DIVERSIFICATION STRATEGIES AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT CO-OPERATIVES SOCIETIES IN NAIROBI: A CASE STUDY OF NSSF SACCO SOCIETY LTD

BY

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DECLARATION

I state that this research project is my unique work and has not been presented in any other University and/or Institution of Higher learning for Examination or Academic award.

Signature………………………………

Date: 10th March, 2021

Alex Mulinge Ndaka

D61/5947/2017

This Research Project has been submitted for examination with my approval as the University Supervisor.

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Date: 5th December, 2020

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LIST OF ABBREVIATIONS

ANOVA	**:**	Analysis of variance
CBK	**:**	Central Bank of Kenya
FOSA	**:**	Front Office Services Activity
NASSEFU	**:**	National Social Security Fund Sacco
NSE	**:**	Nairobi Stock Exchange
RBV	**:**	Resource Based View
ROA	**:**	Return on Assets
ROE	**:**	Return on Equity
SACCO	**:**	Savings and Credit Co-operative Societies
KUSCCO	**:**	Kenya Union of Savings and Credit Co-operatives Limited
USSD Code	**:**	Unstructured Supplementary Service Data Code
ATM Card	**:**	Automated Teller Machine
POS	**:**	Point of Sale
PDQ	**:**	Process Data Quickly
USSD	**:**	Unstructured Supplementary Service Data

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The operating business environment today is full of various challenges, as a result of the highly turbulent business setting; organizations have to learn to acclimatize themselves to remain very competitive over time (Auster et al., 2011). Subsequently, businesses have to employ deliberate and strategically organized learning, in an ongoing systematic shift between the business setting and the organization's strategies. These efforts yield to enhancement of efficiency and effectiveness, and similarly expanding their financial performance and achievement of long term growth in the society (Grant, 2008). Some of the strategies include the adoption of diversification plans. It is also true 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 approaches as well as developing the diversification strategies that will enhance their performance, survival and competitiveness.

Diversification has over time been used as a fundamental strategy by companies in the attempt to boost overall performance and enhance market attractiveness. According to Thomson et al. (2012), diversification acts as a tool to build shareholders value by use of existing resources. According to Ansoff (1965), diversification can also be seen through the penetration of market and the development of product and market size which is a representation of market and product structure changes.

This research is instituted on the Contingency theory and Resource Based View (RBV) theory. Contingency theory supports and indicates that organizations cannot use one method or procedure to succeed in their operations and achieve their goals.

The theory was first coined by two scholars known as Paul Lawrence and Jay Lorsch, especially in late 1967. They noted that the high levels of changes and risks in the modern business organization cannot be managed with one method (Miller, 2009).

In the Resource Based View, it is argued by researchers that the allotment of assets in the various available markets with self-sufficient flow of cash reduces the impact of un-universal risk coming from exterior eventualities in each of the numerous markets (Lewellen, 2011).

The Deposit Taking Savings and Credit Co-Operatives Societies has been mentioned as one of the business fields whereby the competition of cut throat thrives. According to Nyatich (2009), competition has been on the rise in the Kenyan Deposit Taking Savings and Credit Co-Operatives Societies industry such that even international parties, in maintaining and enlarging their market shares, have been pushed to alter their strategies in comparison to the strategy of the large corporate. Just like other financial institutions, Deposit Taking Savings and Credit Co-Operatives Societies have basically been provoked to improve their financial performance so as to remain significant in the financial market. Miller (2009) states that diversification has been largely utilized by companies all over the world to ensure an integration that is vertical. The use of diversification also makes sure blockage of competitors and thereby being relevant in the market place and shift in performance of a firm’s finances.

1.1.1 Diversification Strategies

Diversification is a process whereby a company enlarges from its key business into other markets of different products (Gluck, 2015). According to studies done before, the management of corporate is actively used in the diversification of activities. According to Rumelt (2016), 14 percent of the fortunate 500 companies in 1974 worked as single businesses, while the diversified businesses operated at 86 percent. He also stated that as time passed many European corporate managers pursued diversification. Diversification allows businesses to pursue other profitable lines whether related or not (Penrose, 1959). Diversification also allows an organization to grow its scope by widening and expounding its product market.

However, Edelman (2012) defines diversification as a strategy used by a company in the process of entering a fresh product market and competing in the same market.

This is because diversification gives a company the opportunity to maximize value by expounding the scope of industries and markets in which they do supply of products and compete for new customers (Manolova, & Edelman, 2014).

According to Rumelt framework, the diversification extent is explained using a fourfold taxonomy, which is anchored on the income derived from numerous products. The above include companies which are of single products, dominant products companies, unrelated and related product entities. In this research we shall concentrate on diversification of related and unrelated products.

1.1.2 Financial Performance

The mentioned phrase defines the profitability of an investment by an entity. Basically in the corporate world the performance in monetary terms helps determine the sustainability of an entity in the market platform. The financial performance of an entity is measured in terms of assets, profitability ratios as well as in terms of sales volume and revenues.

Financial performance is a measure of the probability of survival and financial health of an entity over a specified period (Wanjiku, 2012). In order to sustain themselves, entities adopt methods which are diverse to help them achieve the intended goal. According to Njeru, (2013), an entity's goal may range from financial, which includes sales and profits increase, to non-financial, which includes market expansion, customer satisfaction, efficiency and financial viability. According to Grant et al., (1988), even though many entities prefer to only implement financial indicators as the only performance measure, there are some financial elements that are not indicators of an entities performance. Consequently, an entity needs to combine financial and non-financial measurements to help in dealing with external and internal surroundings (Krager and Parnell, 1996).

1.1.3 Deposit Taking Savings and Credit Co-Operatives Societies in Kenya

Deposit Taking Savings and Credit Co-Operatives Societies refers to organizations whose core mandate is to help individuals save their money for future use.

The Deposit Taking Savings and Credit Co-Operatives Societies are financial institutions that have an important role in the intermediation of finance in the Kenyan finance terrain and deal with enhancement of personal financial growth. They are well known for savings mobilization and lending of loans to corporate members for personal growth (Onduko, 2013). They are similar to commercial banks such that they take deposits from a number of people and create profits by charging defined interest rates to the loans they give.

