DIVERSIFICATION STRATEGIES AND COMPETITIVE ADVANTAGE OF HFC LIMITED

CHEPKOECH TRACEY

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

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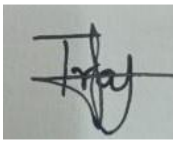
DECLARATION

This research project is entirely my original work, and has not been submitted for examination by any other university



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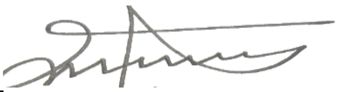
With my approval as the University Supervisor, this research study document has been submitted for examination.

_______  ___Date_ 28 .11.2022_______________

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DEDICATION

I dedicate this project to my family who have all played a selfless role to get me here even when I did not know how, your love and sacrifice have made this possible.

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I acknowledge the Almighty Father by dedicating this project to Him because without Him I would not have made it this far. I also acknowledge my very able Supervisor Prof. Justus Munyoki for his unwavering support and worthy guidance throughout this period.

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LIST OF ABBREVIATIONS

HFC	Housing Finance Company
CBK	Central Bank of Kenya
SACCOs	Savings and Credit Cooperatives
ROA	Return on Asset

ABSTRACT

Diversification strategies in today's organizations is paramount to the successful and profitable services delivery in those organizations and enhancement of customer retention. The motive of this study was to establish the effect of diversification strategies and competitive advantage of HFC bank. The study used the following theories; Porter's theory of competitive advantage and open systems theory. The study was qualitative in nature, hence adopting a case study as its design. The research instrument used to collect the data was an interview guide. The data obtained by the researcher was analyzed qualitatively by the help of content analysis. The study found that HFC bank had come up with several diversification strategies such as; full bank services include; personal banking where customers can open a personal banking account, savings account, investment account, get finance solutions, foreign exchange, open a diaspora account and money transfer services. The study established that existing products were rebranded to fit the needs of the customers while new products were developed which were in line with the modern markets and customer needs. The bank had also diversified into the digital market in order to attract more customers and make services easily accessible to the customers. The bank has also diversified by expanding its market base. The bank has opened branches all over the country as a way of targeting more customers. The researcher concluded that diversification strategies played a vital role to the competitive edge of HFC bank. The study recommended HFC bank to continue developing more diversification strategies for better improvement of customer services. The study also recommended that HFC bank incorporate data protection in its diversification strategies. Lastly, the study also recommended the government to offer support to banks by offering favorable taxes and working environment.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Modern firms exist in a rapidly changing environment characterized with frequent changes and uncertainty. In addition, each single day the organizations are faced with stiff competition from direct and indirect competitors. This has pushed organizations to review their strategies and operations in order to compete effectively while those that didn't have the strategies they had to develop new ones (Ng'ang'a, Namusonge & Sakwa 2016). Some of the strategies adopted by organizations to compete effectively is diversification which allows firms to expand into other lines of business (Tu & Zhou, 2011).The impact of diversification on competitive advantage has gained the interest of many scholars in the last decade. Organizations may decide to diversify for survival purposes, for expansion purpose (Weichieh & Tsang, 2013), to increase profitability (Yiğit & Tür, 2012), to explore new opportunities (Iqbal et al., 2012) or for turnaround purpose (Harrigan, 2015).

The research was anchored on theories of resource-based theory which was conceptualized by Wernerfelt and open system theory which was conceptualized by Ludwig von Bertalanffy. Barney et al., (2001) advanced that the Resource based theory firms in a given sector may diverse in terms of the resources they manage. Resources are an organizations strength and firms can exploit them to gain an advantage over their competitors. The open system theory states that organizations are an open system that are influenced by changes in the environment (Sundarasaradula & Hasan, 2014). The open systems theory views a firm as an open sytem which is inlfuenced by the factors from the environemnt. It looks at an organization as a dynamic system that interacts with its environment. The environment is made up of other factors such as social nature, economic and political factors that exert pressure on an organization. However, the environment also contains key resources that are beneficial to the sustainability of an organization. Thus, the open system theory can enable an organization to have a holistic view to problem solving by being knowledgeable on the interactions that exists between the internal and external environment. The open systems theory is essential as it provides an opportunity for organizations to think about diversification (Jung & Vakharia, 2019a)(Jung & Vakharia, 2019b).

The study focused on Housing Finance Company which is a commercial bank in Kenya and regulated by CBK. Commercial banks contribute significantly into an economy. The survival and stability of the commercial banks is critical and relevant to a country's economic growth (Nuhiu et al., 2017). In Kenya, the banking sector contributes 9.3% of the GDP and about 30% of all corporate taxes collected by the government (CBK, 2018). The last decade has seen banks in Kenya adopt different diversification strategies in order to remain competitive. The current study seeks to investigate how diversification strategies influences competitive advantage.

