial banks in Kenya.

4.2.4 Market Share of the Banks

In this section, the study sought to establish the size of the banks that participated in the study, in terms of the market share they control in the sector. This was important so as to understand the distribution of the banks that took part in the study. It would also make it easy to categorize the responses on the basis of the banks size (market share. The findings are presented in Figure 4.2.

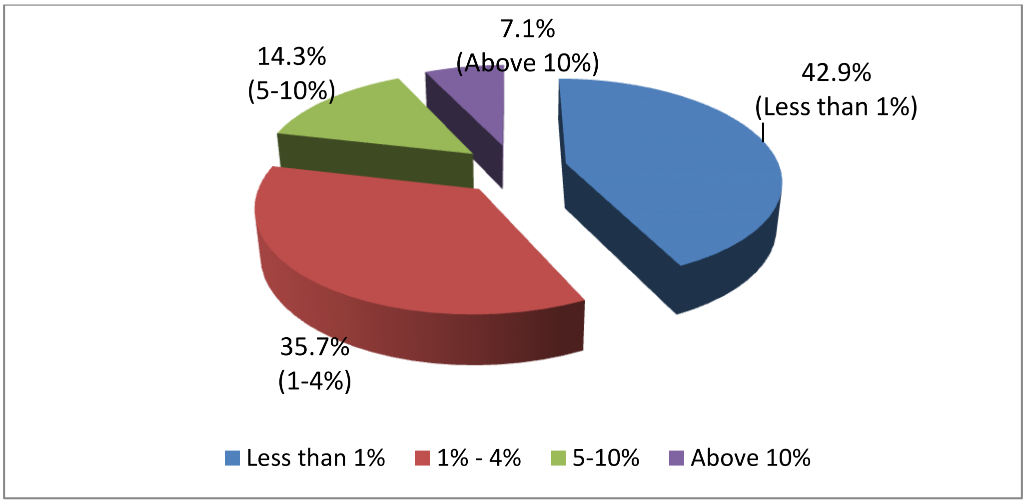

Figure 4.2: Market Share of the Banks

The study findings in Figure 4.2 show that 35.7% (n=10) of the banks had a market share of between 1-4% while 42.9% (n=12) had a market share of less than 1%. On the other hand, 14.3% (n=4) of the banks had had a market share of 5-10% while 7.1% (n=2) had a market share of above 10%. The study findings show that majority of the banks have a market share of less than five percent. The tier one banks control majority of the market share in the banking industry in Kenya.

4.2.5 Duration of Operation in Kenya

In this section, the study sought to establish the number of years the bank had been in operation in Kenya. This was important so as to establish duration the banks had operated in the Kenyan environment and whether it is long enough to understand Kenyan business environment. The findings are presented in Table 4.3.

Table 4.3: Duration of Operation in Kenya

No. in Years	Frequency	Percent
6-10 years	1	3.6
11-15 years	3	10.7
16-20 yrs	4	14.3
Over 20 years	20	71.4
Total	**28**	**100.0**

The study findings show that majority of the banks (71.4%) had been in operation in Kenya for more than 20 year while 14.3% had been in operation in Kenya for a duration of 16-20 years. The findings also show that 10.7% of the banks had been in operation in Kenya for 11-15 years, while 3.6% had been in existence in the Kenyan market for 6-10 years. From the findings, majority of the banks had been operating in Kenya for duration of more than 20 years.

4.2.6 Form of Ownership of the Bank

The study sought to establish the form of ownership of the banks which took part in the study. This was important to establish since banks management structure is influenced by the banks ownership structure which would also have an effect on the strategies employed by the banks. The results are presented in Table 4.4.

Table 4.4. Form of Ownership of the Bank

Form of Ownership	Frequency	Percent
Local Public Commercial Bank	6	21.4
Local Private Commercial Bank	17	60.7
Foreign Commercial Banks	5	17.9
Total	**28**	**100.0**

The findings in Table 4.4 show that majority of the banks (60.7%) were local private commercial banks; 21.4% were local public commercial bank while 17.9% were foreign commercial banks. This shows that the study was inclusive of all banks irrespective of their form of ownership.