Deposit Taking Savings and Credit Co-Operatives Societies Act (2010) controls registration and Sacco's activities in Kenya. However, Deposit Taking savings and Credit Co-Operatives Societies Authority) licenses, regulates and promotes Deposit taking Sacco operations in Kenya. The Act provides least essential operation and the paramount measure to be followed by Deposit Taking Savings and Credit Co-Operatives Societies to reduce risk while making sure stability of the group money is guaranteed. It is also worth noting that there are two types of Deposit Taking Savings and Credit Co-Operatives Societies. This includes the Deposit and non-deposit taking Saccos. Deposit Taking Savings and Credit Co-Operatives Societies provides credit and savings banking services to its members. They offer payment services; accept deposits, and loans to their members. Currently, there are more than 3000 Deposit Taking Savings and Credit Co-Operatives Societies registered in Nairobi Kenya.

Cooperative societies have been recognized by WB, ILO and ICA for the commercial and social role they play around the globe, and particularly in emerging nations thereby generating the essential aptitude for alleviating poverty and upholding impartiality among communities. SACCOS have also been in the frontline in marshalling savings and investments by availing of reasonably priced financial capital to member borrowers. The industry has brought about a huge influence in fiscal empowerment among millions of Kenyans. Between the year 2015-2018, Cooperatives had mobilized more than \$6 billion (nearly 50% of the country's Gross Domestic Product (GDP) as deposits, and an asset base worthy over \$5 billion. Within the same period, the World Bank report indicated that at least 9 out of 10 households in Kenya are put-up through cooperative loans. The government of Kenya under Vision 2030 has envisioned that cooperatives will deliver 25% of housing stock in urban areas.

These cooperatives have been acknowledged as one of the best models in improving agronomic and non-agronomic outputs, through trade in large volumes of inputs and engagement in the supply and delivery of farm inputs.

The sector has the capacity of enhancing industrialization in the rural areas through value adding agricultural products and effective marketing of farm products such as dairy and coffee sectors. (Otieno. S 2019)

1.1.4 NSSF Sacco Society Ltd in Kenya

The Sacco mentioned above previously known as NASSEFU was started with 280 active members on August 20th 1990. Since then, the Sacco has grown to more than 4437 members (NSSF Sacco Society Ltd, 2019). In December, 2000 FOSA (Front Office Service Activity) kicked off its activities to offer Quasi banking services to the above mentioned Sacco (NSSF SACCO) members at a Competitive rate. In 2010 the NSSF Sacco was allowed to operate its activities of FOSA from the SASRA (Sacco Acts Society Regulatory Authority) (NSSF Sacco Society Ltd, 2019).

The vision of The NSSF Sacco Society is to become a Sacco model that provides sustainable and competitive solutions of finance to clients (NSSF Sacco Society Ltd, 2019).

However, its mission is the mobilization of resources in a timely manner while providing financial services which are innovative to clients through the management of sound systems and practices thereby ensuring optimum returns to stakeholders and members. Some of the key values of the firm include providing stable self-help, mutual responsibility, equity as well as innovativeness and caring for others in all its activities and service delivery.

The NSSF Sacco Society Ltd usually gives loans and advances to their members. The individual amount given to any personnel ranges from 1000 to a tenth of the key capital or as the board of directors decides from time to time. The Sacco also provides development loans, emergency loans as well as school fees loans (NSSF Sacco Society Ltd, 2019).

1.2 Research Problem

In the aim of achieving the set objectives and targets mentioned in the strategic plan, Deposit Taking Savings and Credit Co-Operatives Societies have acquired numerous strategies of business that assist in sustainability in the highly competitive and dynamic industry.

Diversification of entering new markets and products is among the various strategies utilized in the processes of targeting new consumers. The aim is to break the common bond and expand national coverage (Machoki, 2014). The strategy of diversification may look attractive in the solving of Deposit Taking Savings and Credit Co-Operatives Societies problems but it comes with its risks. The diversification strategy has the strength to increase the mentioned entities market share, product uptake and profit margin if utilized accordingly. The strategy is also time consuming, expensive and risky and should be done with a firm marketing plan that has a clear financial case and marking.

It is critical for corporates to research on the impact and behavior of diversification strategies on the performance of businesses, as they have a big influence on firm endurance. Fund Administrators and stakeholders often diversify their investments across different asset classes to enable them determine what proportions of the entire portfolio to allocate to each asset class, which include: Stocks, bonds, Real Estate, Exchange-traded funds (ETFs) and commodities, among others. They then diversify among investments within the assets classes, such as by strategically selecting stocks from different economy sectors that tend to have low return correlation. This move is highly beneficial to them as it means that; If low performance in one investment can be counterbalanced by a higher performance in another investment, the risks of huge losses in an overall portfolio very rare, and the asset-base will keep growing more in the long run.

A number of researches have been carried out in the determination of the effects of diversification on financial performance of Deposit Taking Savings and Credit Co-Operatives Societies. Rumelt (2014) carried out a research in The United Stated of America, on the relationship between entities strategy of diversification and its economic performance.

The research found out that entities that used diversification strategy out-performed the companies that chose to specialize in their line of work. Montgomery (2016) later questioned the findings of Rumelt and stated that the findings would not work in Kenyan entities since the two nations were in different economic levels of development.

Ayedipo (2012) of Nigeria conducted a research on product market diversification strategy effect on firm financial performance and overall growth.

The survey concluded that firms that follow unrelated or related strategies of diversification outdo those entities that decide to follow both strategies. The study utilized ANOVA, multiple regressions, scheffe ad hoc test and independent sample as triangulation technique and established that there is a positive correlation between strategy of related diversification and monetary performance. The findings may not necessarily apply to Kenya entities due to the differences in legal, political and economic position between Nigeria and Kenya.