1.1.1 Diversification Strategies

Diversification refers to organizations venturing into new areas, markets, coming up with unique products or new opportunities for the purpose of achieving competitive advantage (Kering, 2015). Alkaersig et al., (2015) asserts that diversification is supposed to improve the performance objectives of a company beyond its previous performance records. Diversification provides an avenue for an organization to diversify from its existing operations (Kering, 2015). This is supported by (Haug & Ultich, 2013) who assert that diversification is a popular strategy for survival of organizations with the aim of outdoing their competitors. In addition, (Castaldi & Giarratana, 2018) states that diversification is used by a lot of managers so as to improve performance of their organizations. Diversification acts as a catalyst for competitive advantage, it helps an organization to spread its risks among its several businesses in order to increase its profitability, create synergy, avoid being bankrupt and achieve competitive advantage (Patrick, 2012).

Diversification can either result internally or externally. Internal diversification is where an organization produces different products or services but in line with its business. Hence, increasing its number of products or services. External diversification refers to venturing into a completely different business from the usual business line a firm is used to (Khalil, 2010). Kings (2013) states that diversification can be grouped into three: conglomerate diversification, concentric diversification and Horizontal diversification. Concentric diversification is where an organization introduces new products or services that are closely related to the organization current services/products. Horizontal diversification is where the organization introduces new services/ products to the existing customers while conglomerate diversification is introducing products or services that are new and completely unrelated to the existing products or services of the organization (Njuguna, 2019). The diversification strategies organizations can use them for improving on their performance or achieving competitive advantage.

1.1.2 Competitive Advantage

Porter, (1996) defined competitive edge as what makes a product, service or organization superior in the market hence customers choose it. Competitive advantage, according to Johnson and Scholes (2020), is a reconfiguration of a firm's ability and capability with the goal of meeting shareholder expectations. Competitive advantage is the capability for company to stand out from the competitors (Porter, 1996). Competitive advantage is a result of business obtaining or developing attributions or both or factors which permits it in outdoing its rivals (Nyauncho, 2017). The current study will adopt the definition by Porter (1985) due to its wider applicability in previous literature.

Different organizations possess different strengths and weakness in the environment. Organizations achieve competitive advantage either through differentiation or low cost. Differentiation is where organizations offer unique products or services that the competitors can not afford to offer. Low cost is selling products or services at a lower cost in order to target more customers. The position an organization occupies in the market is dependent on its strategy on differentiation or low cost. Whichever strategy a company uses will be determined by the company's ability to deal with the five forces in the market faster and better than its competitors. Porter (2006) asserted that organizations can achieve competitive advantage through adopting any of the following three strategies; differentiation, focus or cost leadership.

Barney (2015) stated that for organisations to achieve competitive advantage they should first focus on developing their internal resources, after which they can focus on the external resources. In addition, an organization should also work on developing unique resources like knowledge, competencies and create good relationship with its supplies in order to always get quality raw materials. Organizations possess unique capabilities which they can use to increase their customer base hence making more profit. These unique capabilities and help a firm achieve completive advantage (Awua, 2017). Noor (2012) notes that firms can achieve competitive advantage by developing capabilities strategies that will prepare an organization to be ready to survive in the unpredictable environment.

1.1.3 Commercial Banks in Kenya

CBK states that a bank is any business allowed to do banking operations within Kenya. The activities of commercial banks are; giving credit, taking deposits and helping customers do financial transactions. The banking industry plays a significant role in our economy by helping people save and advancing loans to them whenever they are in need. The central bank of Kenya is mandated to regulate all banking activities in Kenya. In Kenya there are 38 commercial banks, 1 mortgage finance company and microfinances are 11 (Central bank of Kenya, 2020).

In Kenya the banking sector has been very competitive characterized by entry of many foreign banks and mergers and acquisitions among local banks. The banks are also facing competition from microfinance banks and Savings and Credit Cooperatives (SACCOs) which have been on the rise in Kenya. The macro-economic environment has also been turbulent as exhibited by a depreciating currency, government controls such as the 2016 interest rate cap, high unemployment levels in the county and recently the Covid-19 pandemic. To survive in such an industry, the commercial banks have focused increasingly on innovations and technology in order to achieve a competitive edge through cost reduction and improvement of quality. These banks have been at the forefront of innovation and technology strategies. Other banks also have some aspect of innovation and technology strategies through their digital platforms (Central bank of Kenya, 2020).

Commercial banks have performed variably, with some recording a growth in customer base while others have recorded a reduction. Over the last 5 years, we have witnessed certain banks, like Chase bank, fall due to lackluster performance and this negatively affected their client base, while others such as National bank have also been acquired by KCB (Central bank of Kenya, 2020). Other banks such as Housing Finance Company, Equity, Cooperative, KCB and Standard Chartered bank have reported an improvement in both performance and customer retention over the same period of time. This demonstrates the need to investigate whether innovation and technology strategy can explain customer retention among the banks in Kenya.

1.1.4 Housing Finance Company Limited

Housing Finance Company is a financial service provider that has its headquarters in Nairobi, Kenya. HFC was started in 1965 as a mortgage finance institution but later integrated property and financial solutions. On July 7th 1993 the bank was incorporated to a wholly owned subsidiary company named as Home Finance Investment Fund Limited (HFIF) to operate as an investment company. In October 2001 the bank was renamed to Housing Finance Company Investment Services Limited (HFC-ISL) so that it can incorporate other businesses into its functions.