4.4Relationship between Growth Strategies on the Firms Performance

This section addresses the objective of the study which sought to establish the relationship between growth strategy and performance of commercial banks in Kenya.

4.4.1 Growth Strategies in the Commercial Banks

The respondents were asked to indicate their extent of agreement on growth strategies in their commercial banks. A five point Likert scale was used to interpret the responses whereby the scores of "strongly disagree" and "disagree" were represented by mean score, equivalent to 1 to 2.5 on the continuous Likert scale ($1 \leq$ disagree $\leq$ 2.5). The scores of 'neutral' were equivalent to 2.6 to 3.5 on the likert scale ($2.6 \leq$ neutral ≤ 3.5). The score of "agree" and "strongly agree" represented were equivalent to ($3.6 \leq$ agree ≤ 4.4) and ($4.5 \leq$ strongly agree ≤ 5.0) on the Likert scale. The findings are presented in Table 4.3.

Table 4.3: Growth Strategies in the Commercial Banks

Growth Strategies in the Banks	**Mean**	**Std. Deviation**
Product Development		
Ventured into new products in the past 1-5 years	4.54	0.508
Understanding of the bank's products contribution to growth strategies	4.57	0.504
Opportunity to review the banks strategic business plan and its products	4.36	0.621
Market Expansion		
The banks had 1-5 year expansion plan encompassing clear	4.36	0.488

strategies		
The banks have been growing and expanding at a faster rate now than in the past 10 years	4.32	0.612
Invested in market intelligence to enhance market expansion.	4.50	0.509
Diversification		
Entered into strategic alliances in the last 3 years	4.11	0.786
Merged with or acquired another institution recently	4.14	0.651
Entered into agency agreements recently	4.57	0.504
Opened a branch/subsidiary within the county recently	4.39	0.629
Market Penetration		
Management ensured there was sufficient human, financial and other resources to enhance growth	4.50	0.509
Employees were appraised on the bank's growth strategies	4.39	0.629
Committed to Research & Development so as to develop innovative products for the market	4.57	0.504
Cost Benefit Analysis used to assess the profit potential of future expansion projects.	4.43	0.504
Average Mean	**4.41**	**0.568**

The respondents agreed to have an understanding on the bank's growth strategies, to have entered into agency agreements and that the banks were committed to research and development so as to develop innovative products for the market (mean score = 4.57). The respondents also agreed that banks had ventured into new products in the past 1-5 years, invested in market intelligence to enhance market expansion and that the management ensured there was sufficient human, financial and other resources to enhance growth as shown by the mean scores 4.54 and 4.50 respectively.

The respondents further reported that Cost Benefit Analysis was used by the banks to assess the profit potential of future expansion projects, that employees were appraised with regards to the bank's growth strategies and that banks had opened branches/subsidiaries within the county as shown by the mean scores 4.43 and 4.39 respectively. Additionally, the respondents indicated to have had an opportunity to review the banks strategic business plan and growth strategies, that the banks had 1-5 year expansion plan encompassing clear strategies and that the banks had been growing and expanding at a faster rate then, than in the past 10 years as shown by mean scores 4.36, 4.36 and 4.42 respectively.

4.4.1 Performance of Commercial Banks

In this section, the respondents were asked to indicate their extent of agreement with the statements on growth strategies and performance of commercial banks. The findings are presented in Table 4.4.

Table 4.4 Performance of Commercial Banks

Statements Performance of the Banks	Mean	Std. Deviation
Expansion strategies have increased the firm's asset base	4.46	0.508
Costs associated with running the business have disproportionately increased in the past 1-5 years	4.48	0.509
The bank's profit has been improving over the past 5 years	4.57	0.504
The bank has a 1-5 year expansion plan encompassing clear strategies	4.25	0.799
We have introduced new products in the last five years	4.46	0.508
The firm's capabilities and knowledge have improved due to the firm's expansion strategies.	4.36	0.678
Our market share has been improving over the years.	4.64	0.488
The firm's profitability ratios have improved significantly over the past 1 - 5 years	4.54	0.576
Customer satisfaction has improved greatly	4.36	0.488