Locally, Mutuma (2013) did a research on the influence of expansion strategies on performance of Kenyan commercial banks. The survey found out that strategies of market penetration affected to a great extend the performance of Kenyan commercial banks, due to the indifferences that come with the Sacco's and commercial banks regulations. The results of this research may not be applicable in the Kenyan Saccos. Mugo (2014) carried out a survey on the financial factors influencing performances of Deposit Taking Savings & Credit Co-operatives and saving in Kenya. The study showed that decision making to a great extend influenced monetary performance of Sacco`s. Another researcher, Wambua (2011), carried out a study on corporate governance which researched on Kenyan Sacco's financial performance. He found out that a Sacco`s leadership to a greater extent influenced the Sacco`s financial performance. Basically the studies done have not been based on the influence of strategies of diversification on the financial performance of Deposit Taking Savings and Credit Co-Operatives Societies in Kenya.

This research therefore seeks to fill the above gap by researching the influence of strategies of diversification on performance of Deposit Taking Savings and Credit Co-Operatives Societies in Nairobi, using NSSF Sacco Society Ltd a case study.

The study seeks to establish, what is the influence of strategies of diversification on performance of NSSF Sacco Society Ltd?

1.3 Research Objective

i. To establish the diversification strategies adopted by NSSF Sacco Society Ltd.
ii. To determine the influence of diversification strategies on the financial performance of NSSF Sacco Society Ltd.

1.4 Value of the Study

This research will benefit various stakeholders. For example, the study findings and recommendations will help Sacco management to adopt diversification strategies that can help improve their financial performance. This will allow the Sacco management to gain more profitability and high performance in the long run.

Moreover, the study findings and results will also help shareholders and different stakeholders such as makers of policy who will use it in evaluating and pinpointing the failures and successes of initiative policies that are related to diversification and financial performance. Policy makers will use it to formulate effective diversification plans while the other stakeholders will use it to better their decision making by evaluating and weighing degree of financial performance acquired by the superior management through adoption or varied diversification models.

Moreover, other researchers may choose to make use of the study findings as a source of reference to carry out research on a similar or other service fields with the same goal and objective. These researchers may also use the results to bridge knowledge gaps on other studies of financial performance and diversification effects. This will help in promoting the success of future studies related to the topic of study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section starts with a theoretical framework presentation for the survey. The framework will entail the theories that explain the relationship between the defined variables in the research. Thereafter will be a discussion on past research done in this region and give an analysis of the same. This section concludes with the research gaps to be discussed in accordance to the research objectives.

2.2 Theoretical Review

There are various models that try to expound on the impact of diversification strategies on the financial performance. In this study, the researcher will adopt the Contingency Theory and Resource-Based Theory, which attempt to synthesize those factors that influence strategies of diversification on the financial performance of Saccos.

2.2.1 Contingency Theory

According to Williams, Ashill and Naumann (2017), Contingency Theory supports and indicates that an organization cannot use one method or procedure to succeed in their operations and achieve their goals. The theory was first coined by two scholars known as Paul Lawrence and Jay Lorsch, in late 1967. They noted that the high levels of changes and risks in the modern business models cannot be managed with one method. Thus, global firms must adopt varied approaches to manage and guide their operations. They also noted that using one way of organizing and planning an organization`s activities is not effective. Therefore, it is imperative that organizations adopt a number of ways and techniques to meet their needs and objectives (Williams, Ashill & Naumann, 2017).

Weill and Olson (1989) also noted that contingency theory can help global firms to use their resources and different models to fit in conditions and challenging environments where they operate. This is a clear indication that organizations should use and apply different strategies and techniques in planning their operations, policies Procedures and goals (Taylor &Taylor, 2014).

When organizations are using different plans and strategies, they are in a position to embrace creative ways of achieving their goals and objectives within limited budget and time (Omondi et al., 2013). This theory supports the view that firms should use diverse strategies to improve their financial performance.

2.2.2 Resource-Based Theory

This theory is said to be the one of the earliest providers of theoretical arguments that favor diversification. According to Pensrose (2009), an entity at any time has particular productive resources that enable them to venture on productive opportunities allowing the growth of the firm. Numerous researchers have identified different resources that create unique merit for an entity by dividing them in different businesses. Gold and Campbell (2008) provide the merits and demerits of dividing know-how and physical resources, vertical integration, strategies that are coordinated and pulling negotiation power. The above resources enable entities to produce scope and economies of scale by boosting the order of usage of the resources. In summary according to resource based view, an entity should strive to maximize on exploitation (Contractor, Kundu & Hsu, 2009).

Nevertheless, Foss (1988), states that the above named theory doesn’t escape the overall difficulty of discovering suitable analysis units. Numerous donations within Resource-Based View (RBV) pick the individual resource as the applicable unit of analysis to research on competitive advantage. The researcher also states that the choice of the above named theory only works when and if the resources are free standing and well defined. If their sources aren’t defined, then the only way that the theory can work is if the resources are clustered in a way to interplay and fit to the system that will assist in the competitive advantage understanding. In this study the conceptual framework considers the issue of interplay and cluster of resources by relating strategy to competitive advantage instead of individual resources.

2.3 Diversification Strategies and Financial Performance

Different scholars have studied effects of strategy of diversification on financial performance. Some of the research done have stated that there is indeed a positive effect on profitability when diversification is involved (Yan et al., 2010). Hoskisson & Peng (2011) carried out a study which resulted into a negative correlation between strategies of diversification and financial performance. Ozbas & Scharsfstein (2010) carried out a research which concluded that business cycle determines the link between strategies of diversification and financial performance. According to a research done by Santalo and Becerra (2004), there exists a negative connection or relationship between strategies of diversification and entities financial performance.

In other cases Daud et al., (2009) carried out a study which ended up inconclusive due to the lack of data which is inconsistent, performance measures that differ, moderate variables and difference in time frames. Mackey (2006) states that the indifference of the results is as a result of numerous profitability measures, different diversification measures and timeframes difference. Andreou and Louca (2010) argued that the indifference of the conclusion or findings was partly theoretical and methodological. Concentric diversification in the Sacco field has switched to product diversification whereby Sacco`s bring in products linked to their business endeavors. Sacco`s are currently termed as cash cows since they offer banking services such unlimited loans through FOSA to members without any limitation of the deposits they have at high interest rate.

Hitt et al., (2011) conducted a research which concluded that companies that have diversified its products by the use of internal resources benefit from economies of scale and thereby gaining more returns.