HFC is one of the innovative banks in the Kenyan economy since it has diversified its banking products under its Fintech holdings to support its operations. HFC bank has adopted the basic technological innovations that is electronic, mobile and internet banking to enable banking of its customers most effective (Mwiti, 2018). The organization is licensed and authorized to perform financial transaction by the commercial bank, CBK, and the national banking regulators (Okoth, 2018).

According to Dasgupta (2011), diversification strategies enable achievement of profitability and competitive advantage. Horizontal diversification, conglomerate diversification and concentric diversification strategy are meant to assist an organization in attaining good performance which is measured in terms of market share and profitability. Diversification strategies in the banking sector attract customer base which in return the bank gains from various services that are offered to its clients as well as creating new avenues of revenue generations (Altendorf & Schreiber, 2015).

1.2 Research problem

Organizations adopt different strategies with the aim of achieving and staying a step In front of the competitors every day (Waweru & Kalani, 2009). The environment in which firms operate in keeps on changing everyday due to strong competition, globalization, technology and customer driven demands, hence organizations must adapt to the environment through diversification (Harenstam etq al., 2004). Vecchio et al., (2006) states that organizational diversification is inevitable for the purpose of survival. Organization's must plan for diversification, manage the process effectively and implement it well. Todnem (2005) asserts that its vital for organizations to understand the effect of diversification to the different stakeholders for a successful implementation of the strategies. All the strategies including horizontal diversification, concentric diversification and conglomerate diversification strategy are therefore meant to steer an organization to achieve a competitive advantage (Altendorf & Schreiber, 2015). Hence, organizations to remain competitive in the unpredictable and dynamic environment it is essential to develop and implement strategies that are appropriate for its survival (Letangule & Letting, 2012).

In the last thirty years, there has been a lot of improvement in the banking sector in terms of services and products offered. However, several banks have had it challenging and some collapsing while others being put under receivership. The banks that have collapsed; Charter House Bank, Kenya Finance Corporation, Euro Bank and Trade Bank. The banks that were placed under receivership are; Dubai Bank, Imperial Bank and Chase Bank. Housing Finance Corporations limited has been existence since 1965 as a mortgage finance institution but later integrated property and financial solutions.

The mortgage financial institution has been able to withstand all the challenges that banks in Kenya have faced in the last three decades and stood out strong. Hence, the need for the researcher to examine the type of diversification strategies they have that makes them to be one of the best performing banks in Kenya.

Several studies both local and international have examined the influence of diversification on achieving competitive advantage. Edirisinghe (2008) examined diversification strategies of commercial banks in Sri Lanka. The research found out that diversification influenced the commercial banks in Sri Lanka positively. In addition, the author stated managers play an important role in coming up with diversification strategies which is a vital factor for the success of any change in an organization. Purkayastha, (2013) looked at how performance is influenced by diversification strategies of Indian manufacturing firms. The author found out that return on assets (ROA) had no relationship between performance and unrelated diversification. However, ROA influenced performance and related diversification positively in the transport equipment sector. The author concluded that diversification and performance were dependent on the type of industry an organization was in and the type of diversification adopted by the company. Raei et al., (2015) looked at the relationship that exist between firm performance, diversification strategy and risk on Tehran stock exchange market. The authors found out that there was no connection between firm performance, diversification strategy and risk. In another study by King (2013) on the status of banks in America concluded that diversifying banking products was a guarantee for competitive advantage to the banking sector.

In Kenya, Ohonde, (2015) looked at how competitive advantage influences diversification strategy of banks in Kenya. The author found out that it was possible for Kenyan banks to achieve competitive advantage through diversification of products and services. Nevertheless, the banks had to be innovative in the products they developed. Kering (2015) did a study on Safaricom competitiveness impacted by different diversifications. The researcher found out that the success of Safaricom was tied to its diversification strategies. In addition, Safaricom was able to increase its profit and revenue streams due to diversification. The author concluded diversification strategies should be adopted by every organization that wants to achieve competitive advantage. Kenyatta (2019) looked at how diversification strategies have impacted non-financial firms' performance on the Nairobi securities exchange (NSE). This research concluded that diversification strategies are vital for organizations to improve on their profits. All the local studies that the researcher looked at none has studied how diversification strategies influenced HFC to achieve competitive advantage. This research answered the following research question: How do diversification strategies employed by Housing Finance Company Limited influence the competitive advantage of the bank?

1.3 Research objective

The study sought to examine the influence of diversification strategies adopted by Housing Finance Company Limited in order to attain a competitive advantage.

1.4 Value of the study

The findings of this study will be essential to the development of policies for the banks by the relevant governing bodies in the industry. The bodies relevant for developing policies for banks will benefit from the research as they will get better understanding into the connection between diversification and competitive advantage.

The findings of the research will aid in development of theories relating to diversification and competitive advantage. The findings will also be vital to academicians and scholars, revealing gaps in research linked to the study's subjects as well as research done to expand empirical literature.