Our product/service quality has improved for the last five years	4.46	0.508
Net assets, core capital and other assets have grown in last 1-5 years	4.68	0.476
Average	**4.48**	**0.549**

The respondents agreed that the net assets, core capital and other assets have grown in last 1-5 years, the banks' market share had been improving over the years and that the profit had also been improving over the past 5 years; as shown by the mean scores 4.68, 4.64 and 4.57 respectively. The respondents also agreed that the banks' profitability ratios had improved significantly over the past 1-5 years and that the costs associated with running the business had also disproportionately increased in the past 1-5 years, as shown by mean scores 4.54 and 4.48 respectively.

Moreover, the respondents agreed that the expansion strategies had increased the banks' asset base, introduced new products in the last three years; and that their product/service quality had improved for the last five years, as shown by a mean score of 4.46 respectively. The respondents further agreed that the banks' capabilities and knowledge had improved due to the expansion strategies, customer satisfaction had greatly improved and that the banks had a 3-5 year expansion plan encompassing clear strategies; this is shown by the mean scores 4.36, 4.36 and 4.25 respectively.

4.5 Regression Analysis between Growth Strategies and Performance

A multivariate regression model was adopted to establish the relationship between growth strategies and performance of commercial banks in Kenya. The predictors were market penetration, market expansion, diversification and product development while the dependent variable was performance of commercial banks. The regressions results are presented below.

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.796(a)	0.633	0.619	0.25415

a Predictors: (Constant), market penetration, market expansion, diversification, product development

R is the coefficient correlation which shows that relationship between the variables. R square is the coefficient of determination which shows how well the model predicts the observation; it is a statistical measure of how close the data is fitted in the regression line. The study results show that the value of Adjusted R Square is 0.619. This shows that the growth strategies employed by the commercial banks (market penetration, market expansion, diversification, product development) explained 61.9% of performance in commercial banks in Kenya.

Table 4.6 ANOVA(b)

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	11.588	4	2.897	44.849	0.000(a)
	Residual	1.495	23	0.065		
	Total	**13.083**	**27**			

a Predictors: (Constant), Robots, Machines, Computer

b Dependent Variable: Performance of Commercial Banks

The ANOVA sought to show the significance of the regression model. The results show a calculated F value of 44.849 which is significant at p = 0.001. This implies that the regression model has a 0.1% likelihood of giving the wrong prediction. The model has 95% confidence level.

Table 4.7 Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.564	0.408		1.382	0.171
	Product Development	0.573	0.198	0.458	4.763	0.000
	Market Expansion	0.404	0.056	0.568	2.838	0.006
	Diversification	0.531	0.187	0.746	7.203	0.000
	Market penetration	0.449	0.094	0.359	2.888	0.005

a Dependent Variable: Performance of Commercial Banks

The coefficient results shows that there is a positive and significant relationship between product development strategies and performance of commercial banks as shown by $\beta = 0.573$ and $p = 0.001<0.05$. This implies that a unit increase in product development would significantly improve the performance of commercial banks at a unit of 0.573 and vice versa.

There is also a positive and significant relationship between market expansion strategies and performance of commercial banks ($\beta = 0.404$, $p = 0.006<0.05$). This means that an increase in market expansion would significantly improve the performance of commercial banks at a unit of 0.404 and vice versa.

The regression results further shows that there is a positive and significant relationship between performance of commercial banks and the other two growth strategies; that is, diversification ($\beta = 0.531$, $p = 0.001<0.05$); market penetration ($\beta = 0.449$, $p= 0.005<0.05$). This implies that a unit increase in diversification and market penetration strategies would significantly increase the performances of commercial banks in Kenya at a unit of 0.531 and 0.449 respectively.

4.6 Discussion

The study found out that commercial banks in Kenya had put in place various growth strategies to enhance their performance. They include: product development, market expansion, market penetration and diversification strategies. It was found out that product development strategies enhanced performance of banks to a great extent. There was a positive and significant relationship between product development strategies and performance of commercial banks in Kenya. These findings are in agreement with those of Kariuki (2012) who conducted a study on the effect of product development on the financial performance of commercial banks in Kenya; and found out that new product development impacted positively on financial performance of commercial banks in Kenya.