The above shows that Saccos which adopt related diversification acquire economies of scale that generate better competitive advantage that in turn betters the Sacco`s performance. Products which are diversified can be used to retain existing customers by providing a better customer experience and can also be used as a tool to retain and attract fresh clients. The act of retaining and attracting new customers through consumer satisfaction and loyalty in relation to financial performance is in accordance to Reichheld and Sasser (1990) conclusion whereby retention of customers imparts profit increase.

In conclusion most scholars have found a correlation between customer length of stay in relation to a business and its profitability.

There are several past studies that have been done to evaluate the effects of diversification strategies on monetary performance of deposit taking firm across the world. For example, Lang and Stulz (2014), in their empirical work on diversification and market value for United States entities over 1990 to 2015 and it discovered that diversified entities have diminished market values than focused companies. The study noted that entities that are underperforming tend to diversify to boost their performance. Nevertheless, the survey was carried out using cross sectional associations. They found out that there was no relation between market value change of firms and diversification level change after conducting an analysis.

Moreover, Bosworth et al (2017) conducted empirical research in Australia using the IBIS data for 2011 to 2017 and included a Herfindahl diversification measure. They found out that entities which are more goal oriented have higher profitability by the use of fixed effects panel estimator. The findings of the research used sample that excluded loss making entities. The results were also supported by Feeny and Rogers (1999) who used simple OLS as atoll and found out that entities that goal oriented are more profitable which is done through diversification strategies.

Furthermore, kumar (2008) conducted a research on strategy of international expansion of Japanese entities and building capability via sequential entry. The survey found out that firms with VBG (Vertical business group), H.B.G (horizontal business group) and LOB (line of business), have better advantage.

A research by Sajid (2000) researched entities in Pakistani that had adopted strategies of diversification and those that hadn't acquired the strategies. The survey collected data from diversified and undiversified entities, 8 of each acquired from listed companies in Nairobi Stock Exchange (NSE) -100 in between the 2004 to 2009. The findings were tabulated using regression analysis which showed lack of multi collinearity between variables. The findings concluded that diversified entities face more risk compared to undiversified firms but on the contrary diversified companies have higher leverage than undiversified entities.

A study in Nigeria by Oyedijo on Nigerian companies in the year (2012) in linkage to unrelated, mixed, specialization and related product market strategies was carried out. The survey concluded that entities that follow unrelated or related strategies of diversification perform better compared to entities that follow both. The study utilized ANOVA, multiple regressions, scheffe ad hoc test and independent sample as triangulation technique and established that there is a positive correlation between strategy of related diversification and monetary performance. The survey also found out that related diversifiers had a higher level of financial performance compared to unrelated and mixed diversifiers. The research found a marginal correlation between mixed, unrelated diversification with monetary performance and growth of sales of entities. The survey concluded that there was a significant impact on performance by related diversification while unrelated diversification had non-significant and negative impact on a firm's sales growth and monetary performance. Mutuma (2013) did a survey on the influence of strategies of expansion on Kenyan commercial banks performance in the local studies. The study found that strategies of penetration to a great extend affect performance of Kenyan commercial banks.

From the above studies, it is evident that very few studies have been done to establish the influence of strategies of diversification on the financial performance of NSSF Sacco Society Ltd. This means there is a gap and this research seeks to fill the gap by ascertaining the influence of diversification strategies on the financial performance of NSSF Sacco Society Ltd.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section includes and presents the various methods that guided the survey. This includes the methods associated with research design, the process or procedure adopted for data collection as well as the methods that were used to analyze the information from the study. Since this is a case study, the study population and the sample size are not included in the study methodology.

3.2 Research Design

In the study, the researcher adopted case study research design. The researcher only focused on NSSF Sacco Society Ltd and processed all information was acquired and examined in order to evaluate the connection between diversification strategies and financial performance of Deposit Taking Savings and Credit Co-Operatives Societies using a case study of NSSF Sacco Society Ltd. The researcher also used a correlational survey to determine whether or not two variables are correlated.

The researcher used case study approach to provide a clean or critical link and connection between different variables. Additionally, case study provided the researcher with an opportunity to give a detailed analysis of the situation. Importantly, the design was expected to help give a good and deep or in-depth analysis and comprehending of phenomena under study and also provided numerous forms of information. Furthermore, case study was expected to promote flexibility of data gathering and formed a basis for future research.

3.3 Data Collection

In this research, the basic (primary) data was acquired by use of an interview guide containing closed and open-ended questions discussing different diversification and financial performance related issues employed by NSSF Deposit Taking Savings and Credit Co-Operative Society Ltd to acquire an advantage in competence over their competitors and afterwards better on their financial performance. The interview guide was open-ended in nature, which helped in the acquisition of data within a short period of time and was also simple to dispense.

The interviewees were all managers heading the Deposit Taking Savings and Credit Co-Operatives Societies business development committees, departments and directors in the Deposit Taking Savings and Credit Co-Operatives Societies, who were proactively engaged in the management and daily activities of the Deposit Taking Savings and Credit Co-Operatives Societies. Face to face interviews, virtual interviews and emailing methods were used to dispense the questionnaires. Follow up was effectively done through telephone calls and personal visits to boost response rate, which was achieved at 100%. In this study, the following five (5) interviewees at NSSF Sacco Society Limited completed the interview guide: Finance and Operations Manager, Credit Manager, FOSA Manager, Internal Audit Manager and Information Communications Technology Manager and Administration Manager.

3.4 Data Analysis

In this study, the researcher used qualitative systems and techniques in analyzing the data. Qualitative research method involves exploration of a concept with the intention of providing more understanding of a topic or just for the purpose of creating awareness of an existing concept. After acquiring information from the interviewees, the results were edited and properly classified to help in the effective and easier analysis.

The researcher adopted content analysis method to analyze data collected through interviews. The use of content analysis allowed the researcher to interpret responses from the interviewees so as to evaluate relationships between research variables. Data was also summarized to highlight the main core points and long statements were compressed into short statements. Data was interpreted, and conclusions were also drawn in a precise manner.