The research will help HFC bank’s management and employees by illustrating the significant changes diversification strategies and by providing them with new ideas on how to steer their businesses in a new direction. The management will be able to align their strategies with the changes in the environment and this will aid their survival and enhance competitive advantage.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review which covers the theoretical as well as the empirical review. The key theories reviewed under this study include the resource-based view theory and open system theory. The chapter concludes with the summary of literature review and knowledge gaps for the study as identified in the existing literature.

2.2 Theoretical Foundation

This section discusses the theories that anchor the study of diversification strategies and competitive advantage. The study reviewed the porter's theory of competitive advantage and the open system theory.

2.2.1 Porter's Theory of Competitive Advantage

The theory of competitive advantage was conceptualized by Michael Porter's in 1985. The theory is mainly known as the five forces. Porter came up with five forces that explains the structural environment of a business/organizations. The five forces are; power of buyers, power of suppliers, new entrant and threat of substitutes (Porter, 1985). All these factors contribute to the competitive advantage of an organization. According to Porter's theory of competitive advantages an organization competitive edge is central to a company's performance in intense competition (Hill & Jones, 2007). Competitive advantage is fundamentally derived from the value a firm can create for its buyers that exceeds the firm's cost of creation. The intensity of these forces heavily influences the average expected level of profitability in a market, and a thorough understanding of them, both individually and in combination, is useful in deciding which industries to enter and determining how a firm can improve its competitive position (McGanan,2005).

The threat of new entrants suggests the possibility of reduction in market share and profitability of existing companies as a result of the new entrant. The magnitude of the threat is determined by existing entry barriers and the combined reactions of existing competitors. If entry barriers are high or the newcomer expects severe retaliation from established competitors (Porter, 1998), the threat of entry decreases. The customers have the power to bargain for lower prices and more quality from the products/services they receive from an organization. Thus, influencing the pricing of products/services by the companies. The suppliers also have the power to pressure price increase and quality reduction of the products that customers purchase (Stonehouse & Snowdon, 2007). Lastly, the threat of substitutes has the power to reduce the returns of an industry. Substitute's products or services offer customers an option in case they are not happy with certain products hence, reducing the market share and profitability of certain companies.

Porter (1980) asserted that for organizations to be able to compete effectively they should understand the five forces and how each force affects them. Through mastering the forces and coming up with the right strategies will an organization achieve profitability within its market environment (Indiatsy et al., 2014). In order to compete successfully in a complex and turbulent environment, organizations must consider the five forces in their environment and devise ways to deal with them. When an organization identifies the factors that affect it within its environment, it will be able to develop an effective competitive strategy.

2.2.2 Open System Theory

The open system theory (OST) was founded by Von Bertalanfly in 1950. He argued that the theory can be applied to any concept that is defined by a boundary (Jung & Vakharia, 2019b). Open system theory refers to the concept that organizations are strongly influenced by their environment. The environment is made up of other factors such as social nature, economic and political that exert pressure on the organization. Besides, the environment contributes key resources that provide sustainability to the survival of the organization (Bastedo, 2004). OST focuses on creating a healthy, resilient and innovative organization. In today's dynamic and complex environments organizations influence their external environment and at the same time the external environment influences the organization. This relationship is referred to as active adaptive change (Pfeffer & Salancik, 2003).

Diversification strategies have the capability to transform organizations into profit making institutions or institutions offering services/goods of high quality (Tudor & Bisa, 2015a). This study focuses on Housing Finance Company Limited which is an open system and interacts daily with its internal and external environment. The company can influence the environment and at the same time the environment can influence the company. Any organization that aims to gain a competitive advantage and have a sustainable economy has to take into consideration the activities of its environment (Brătianu & Orzea, 2012).

Organizations are open system which are made up of interconnected subsystems. Therefore, any change in any part of the subsystem will have an influence on the overall performance of the organization (Jung & Vakharia, 2019b). Miller, (2013) suggested that a system is made up of four major subsystems: managerial subsystem, goals subsystem, values subsystem and technical subsystem. Organizations to successfully compete in a complex and turbulent environment they have to take into considerations the changes in their environment and come up with ways to diversify in order to succeed. When organizations interact and make transactions with elements in their environments they ensure a smooth and stable flow of resources (Wambua, 2004).

2.3 Diversification Strategies and Competitive Advantage

Oladimeji and Itohowo (2019) investigated how diversification strategies affect organizational performance in the manufacturing sector. The researched used a quasi-experimental study and research design as ex-post facto. The population for the study were thirty-one Nigerian manufacturing firms listed on the Nigeria stock exchange since 1997 to 2017. the performance of the manufacturing forms was measured by return on assets (ROA) and return on investment (ROI). The study found out that manufacturing firms that had implemented diversification strategies performed better than those that didn’t have any diversification strategies with them. The researchers concluded that diversification was an important tool for organizations competitive advantage and increasing profitability.