The study found out that commercial banks in Kenya had employed market expansion strategies to a great extent. The banks had laid down clear strategies on how to expand their market and this had enhanced the growth and expansion of the bank at a faster rate. The banks had also invested in market intelligence to enhance market expansion. Market expansion strategies were found to improve performance of commercial banks to great extent. The findings are in agreement with those of Tangus and Omar (2017) who found a strong correlation between firm performance and the market expansion strategies. The study recommended that banks should use market expansion strategies to enhance their performance.

The study found out that commercial banks were employing diversification strategies to improve their performance. The banks were adopting diversification strategy and they were also merging or acquiring others. Others were entering into agency agreements and were also opening more branches within the county. The diversification strategies were found to improve the performance of commercial banks in Kenya to a great extent. These findings are in agreement with those of Mwangi (2016) who found out that diversification strategies had a great effect on the performance of Commercial Banks of Kenya and recommended for increased application of the diversification strategies in the banking industry

Lastly, the study found out that commercial banks in Kenya had adopted market penetration strategies to a great extent. For instance, the banks were committed to research and development so as to develop innovative products for the market. Market penetration strategies were found to have a positive impact on performances of commercial banks in Kenya. The above findings are in agreement with those of Muthengi (2015) who also found out that marketing strategies such as market penetration strategies has a positive effect on bank's performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings which have been obtained from chapter four; it also gives conclusion and recommendation of the research based on the objectives of the study. The objective was to establish the relationship between growth strategy and performance of commercial banks in Kenya.

5.2 Summary of the Findings

The study found out that commercial banks in Kenya had employed a myriad of growth strategies to enhance their performance. The strategies employed included product development, market expansion, market penetration and diversification strategies. On product development, it was found out that banks had ventured into new products in the past 1-5 years and they regularly reviewed the banks strategic business plan and growth strategies to understand the needs of the market. The results established that there is a positive and significant relationship between product development strategies and performance of commercial banks in Kenya.

On the banks market expansion strategies, the study found out that the banks had 1-5 year expansion plan encompassing clear strategies on how to expand their market. The respondents revealed that the banks have been growing and expanding at a faster rate now than in the past 10 years. The banks had also invested in market intelligence to enhance market expansion. The regression results also showed that there is a positive and significant relationship between growth strategies and performance of commercial banks.

On diversification strategies, the study found out that commercial banks in Kenya had entered into strategic alliances in the last 3 years. Some banks had also merged with others or acquired another institution to enhance their growth. Moreover, it was found out that banks had entered into agency agreements and they had also opened some branches or a subsidiary within the county to great extent so as to enhance their growth. These findings are supported by the regression results which also show that there is a positive and significant relationship between diversification strategies and performance of commercial banks in Kenya.

On market penetration strategies, the study found out that commercial banks in Kenya were committed to research and development so as to develop innovative products for the market. The banks also conducted cost benefit analysis used to assess how they are going to penetrate in the market. The banks management also ensured that there were sufficient human, financial and other resources to enhance penetration in the market. The regression results also found out that there is a positive and significant relationship between market penetration strategies and performance of commercial banks in Kenya.

5.3 Conclusions

The study concludes that commercial banks in Kenya have employed growth strategies to enhance their performance. The study concludes that product development strategies have a positive and significant relationship on performance of commercial banks in Kenya. New product development is an important way for commercial banks to stay ahead of the competition and continue to appeal to the changing needs of existing customers. In addition, new product development can open up new marketing channels and help to increase market share for the banks.

The study concludes that diversification strategies have a positive and significant relationship on performance of commercial banks in Kenya. The banks are diversifying by entering into strategic mergers or acquisition as well as opening more branches and subsidiaries. Diversification strategies have the potential to expand banks' operations by adding markets, products and services, to the existing business; which subsequently improves the banks performance.

The study also concludes that market development and growth strategies have a positive relationship on performance of commercial bank in Kenya. Banks are employing market expansion strategies in order to attain and sustain competitive advantage in the local and regional market. The study further concluded that for banks to reach the target market more conveniently and swiftly, they have had to embrace expansion as one of their focus in the overall strategy.