CHAPTER FOUR: DISCUSSIONS, DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter discusses study presentation, analysis, and interpretation of findings from the field. The study determined Influence of diversification strategies on the financial performance of deposit taking Savings and Credit Co-operatives Societies in Nairobi: A case study of NSSF Sacco Society Ltd. The study sought to answer the question; what is the influence of diversification strategies on the financial performance of NSSF Sacco Society Ltd? Data used in this study was obtained from the interviews conducted on senior managers and Heads of Departments on diversification strategies adopted by NSSF Sacco Society Limited.

In the study, the researcher adopted case study research design. The researcher also used a correlational survey to determine whether or not the two variables, financial performance and diversification strategies, are correlated. Additionally, the case study provided the researcher with an opportunity to give a detailed analysis of the situation. Importantly, the design helped to give a good and deep or in-depth analysis and comprehending of phenomena under study and provided numerous forms of information. Furthermore, the case study will help to promote flexibility of data gathering and formed a basis for future research.

In this research, the basic (primary) data was acquired by use of an interview guide containing closed and open-ended questions, covering various diversification and financial performance related issues employed by NSSF Sacco Society Limited with an aim of enhancing financial performance and to acquire a competitive advantage over the competitors in the industry.

The researcher adopted content analysis method to analyze data collected through interviews. The use of content analysis allowed the researcher to interpret responses from the interviewees so as to evaluate relationships between research variables.

Data was summarized to highlight the core points and long statements were compressed into short statements. Data was interpreted, and conclusions drawn in a precise manner.

4.2 Background Information

The interviewees in this study were from the following departments. Finance and Operations, Credit Management, FOSA, Internal Audit and Information Communications Technology (ICT). The interviewees were in the following designations: Finance and Operations Manager, Credit Manager, FOSA Manager, Internal Audit Manager, and Information Communications Technology (ICT) Manager. All interviewed interviewees in this study had a working experience of between two (2) and eleven (11) years at NSSF Sacco Society Limited, with a majority having an experience of more than five (5) years in their current role. This meant that they had enough working experience in their current roles to be able to competently deliver their mandate. All interviewees were also well versed with the diversification strategies adopted by the Sacco.

From the conducted interviews, it was established that all managers at NSSF Sacco Society Limited had a minimum of Undergraduate degree, while three (3) out of the five (5) interviewees had Post-Graduate education, demonstrating high competitiveness in the recruitment at the Sacco. This was well demonstrated as all managers were able to respond to questions on the diversification strategies with ease.

In terms of the gender of interviewees, one (1) of the managers was a female, while the other four (4) were male. The Sacco had been in existence since 1990, meaning it had been in operation for thirty (30) years. Plans to expand the Sacco`s branch network were underway, but as at the time of the study, the Sacco had only one branch, which also served as the main office, located at the Social Security House, Block C – ground floor, along Bishops road in Nairobi.

The study also established that NSSF Sacco Society Limited was a fast growing entity, having prudently invested members` savings, growing its asset value to two billion, three hundred million Kenya shillings (Kes. 2.3Bn) only. Membership at the Sacco as at the time of inception membership stood at two hundred and eighty (280) members, while as at the time of this study, active membership was nine thousand at around four thousand, four hundred and thirty-seven (4,437) members.

The membership was made up of National Social Security Fund (NSSF) employees, NSSF Sacco Society Limited employees and other members of the public.

It was established in the study that the FOSA department was to a large extent, greatly involved in the selection and implementation of all approved diversification strategies so as to meet set business growth targets. The department, by way of customer feedback forms, obtained feedback from Sacco customers on recommended changes for products and services, emerging customer needs, demands, expectations, customer satisfaction levels, and also from the Sacco`s own research so as to determine current market needs and through competitor analysis from peers in the Industry. The FOSA manager was also required to ensure that all customers` suggestions, complaints and views were recorded, analyzed and acted upon without undue delay.

The other level of Management that was directly involved in the process of Diversification Strategies selection and implementation was the Board of Directors and the Sacco top management, the Chief Executive Officer (CEO), as they were the people entrusted with the powers and authority to change any innovative idea(s) into action and approve the same for implementation. Once new ideas on diversifications were arrived at, the FOSA manager would then discuss the idea with other managers, come up with a report on proposed implementation then forward the report to the Chief Executive Officer (CEO) of the Sacco for his consideration, review and input. Once the CEO has looked at he, he would then present the idea before the Board of Directors in a full Board meeting, for deliberation. The Board would then make a decision on whether to approve for implementation or recommend for further research.

Therefore, the study found that the Sacco`s departments were also directly involved in idea generation, development, implementation and operationalization of approved diversification strategies as follows; Finance Department was tremendously engaged in conducting cost benefit analysis and availing required resources for research and implementation once strategies were approved for implementation. The Information Communications Technology (ICT) Department was also heavily involved.

In regards to diversification strategies, the ICT Manager was in-charge of the development and implementation of the ICT-related strategies; Promotion of ICT Innovation and enterprise; Establishment of optimal systems, modern technology and making requisite endorsements to stimulate uptake of mobile services; Training and sensitization of both staff and members on the new ICT platforms. He was also required to guarantee business continuity in the event of any operational disruptions, by reducing the Recover Time Objective (RTO), and provide effective disaster management and recovery plans. He was also entrusted with the responsibility of overseeing purchase, installation, configuration and administration of all application software, operating and telecommunications systems for Sacco.

The Credit Manager`s role was researching and evaluating clients' creditworthiness, and also creating effective credit scoring systems to enable prompt prediction of risks in either approving or rejecting customer loan requests, based on credibility and probable profits and losses. The Internal Audit Manager`s role in the implementation of diversification strategies was to audit all operations, review controls, evaluate their adequacy and functionality, carry out special audits and provide risk assessments, profiling and making appropriate recommendations.

4.3 Diversification Strategies

On the diversification strategies adopted by the Sacco, the study found that the Sacco`s core business was mobilization of resources, developing a good savings culture among its members, implementing inventive commercial facilities for its members through application of appropriate funds administration practices and employment of systems that guarantee optimum returns to members and all relevant interested parties.

Although the Sacco was very keen to continue delivering on its core mandate, this study was able to prove that the Sacco had also implemented several diversification strategies which acted as revenue provision channels that very well complemented its core business.