Chirani and Effatdoost, (2013) did a study on diversification strategy being a catalyst of competitive advantage. The researcher focused more on the related and unrelated diversify and its influence on the competitive advantage of organizations. The authors concluded that before an organization adopts the diversification strategies, they should first do a SWOT analysis. Through SWOT analysis the managers will know the strengths, weaknesses, opportunities and threats for their organization. After knowing the status of the organization, the managers can go ahead and implement a diversification that is suitable for the organization. Njuguna (2018) looked at how product diversification strategies influence the performance of non-financial firms on the Nairobi security exchange. The study used a correlational survey design. The researcher targeted to collect data from all the 45 listed non-financial firms on the

Nairobi exchange. The author concluded that there was a positive relationship between product diversification and organizational performance.

Weichieh and Tsang (2013) did a research on financial performance and product diversification but by using stakeholders as moderating variable. The researchers collected data from the fortune 500 firms listed between 1996 and 2003. The authors conclude that there was a positive moderating role between product diversification and financial performance. Krivokapic et al., (2017) looked at how firm performance is affected by corporate diversification in Serbian insurance firms. Data was collected from insurance firms that were operational in Serbian between 2004 and 2014. The author found out that the insurances organizations that had adopt diversification strategies performed better that insurance firms that had not adopted diversification. The author concluded that diversification was vital for better performance of organizations.

Iqbal et al., (2012) studied how diversification impacts organization performance. The authors collected secondary data from stock exchange sites and organizations websites. The researchers selected a sample size of 40 companies through specialization ratio. The authors collected data from 2005 to 2009. The researchers found out that there was a negative relationship between diversification and organization performance. The study conclude all firms investigated were performing well of whether they had diversified or not. Yiğit and Tür (2012) looked at organization performance and applications of diversification strategies using the Herfindahl Index Criteria. Performance was measured by return on assets. The authors found out that there was a negative relationship between diversification and performance in Korea and Japan while India had appositive relationship. The researcher concluded that the relationship between diversification and performance differs from one country to another.

Njuguna (2019) studied how diversification strategies influences the performance of non-financial firms that are listed on the Nairobi stock exchange. The researcher collected secondary data for a duration of five years from 2011 to 2015. In addition, the study collected primary data by use of questionnaires from 135 department managers. The study out that there was a po-sitive relationship between performance of the firms and horizontal integration, geographical diversification, product diversification and vertical diversification. The author concluded that diversification strategies are essential for organizations to implement if they want to improve on their profitability.

Kering (2015) did a study on how diversification influences the competitiveness of Safaricom. The research used a case study design and interviewed five managers at Safaricom. The data collected was analyzed using content analysis. The researcher found out that Safaricom success was attributed to the different diversification strategies they have adopted. The study concluded that organization success is influenced by diversification. Ohonde (2015) looked at competitive advantage and diversification strategies of commercial banks in Kenya. The study used a cross sectional survey design and census. Data was collected from 42 commercial banks in Kenya. The study concludes that achieving competitive advantage through diversification was possible but organizations had to be creative and innovative in diversifying.

2.4 Summary of Empirical Studies and Gaps

This chapter covered the literature review of the study that comprises of the theoretical foundation, and empirical studies on the influence of diversification and competitive advantage. The study highlights two key theories which are the open system theory and resource-based view theory. Most empirical studies from the literature examined appear to corroborate that diversification strategies influences the competitive advantage of organizations

Having critically looked at diversification and competitive advantage in organizations, the literature reviews help identify study gaps that can be filled using Housing Finance Company limited. The studies reviewed have shown that conceptually, there is consensus on the operationalization of diversification strategies (Alhmeidiyeen, 2020; Marković, 2008; Sætren & Laumann, 2017; Tudor & Bisa, 2015b) .Contextually, most of the local studies done on diversification strategies and competitive advantage focused on the banking industry but non focused on the mortgage fiancé bank which is HFC and only one in Kenya (Kimaku, 2015; Wambua, 2004). In addition, the studies carried out on diversification strategies used a different methodology as they did not take into account diversification strategies and competitive advantage using a case study approach.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discussed the methodology used as part of the research. It is centered on the design of the study, techniques for the data analysis and arrives at a conclusion with the collection and data presentation strategies that will be utilized as a part of this study.

3.2 Research Design

This study adopted a case study research design where the unit of study was the Housing Finance Company Limited. A case design is the process of investigating an event with the purpose of getting insight information from it (Cooper & Schindler, 1999).The design is most appropriate when detailed in depth analysis for a single unit of study is desired. Case study research design provides very focused and valuable insights to phenomenon that may otherwise be vaguely known or understood. This research design was successfully used by (Akoth, 2021) and (Nyaboke, 2014) in similar studies.

3.3 Data Collection

Primary data was used for this research. The study interviewed key managers at HFC. The key managers are ICT manager, finance manager, human resource manager and operations manager. They were important as they were involved in any diversifications strategies the company comes up with. Hence, they provided data that was significant to answering the research question of this study. The main collection of data was done using an interview guide provided in Appendix I. The interview guide was chosen for this case study because it was able to collect information from respondents and to provide the researcher with a better grasp of the findings of the study. The interview guide also provided the researchers with more up-to-date information and information that may not have been obtained by previous data collecting methods.