5.4 Recommendations

The results of the study indicate that the existence of a relationship between growth strategies and the performance of commercial banks in Kenya. The empirical study highlighted the relationship between growth strategies and performance of commercial banks. Commercial bank senior managers and other high level stakeholders could apply the range of growth strategies highlighted in expanding the scope of markets and operations of their entities in a bid to ensure a sustainable competitive advantage.

The empirical results further have implications for the central bank of Kenya who will find this study useful in advising and reviewing applications by banks for expansion. The results contribute towards making requisite recommendations that will foster a productive and resilient banking industry. In the long-run this will enhance a regulatory pronouncement which will strengthen the industry against failures and enhance the corporate performance of individual commercial banks. From a conceptual point of view, the empirical results will contribute to the steadily growing knowledge on the relationship between growth strategies and the performance of commercial banks in Kenya. The empirical results validate the current theories and paradigms. This will advance strategic management discipline, which is still in the pre-paradigmatic stages.

5.5 Suggestions for Further Research

Studies could be conducted on the risks associated with growth strategies, the likely effects of these risks on performance and the framework in which commercial banks could establish to mitigate against such risks. Research can also be carried out to establish the long-term sustainability of expansion as a means of improving performance of commercial banks versus concentrating on enhancing the value offering of existing products and services.

Studies should be done to establish the factors driving the quality, efficiency and effectiveness of growth strategies in commercial banks in Kenya and if the trend being observed is sustainable in the long run. Other studies could interrogate the individual expansion strategies and link them to other outcomes such as service quality, performance and brand image.

5.6 Limitations of the Study

The first limitation was imposed by the sampling which could have introduced a sampling bias. The study sampled senior managers only on grounds that they make expansion strategy decisions and virtually drive the performance of the institutions. Senior managers would want to paint a good picture of their organizations and as such their views could be biased. Such limitations could be addressed in future by expanding the sample to cover other senior management staff.

The second limitation is that the study was only done in one sector and therefore confined; in future this could be expanded to other financial and non-banking institutions. The third limitation is that the study had only one predictor variable used that is the growth strategy; it is possible to have other predictors whose joint effect on performance is much greater than any other.

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APPENDICES

Appendix I: Questionnaire

I am an MBA student at the University of Nairobi conducting an academic research to establish the relationship between growth strategy and performance of commercial banks in Kenya. The information gathered by use of this questionnaire will strictly be used for the academic purpose of this paper and will be treated with the highest level of confidentiality. You are kindly requested to spare some of your valuable time and fill in this questionnaire. Please tick the most appropriate box. Thank you very much.

Section A: Respondent Demographics

(Tick where appropriate)

1. Please indicate which bank you work for……………………………………..

2. For how long have you worked for this Bank? Less than 1 year[ ] 1-5 years [ ] 6-10 years [ ] Over 10 years [ ]

3. What is your position? ....

4. Please indicate how long you have worked in this position? Less than 1 year [ ] 1-5 years [ ] 6-10 years [ ] Over 10 years [ ]

Section B: Profile of Commercial Banks

5. What is the market share of your bank?

Less than 1% [ ] 1% - 4% [ ] 5-10% [ ]

Above 10% [ ]

6. How long has your bank been in existence/operational in Kenya?

5 years and below [ ] 6-10 years [ ] 11-15 years [ ]

16-20 years [ ] Over 20 years [ ]

7. Indicate the form of ownership of your bank.

Local Public Commercial Bank [ ] Local Private Commercial Bank [ ]

Foreign Commercial Banks [ ]

Section C: Growth Strategies

Instructions: Listed here below are some statements regarding growth strategies.