It was established that the Sacco had developed internally, implemented three key diversification strategies as: Insurance Agency diversification strategy, Mobile Banking diversification strategy, Banking Agency diversification strategy.

The Insurance Agency diversification Strategy was amongst the diversification strategies to be employed as an investment and an income replacement vehicle, under the name NASSEFU Insurance Agency. All managers were aware of the Insurance Agency diversification strategy, and agreed that they used it at the Sacco. The NASSEFU Insurance Agency had partnered with Kenya Union of Savings and Credit Co-operatives Limited (KUSCCO) Mutual Assurance to provide a tailor-made benevolent cover or last expense for its members and or their families (Principal member, Spouse, Children, Parents and Parents in-laws) upon their demise. The last expense plan had four types of cover. First was Gold where a member was required to contribute Kes. 125 monthly or Kes. 1,500 annually with a cover limit of Kes. 50,000. The second one was Platinum, where a member would contribute Kes. 258.33 monthly, or Kes. 3,100 annually, with a cover limit of Kes. 100,000. Third was Ruby, with monthly contributions of Kes. 508.33 or Kes. 6,100 annually, with a cover limit of Kes. 200,000. The fourth and last cover was Jadeite, with a monthly contribution of Kes. 1,275 or Kes. 15,300 annually and a maximum cover of Kes. 500,000.

Under the Insurance Agency umbrella, the Sacco had also introduced Bima loan, a product that would be available to members that needed to take up any Insurance policy/cover through the agency such as last expense. This product was guaranteed upto Kes. 100,000 with a repayment period of 11 months, an interest rate of 6% per annum on reducing balance, no appraisal fee and required a minimum of three (3) guarantors. During the interview, one of the interviewees, remarked that, “Although we launched the Insurance Agency at the beginning of January 2020, the diversification strategy looks very promising and we are confident to make a great impact in the market”. NASSEFU Insurance Agency had also partnered with various Insurance companies to offer other attractive Insurance Policies such as Medical Policy, Motor, Educational and Investment Policies.

The Mobile Banking diversification strategy had also been adopted by the Sacco. The Sacco management realized that mobile banking was a very good opportunity as it was a highly lucrative revenue stream, as well as a convenient platform for members to transact, without necessarily having the visit the Sacco`s banking hall. For mobile banking, the Sacco had partnered with Safaricom Kenya Limited and obtained a USSD Code *477# that once registered for mobile banking, a member was able to do a number of transactions such as withdraw money from their FOSA account and deposit to MPESA, repay their loan via MPESA, request and receive mobile advance loan, receive a mini statement via sms, check balances (FOSA, shares, loan), deposit contributions, purchase airtime, change mobile banking pin among others.

A Paybill number 819890 had also been allocated to the Sacco by Safaricom. Any customer who wished to make any payments to the Sacco would go to MPESA; Lipa na MPESA, enter paybill number, 819890; enter account number (membership number); enter the amount to pay and press okay. The customer would then receive a confirmation message from Safaricom and NSSF Sacco.

All interviewees agreed that mobile banking came in very handy during the Covid-19 period, where the World Health Organization (WHO) and the Kenyan Ministry of Health had issued health protocols that necessitated Social distancing and where possible, total avoidance of physical contact among individuals. This was a good opportunity for the Sacco as it promoted mobile banking and saw subscriptions on the same increase and volumes of transactions on mobile banking also doubled. One of the interviewees said that, "Our pro-activeness as a Sacco and research on current trends has really helped as. This is because as we were able to implement mobile banking in good time, with the Covid-19 pandemic, 95% of members and customers are using mobile banking, which earns the Sacco more revenue, increases customer satisfaction levels and also gives us ample time to work on other deliverables."

Banking Agency diversification strategy was adopted by the Sacco by partnering with Co-operative and Equity banks. The Sacco therefore operated as a bank agency for both banks.

At the FOSA banking hall, the Sacco operated a Co-operative Bank Agency open to both members and customers, where walk-in clients conduct minimal banking transactions, with the Sacco such as depositing cash and cash withdrawal to and for Co-operative Bank account holders. For one to be served, they had to produce a Co-operative Bank ATM Card and a Kenyan national ID card. Further, the Sacco operated an ATM card facility to complement the already existing channels of funds access to all Sacco the members with FOSA accounts. Just like at the Commercial Banks, the Sacco link ATM cards were VISA branded and could work with any Co-operative Bank ATM vending machines at a cost of Kshs. 36 per transaction. The cards were also Point of Sale (POS) vendor compatible meaning one could shop with it in any supermarket, as well as any Process Data Quickly (PDQ) acceptable business or VISA branded shops, hotel expenses, and fuel etc.

The Sacco also operated an Equity Bank Agency, only available for Equity Bank holders. The agency facilitated cash deposit and withdrawal, once a customer visits the FOSA banking hall.

Money Markets were also established as a diversification strategy adopted by the Sacco. This involved engaging in short-term investments. The Sacco had a partnership with CIC bank to invest through them in the money markets. Returns on investments at the time of this study stood at 9.4% per annum, and was expected to move with the high market dynamics. CIC provided the Sacco with an opportunity to invest prudently and negotiate for competitive rates so as to give its members the best rates possible in the market.

This study also established that there were some key benefits realized by the Sacco through implementation and marketing their diversification strategies. These accrued benefits were such as high turnover, improved sales, enhanced customer loyalty, competitive advantage, profitability and portfolio growth. The Sacco was also able to charge competitive prices for all services associated with the diversification strategies leading to improved turnover and profitability. The study revealed that development and investing in knowledge and related capabilities, to a large extent supported the Sacco operationalization of all diversification strategies, as less energy and funds were utilized in training.

4.4 The Diversification Strategies – Financial Performance Relationship

From this study, the main objective of developing and implementing diversification strategies was to improve financial performance and enhance competitive advantage of NSSF Sacco Society Limited.

This subsequently led to growth of the Sacco`s business portfolio, profitability and also to enabled the Sacco to properly maximize the available resources.