The interview guide was divided into two parts. The first focused on the demographic information of the respondents, while the second part concentrated on research goals. To guarantee that the investigative tool collected information from the participants as intended, the researcher asked open questions, which, if no answer was obvious, will give rise to additional inquiries. The researcher conducted the interviews individually and maintained a record of all questions posed and their answers to these inquiries

3.4 Data Analysis

The data collected from the interview guide was examined qualitatively since we may draw broad judgments on how the categories of data are linked. The study done was qualitative analysis because the scientist was capable of describing, interpreting and criticizing the research topic since it was hard to accomplish so quantitatively. The researcher used content analysis to analyze data from the interviews. According to (Schreier, 2012), content analysis is one of the best qualitative methods currently available for analyzing data and elicit information useful to the study.

Content analysis is used to analyze contents from various sources of information such as books, magazines, newspapers and face-face information obtained during interviews (Khan, 2014). The process of the content analysis will involve familiarizing the data, assigning preliminary data codes to describe the content, looking at patterns or themes in the codes through the various interviews, examining themes, defining and identifying themes and, in conclusion, drawing conclusions from the findings. The researcher will use content analysis to evaluate, bring out conclusions and recommendations from the interviews. In the process the researcher will also take notes of trends and underlying themes

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses the results of the interview guide that the researcher collected from Housing Finance Company Limited and summarizes the interview guide findings. The objective of the study was to establish the influence of diversification strategies employed by Housing Finance Company Limited to achieve competitive advantage. The chapter has been divided into two sections, interviewees' profile and diversification strategies and sustainable competitive advantage. The researcher will be looking at how diversification strategies have led to competitive advantage of Housing Finance Company Limited.

4.2 Demographic profile

The research interviewed the ICT manager, finance manager, human resource manager and operations manager. The manager for Information communication technology at HFC Limited has worked at the company for three years and five months. The manager for finance has worked with the bank for eight years and ten months. The human resource manager has worked for HFC for two years and two months but as the HR manager for four months. The operations manager has worked for HFC for thirteen years and ten months but as an operations manager he has worked for HFC for six years and one month. All the interviewees have worked for HFC limited for a good period and thus able to provide the correct information about diversification strategies and competitive advantage of HFC limited. The interviewees stated that they are involved in coming up with diversification strategies. The bank always asks each department to give feedback and suggestions during the process of developing diversification strategies.

4.3 Diversification strategies and competitive advantage at HFC limited

4.3.1 Diversification adopted by HFC

All the interviewees' stated that the bank has diversified in several ways which has enhanced its competitive advantage. The operations manager stated that the bank has embarked on providing full bank services to all of its customers across the country. The full bank services include; personal banking where customers can open a personal banking account, savings account, investment account, get finance solutions, foreign exchange, open a diaspora account and money transfer services. The manager noted that the personal banking services caters for all the banking needs of an individual. The finance manager stated that HFC has also diversified into small and medium sized enterprises (SME) where the bank is able to offer banking services to the corporate clients. The services offered to the corporate clients include; opening a business account, opening a business investment account, financing SME businesses, asset finance, transaction banking and treasury where SMEs are able to participate in foreign exchange and money markets.

The ICT stated that the HFC also offers property investment solutions. He added that this one product that the bank has always been known for, before the bank diversified into the other products initially it used to focus only of property financing. The manager stated that under property the banking offers the following services to its clients; viewing property listing- clients can view the properties that are being sold by HFC, property financing, a loan to develop a property, a loan to renovate a property, own an office and save for a home. The human resource manager stated that the bank also offers insurance products such as; insurance for an individual and family, insurance for mortgage, insurance for business, insurance for employees, insurance against lawsuits, insurance on business activity, insurance on cargo and shipping and, insurance on specialty like performance bond and advance payment bond.

The interviewees stated that the bank has its human capacity resource by employing young and talented individuals who will assist to push the organization into achieving a competitive advantage. In addition, the bank also employed from different backgrounds to incorporate diversity into the business. The interviewees stated that the last way the bank has diversified is by tapping into the digital platforms such as mobile banking and internet banking to make is easy for the bank's customers to access services anytime and from any place they are.

4.3.2 Diversification strategies adopted by HFC bank

The ICT manager stated that "Housing Finance Company has diversified through rebranding of products and developing new products". The manager noted that the existing products were rebranded to fit the needs of the customers while new products were developed which were in line with the modern markets and customer needs. This is in line with Meyer (1996) and Gaynor (2002) who asserted that product diversification is characterized into two; primary which deals with coming up with new products to attract existing or new markets while secondary which deals with improving the existing products. The product diversification that the company has developed have all been driven by the market due to customers' demands and stiff competition in the market. The product diversification has made it possible for the company to offer services that are unique and distinct to its clientele. The study findings also support Weichieh and Tsang (2013) research on financial performance and product diversification which found out that there was a positive relationship between product diversification and financial performance.