8. Please indicate the extent to which you agree with the statement by ticking the relevant box for each statement.

(1) Strongly Disagree, (2) Disagree, (3) Neutral, (4) Agree, (5) Strongly Agree

Growth Strategies in the Banks	1	2	3	4	5
Product Development					
Ventured into new products in the past 1-5 years					
Understanding of the bank's products contribution to growth strategies					
Opportunity to review the banks strategic business plan and its products					
Market Expansion					
The banks had 1-5 year expansion plan encompassing clear strategies					
The banks have been growing and expanding at a faster rate now than in the past 10 years					
Invested in market intelligence to enhance market expansion.					
Diversification					
Entered into strategic alliances in the last 3 years					
Merged with or acquired another institution recently					
Entered into agency agreements recently					
Opened a branch/subsidiary within the county recently innovative					

Market Penetration					
Management ensured there was sufficient human, financial and other resources to enhance growth					
Employees were appraised on the bank's growth strategies					
Committed to Research & Development so as to develop innovative products for the market					
Cost Benefit Analysis used to assess the profit potential of future expansion projects.					
Average Mean					

9. Comment on your bank's growth strategies and their relationship on performance

....
....
....

Section E: Performance:

10. Listed here below are some statements regarding performance. Please indicate the extent to which you agree with the statement by ticking the relevant box for each statement.

(1) Strongly Disagree, (2) Disagree, (3) Neutral (4) Agree, (5) Strongly Agree

Performance	1	2	3	4	5
Expansion strategies have increased the firm's market share					
Costs associated with running the business have disproportionately increased in the past 1-5 years					
The bank's profit has been improving over the past 3 years					

The bank has a 1-5 year expansion plan encompassing its performance					
We have introduced new products in the last three years to improve sales					
The firm's capabilities and knowledge have improved due to the firm's expansion strategies					
The firm's profitability ratios have improved significantly over the past 3-5 years					
Customer satisfaction has improved greatly					
Our product/service quality has improved for the last 5 years					
Net assets, core capital and other assets have grown in last 1-5 years					

11. Comment on your bank's performance in last 1-5 years? Do you feel that expansion strategies played a key role in the performance?

....

....

Appendix II: List of Commercial Banks in Kenya

Number	Bank	Market Size Index
1	Kenya Commercial Bank Ltd	14.52%
2	Equity Bank Ltd	9.98%
3	Barclays Bank Ltd	8.90%
4	Cooperative Bank of Kenya Ltd	8.41%
5	Standard Chartered Bank Ltd	7.74%
6	CFC Stanbic Ltd	5.10%
7	I&M Bank Ltd	4.09%
8	Commercial Bank of Africa Ltd	3.98%
9	Citibank N.A.	3.96%
10	Diamond Trust Bank of Kenya Ltd	3.71%
11	NIC Bank Ltd	3.70%
12	National Bank of Kenya Ltd	3.58%
13	Bank of Baroda Ltd	1.83%
14	Bank of Africa Ltd	1.70%
15	Prime Bank Ltd	1.64%
16	Chase Bank Ltd	1.49%
17	Housing Finance Company Ltd	1.48%
18	Family Bank Ltd	1.34%
19	Imperial Bank Ltd	1.27%
20	Bank of India	1.17%
21	Eco-bank Ltd	1.02%
22	Fina Bank Ltd	0.69%
23	Consolidated Bank Ltd	0.68%
24	African Banking Corporation Ltd	0.63%
25	Gulf African Bank Ltd	0.60%
26	Giro Comercial Bank Ltd	0.60%
27	Equatorial Commercial Bank Ltd	0.57%
28	Fidelity Bank Ltd	0.50%
29	K-Rep Bank Ltd	0.47%
30	Development Bank Ltd	0.46%
31	Transnational Bank Ltd	0.44%
32	Habib Bank A G ZurichLtd	0.44%
33	Guardian Bank Ltd	0.44%
34	First Community Bank Ltd	0.41%
35	Victoria Commercial Bank Ltd	0.40%
36	Habib Bank Limited	0.32%
37	Oriental Commercial Bank Ltd	0.31%
38	Credit Bank Ltd	0.28%
39	Paramount Universal Bank Ltd	0.28%
40	Middle East Bank Ltd	0.26%

41	Jamii Bora Bank Ltd	0.24%
42	UBA Bank of Kenya Ltd	0.16%
43	Dubai Bank Ltd	0.15%
		100%
	Charterhouse Bank Ltd* Under receivership	0

Source; CBK, 2016