Furthermore, the diversification strategies also affected the performance of the Sacco as there was evidence of improved turnover and growth (with current Assets base valued at Kes. 2.3 Billion), improved sales, improved customer loyalty (having started off with 280 members at inception in August 1990 to a total of 4437 active members at the time of the study, with members` withdrawal levels standing at less than 1%). The Sacco had also a competitive edge over its peers in the industry. The study also revealed that diversification strategies helped the Sacco take advantage of prevailing, unprecedented evolution of markets, highly dynamic customer needs & expectations and future opportunities in industry of rapid growth by increasing innovative products and services for competitive advantage.

4.4.1 Link to Resource Based Theory

From this study, and based on the collective agreement of the interviewees, it was revealed that the resource based theory application at Nssf Sacco Society Limited was to a large extend influential in enhancement of financial performance of the Sacco. The interviewees interviewed in this study specified that the main resources at the Sacco included human resources, technological resources, fiscal resources, knowledge recourses and physical assets. According to Contractor, Kundu & Hsu, 2009 an entity should strive to maximize on exploitation of all available resources.

This study accounted for, and attribute the following factors as the key influencers of the achievements of enhanced financial performance and sustainable competitive advantage at Nssf Sacco Society Limited.

These are factors such as: High levels of Managerial Competence, Sophisticated Technological infrastructure, efficient organizational structure that allowed for prompt decision making, well thought-out acquisition and effective deployment of strategic operational assets, proactive research, discovery and utilization of emerging market opportunities and adoption of synergy among all team members.

In regards to Human resources, the interviewees specified that all Nssf Sacco Society Limited staff were strong team players and key pillars on which the Sacco ran its business. The Sacco was keen to ensure that all employees appreciated the value they offered, and their contribution in achieving the Sacco`s mission of mobilizing resources, providing timely and innovative financial services to customers through sound management practices and systems to ensure optimum returns to members and stake holders.

All staff were also aware of their contribution towards achieving the Sacco`s vision which was to be a model Sacco in Kenya, providing competitive and sustainable solutions to customers. The Sacco had achieved a great milestone by absorbing the right set of skills, creating a virtuous working atmosphere and creating a diverse workforce. Pensrose (2009), argued that any time, an entity has particular productive resources that enable them to venture in productive opportunities, allowing for the growth of the firm.

4.4.2 Link to Contingency Theory

According to Williams, Ashill and Naumann (2017), Contingency Theory supports and indicates that an organization cannot use one method or procedure to succeed in their operations and achieve their goals. This study was able to provide a clear rationale to support a contingency theory of diversification.

This was from the varied diversification strategies adopted by Nssf Sacco Society Ltd that is: Insurance Agency diversification strategy, Mobile Banking diversification strategy, Banking Agency diversification strategy.

The Sacco was able to receive and process mobile banking applications from members, register them, facilitate service provision through mobile banking and conduct basic banking services. It was also able to provide banking Agency services in partnership with Co-operative bank of Kenya and Equity bank. Insurance Policies such as Medical Policy, Motor, Educational and Investment Policies were also provided therefore increasing the financial performance of the Sacco, enhancing customer satisfaction and competitive advantage against to peers. According to (Williams, Ashill & Naumann, 2017), it is imperative that organizations adopt a number of ways and techniques to meet their needs and objectives.

The empirical analysis was based on data obtained from interviewees. The empirical evidence showed that the diversification strategies adopted by Nssf Sacco Society Ltd made strategic sense in the business. Essentially, the “universal” theory of diversification holds true.

The Sacco had recognized different characteristics of markets for resources, and was also able to understand that strategic resources do not depend on just availability of resources in the market and internal resources within the Sacco, but also the role of inter-firm collaboration. This was demonstrated through collaborations with Co-operative & Equity banks, Kenya Union of Savings and Credit Co-operatives Limited (KUSCCO) Mutual Assurance and Safaricom Kenya limited.

4.5 Discussions of Key Findings

This study established that all interviewed interviewees in this study had a working experience of between two (2) and eleven (11) years at NSSF Sacco Society Limited, with a majority having an experience of more than five (5) years in their current role. It was also established that all Managers had acquired undergraduate degree, while three (3) out of the five (5) interviewees had Post-Graduate education. In terms of the gender of interviewees, one (1) of the managers was a female, while the other four (4) were male. The Sacco had been in existence since 1990, meaning it had been in operation for thirty (30) years.

Plans to expand the Sacco`s branch network were underway, but as at the time of the study, the Sacco had only one branch, which also served as the main office, located at the Social Security House, Block C – ground floor, along Bishops road in Nairobi.

The study also established that NSSF Sacco Society Limited was a fast growing entity, having prudently invested members` savings, growing its asset value to two billion, three hundred million Kenya shillings (Kes. 2.3Bn) only. Membership at the Sacco as at the time of inception membership stood at two hundred and eighty (280) members, while as at the time of this study, active membership was nine thousand at around four thousand, four hundred and thirty-seven (4,437) members. The membership was made up of National Social Security Fund (NSSF) employees, NSSF Sacco Society Limited employees and other members of the public.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of key data findings from the study, makes conclusions and gives also gives recommendations to the study based on key findings of the study, and conducted data analysis that were all focused on responding to the objectives of this study. The objectives of this study were to establish the diversification strategies adopted by NSSF Sacco Society Ltd and also to determine the influence of diversification strategies on the financial performance of NSSF Sacco Society Ltd.

5.2 Summary

It was established that the Sacco had developed internally and implemented key diversification strategies as: Insurance Agency diversification strategy, Mobile Banking diversification strategy, Banking Agency diversification strategy. The objectives of employing these diversification strategies at the Sacco was to enhance financial performance, competitive advantage and customer loyalty of NSSF Sacco Society Ltd.

The study found that the Insurance Agency diversification Strategy was an investment vehicle that had been launched in the month of February, 2020, under the name NASSEFU Insurance Agency. It also found that the Agency had partnered with Kenya Union of Savings and Credit Co-operatives Limited (KUSCCO) Mutual Assurance to provide a tailor-made benevolent cover or last expense for its members and, or their families (Principal member, Spouse, Children, Parents and Parents in-laws) upon their demise. It was also found that the last expense plan had four types of cover. First was Gold where a member was required to contribute Kes. 125 monthly or Kes. 1,500 annually with a cover limit of Kes. 50,000. The second one was Platinum, where a member would contribute Kes. 258.33 monthly, or Kes. 3,100 annually, with a cover limit of Kes. 100,000. Third was Ruby, with monthly contributions of Kes. 508.33 or Kes. 6,100 annually, with a cover limit of Kes. 200,000. The fourth and last cover was Ruby, with a monthly contribution of Kes. 1,275 or Kes. 15,300 annually and a maximum cover of Kes. 500,000.