The ICT manager also stated that “the bank has diversified into the digital market in order to attract more customers and make services easily accessible to the customers”. This was supported by the operations manager who stated that “the bank has developed online banking, internet banking, mobile apps as a way of diversifying into the digital world”. The findings of the study are in line with Njuguna (2018) study on technological diversification strategies and performance of non-financial firms on the Nairobi security exchange. The study concluded that there was a positive relationship between technological diversification and organizational performance.

The human resource manager also stated that “the bank has diversified by expanding its market base. The bank has opened branches all over the country as a way of targeting more customers. In addition, through having branches all over the bank took its services closer to its customer. This diversification led to the growth of the bank customer base number”. All the interviewees noted that Housing Finance Company had diversified by introducing new products, rebranding existing ones and opening new branches. The findings of this study are in support of Kings (2013) where he noted that diversification can be grouped into three: Horizontal diversification, conglomerate diversification and concentric diversification. Concentric diversification is where an organization introduces new products or services that are closely related to the organization existing products or services. Horizontal diversification is where the organization introduces new products or services to the existing customers while conglomerate diversification is introducing products or services that are new and completely unrelated to the existing products or services of the organization (Njuguna, 2019).

4.3.3 Benefits of diversification to HFC

All the interviewees agreed that diversification has helped HFC to achieve competitive advantage. The interviewees stated that diversification was an important tool for organizations competitive advantage and increasing profitability. Diversification has led the bank into investing into a digital app called HFC whizz all which enables the customers to access services without coming physically to the bank. This has led to more customer growth and more profitability for HFC bank. The findings of this study are supported by Oladimeji and Itohowo (2019) study which investigated how diversification strategies affect organizational performance in the manufacturing sector. The study found out that manufacturing firms that had implemented diversification strategies performed better than those that didn't have any diversification strategies with them.

The operations managers stated that "HFC bank has benefited through diversification of having multiple revenue streams. The multiple streams all of them generate income for the bank, hence, more profit for HFC. In addition, the bank has been able to reach more customers as the result of technological diversification and opening more branches". HFC has developed new ways of reaching the customers irrespective of where they are located. The human resource manager stated that the company and its marketing teams have managed to reach customers allover and market the services offered by HFC bank. The bank has seen an increase in customer sustainability and retention since it stated adopting diversification. The results of this study are in line with Kering (2015) study on how diversification influenced the competitiveness of Safaricom. The researcher found out that Safaricom success was attributed to the different diversification strategies they have adopted. The study concluded that organization success is influenced by diversification. Ohonde (2015) study looked at competitive advantage and diversification strategies of commercial banks in Kenya. The findings of the study are in line with the researchers' findings. The study concludes that achieving competitive advantage through diversification was possible but organizations had to be creative and innovative in diversifying.

4.5 Discussion of findings

Housing Finance company has adopted several diversification strategies in order to achieve competitive advantage. The diversification strategies adopted include; rebranding of products, new products, digital banking services, full-service banking capacity and human resource capacity. The researcher established that HFC bank has rebranded its products in order to fit the needs of the customers. The bank has also developed new products to capture clients who were not banking with HFC bank. This study findings are supported Krivokapic et al., (2017) studied which focused on how firm performance is affected by corporate diversification in Serbian insurance firms. The study found out that the insurances organizations that had adopted diversification strategies performed better that insurance firms that had not adopted diversification.

The research also found out that the bank has diversified into digital banking services, hence, making easy access of services to the clients irrespective of where the clients are located. The findings of the study are in line with Njuguna (2018) study on technological diversification strategies and performance of non-financial firms on the Nairobi security exchange. The study concluded that there was a positive relationship between technological diversification and organizational performance. The study found out that HFC has diversified into hiring employees with talent who will bring new skills and better ways of serving clients. The bank has also opened branches all over Kenya as a way of moving closer to the customers. The study findings are supported by (Njuguna, 2019) study on how diversification strategies influences the performance of non-financial firms that are listed on the Nairobi stock exchange. The study out that there was a positive relationship between performance of the firms and horizontal integration, geographical diversification, product diversification and vertical diversification. The author concluded that diversification strategies are essential for organizations to implement if they want to improve on their profitability.

The study found out that HFC had benefited from diversification strategies which improved its competitive advantage. Diversification has led the bank into investing into a digital app called HFC whizz app which enables the customers to access services without coming physically to the bank. This has led to more customer growth and more profitability for HFC bank. The bank had multiple streams of income hence, more profit for HFC. In addition, the bank has been able to reach more customers as the result of technological diversification and opening more branches. The bank has also seen an increase in customer sustainability and retention since it stated adopting diversification.

The findings of this study resonate with the open systems theory which states that organizations are strongly influenced by their environment. Besides, the same environment produces key resources that provide sustainability to the survival of the organization (Bastedo, 2004). HFC bank, developed the diversification strategies as a result of competition from the external environment and also customers demanding better and more services from the bank. For HFC to gain competitive advantage the bank has to take into consideration the environment in which it operates in. The study also resonates with the Porter's theory of competitive advantage which states that for organizations to achieve competitive advantage they have to understand the five forces and how each force affects it (Porter, 1980). HFC bank operates in an environment that is influenced by the five forces of porter. The bank considered the forces while developing its diversification strategies.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study sought to establish the effect of diversification strategies and competitive advantage of HFC limited. The data was collected through the use of an interview guide and the data was analyzed through content analysis. This chapter summarizes the findings as discussed in chapter four. The section also discusses the conclusions, limitations of the study and suggested areas for further research. The findings of the study have been summarized alongside the objective of the study.