Under the Insurance Agency umbrella, the study found the Sacco had also introduced a new product called Bima loan, that was available to all members that needed to take up any Insurance policy/cover through the agency such as last expense. This product was guaranteed upto Kes. 100,000 with a repayment period of 11 months, an interest rate of 6% per annum on reducing balance, no appraisal fee and required a minimum of three (3) guarantors.

The study found that Sacco had partnered with Safaricom Kenya Limited and developed a mobile banking service. The Sacco had obtained a USSD Code *477# that allowed deposit to MPESA, be able to; repay their loan via MPESA, request and receive mobile advance loan, receive a mini statement via sms, check balances (FOSA, shares, loan), deposit contributions, purchase airtime, change mobile banking pin among others. From the study, it was also found that the Sacco had also acquired a Paybill number 819890 from Safaricom.

It was also found out in the study that banking Agency diversification strategy was adopted by the Sacco on partnering with Co-operative and Equity banks. The Sacco operated as a bank agency for both banks. At the FOSA banking hall, the Sacco operated a Co-operative Bank Agency open to both members and customers, which allowed them to conduct minimal banking activities with the Sacco such as making money deposits and withdrawal cash withdrawal to Co-operative Bank account holders. Further, the Sacco operated an ATM card facility to complement the already existing channels of funds access to all Sacco the members with FOSA accounts. Just like at the Commercial Banks, the Sacco link ATM cards were VISA branded and could work with any Co-operative Bank ATM vending machines at a cost of Kes. 36 per transaction. The cards were also POS vendor compatible meaning one could shop with it in any supermarket, as well as any PDQ acceptable business or VISA branded shops, hotel expenses, and fuel etc.

The key benefits realized by Sacco from diversification around the core business was that since the strategies were closely related to the core business of supporting individuals to save their money for future use, the Sacco was easily able to use the same human resources and other synergies such as maximization of the available resources.

There was also very little diversification of focus, therefore the chances of failure were greatly minimal. The also study found that the role of diversification strategies in sustaining business growth was to enhance financial performance, competitive advantage and customer loyalty of NSSF Sacco Society Ltd.

On the diversification strategies and financial performance relationship, this study found that high performance in the Sacco was highly attributed to diversification strategies such as Insurance Agency diversification strategy, Mobile Banking diversification strategy, Banking Agency diversification strategy. The main aim of implementing diversification strategies was to improve financial performance and enhance competitive advantage so as to enhance the business portfolio, profitability and maximize resources at NSSF Sacco Society Limited. The Sacco`s performance had greatly improved the turnover, improved sales, enhanced customer loyalty and growth. It was also established during the study that diversification strategies had supported the Sacco in taking advantage of the prevailing and emerging opportunities in the Sacco industry`s rapid growth by increasing leverage for competitive advantage.

5.3 Conclusions

From the research findings and discussions stated earlier in this chapter, the study makes a conclusion that diversification strategies adopted by Nssf Sacco Society Limited were; Insurance Agency diversification strategy where the Sacco provided last respect benefits, Mobile Banking diversification strategy through which members were able to access basics services such a repay their loan via MPESA, request and receive mobile advance loan, receive a mini statement via sms, check balances (FOSA, shares, loan), deposit contributions, purchase airtime, change mobile banking pin among others and Banking Agency diversification strategy where members were able to conduct banking activities such as cash deposits and withdrawal.

This study also concludes that the diversification strategies enhanced the financial performance of NSSF Sacco Society Ltd.

This is because from the study, diversification strategies were greatly attributed to turnover, improved sales, enhanced customer loyalty, competitive advantage, profitability and portfolio growth.

5.4 Recommendations for NSSF Sacco Society Limited

This study therefore recommends that NSSF Sacco Society Limited should fully embrace diversification strategies in order to continue reporting performance improvement in sales, customer loyalty, competitive advantage, profitability and portfolio growth.

The study also recommends that for the Sacco to have guaranteed success, and also in order to sustain the achieved growth, extensive data and intelligence driven research should continue being undertaken so as to determine the customers` emerging needs and expectations, identify a niche market and serve it effectively. The Sacco should also ensure that all offered products and services meet and retain high quality standards.

5.5 Suggestions for Further Research

This study highly recommends the need for conducting further studies on diversification strategies in other companies and industries so as to effectively establish the diversification strategies adopted by those firms, and the impact on their businesses.

5.6 Implication of the Results on Policy and Practice

From this study, it was established that for firms to succeed in business, it is necessary to involve managers in goal-setting, data analysis, strategy formulation, implementation, monitoring, measurement, analysis and evaluation of its performance and in general decision making on matters revolving around diversification strategies.

For the Kenya government and other relevant Legal, Statutory and Regulatory Authorities, the study gives a summary of how the idea of diversification strategies can be used to turn-around state corporations that are not achieving set targets, or that are performing dismally and give them a competitive edge to improve.

The government is also advised from this study, to continuously keep monitoring innovations and diversification strategies developed by different firms, so as to promptly put in place regulations ensuring healthy competition and consumer protection.

5.7 Challenges faced during the Study

As a part-time evening student, the main challenge faced in the course of conducting this study revolved around striking a balance between conducting the study, and committing time to full-time employment. The researcher was therefore not able to undertake extensive and exhaustive research, therefore limiting the him to less research time.

The second challenge was that the researcher was a self-sponsored post-graduate student, who heavily relied on personal savings and credit facilities. These scarce financial resources had to be balanced to ensure that the researcher met both academic and personal financial obligations.

Covid-19 pandemic also posed a challenge by limiting physical interaction with interviewees in terms of administering physical interview guides and conducting one-one-one interviews. Interviews had to be conducted virtually, at times encountering network downtime, and interview guides send to interviewees emails.

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