5.2 Summary of Findings

The objective of the study was to establish the effect of diversification strategies and competitive advantage of HFC limited. The study found out that HFC limited had adopted several diversification strategies for the purpose of achieving competitive advantage. The diversification strategies adopted include; rebranding of products, new products, digital banking services, full-service banking capacity and human resource capacity. These strategies were adopted with the aim of helping HFC bank serve its customers in the simplest way as possible, take the services closer to the customers and provide easy access of the bank services to its customers. The study found out that the diversification strategies adopted had a positive impact on the competitive advantage of HFC limited.

The researcher established that HFC bank has rebranded its products in order to fit the needs of the customers. The bank has developed new products to capture clients who were not banking with HFC bank. The bank has diversified into digital banking services, hence, making easy access of services to the clients irrespective of where the clients are located. Besides, the bank has also invested into a digital app called HFC whizz app which enables the customers to access services without coming physically to the bank. HFC has hired employees with talent who will bring new skills and better ways of serving clients. In addition, the bank has also opened branches all over Kenya as a way of moving closer to the customers. The bank had also adopted multiple streams of income hence, more money and more profit for HFC.

5.3 Conclusion

The modern customers are well informed in terms of the kind of services and products and the level of quality they expect to get from an organization. From the analysis, the researcher can conclude that diversification strategies contribute to competitive advantage of HFC bank. The following diversification strategies; rebranding of products, new products, digital banking services, full-service banking capacity and human resource capacity aided the bank into it being a profit-making institution.

The researcher concluded that HFC bank has been able to reach more customers as the result of technological diversification and opening of more branches. The bank has also seen an increase in customer sustainability and retention since it stated adopting technological diversification. The bank has also rebranded its products to meet the needs of the customers and at the same time developed new products o target new customers. Lastly, the researcher concluded that the bank has diversified into digital banking which has led to an increase in customer number as customers are able to access the bank services irrespectively of where they are located.

5.4 Recommendations

The study found that the diversification strategies adopted by HFC contributed to competitive advantage of the bank. The study recommends HFC to continue developing new diversification strategies for better improvement of the customers services and profitability of the organization.

The study also recommends that HFC to incorporate data protection in its diversification strategies. In today’s century a lot of data is collected through the innovations and technologies that organizations acquire or develop. It’s important to have measures in place that protects client’s data from unauthorized access. Furthermore, clients want privacy which is the responsibility of the organization to give them.

The study also recommends the government to offer support to banks by providing good working environment and favorable taxes. The government should offer support in areas like data protection, developing policies that guide banks in pricing their products and services. Lastly the central bank of Kenya should encourage all banks to adopt diversification strategies in order to improve on the services and products they offer to their customers.

5.5 Limitations of the Study

To fully understand the effect of diversification strategies on competitive advantage requires a more elaborate research than this, that would require more resources in form of time and personnel to carry out more detailed interviews with various managers, workers, suppliers and consumers of the company with a view to establishing the various diversification strategies that have been put in place. The research was limited on the number of interviews that were conducted, as the researcher only focused on interviewing four managers only. With only four managers being interviewed the information availed might have been limited to infer conclusion from.

The researcher also faced the limitation of exercising discretion of data obtained from the interviewees so as not to disclose information that they may consider proprietary and confidential. To mitigate this limitation, the researcher provided the interviewees with introduction information which assured them of the confidentiality of the data that would be obtained. The researcher also provided them with introduction letter from the university which assured them that the information gathered would be solely used for academic research only.

The study was only limited to HFC bank, Nairobi head office, the findings from this research may not be applicable to other banks or organizations. To fully understand the importance or effect of strategic positioning on diversification strategies and competitive advantage then one would need to do a research with a wider target sample from different banks.

5.6 Suggestions for Further Research

The researcher recommends a study be carried out on HFC bank investigating to what extent the adopted diversification strategies influence performance of the bank. Secondly a similar study can be carried out with a wider sample to collect data from. This study only focused on four managers. The study can also include employees to get their views. More time and personnel need to be availed to carry out an in-depth interview with the various stakeholders in HFC bank.

Other researchers can adopt this study and use other methodologies such as the use of customers as the respondents in order to determine the perception of the customers on the diversification strategies adopted by HFC bank. This will be beneficial to the pool of knowledge on HFC bank because it will give an all-rounded understanding on the diversification strategies adopted by the bank.

This study only focused on HFC bank while Kenya has more than 45 banks and some banks have branches outside the country such as, Equity bank has other branches outside Kenya. The researcher recommends that a study can be done on diversification strategies adopted by all commercial banks in Kenya. This will give a better understanding on whether HFC bank has adopted the same diversification strategies as other commercial banks in Kenya.

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APPENDICES

Appendix I: Interview Guide

The interview guide is intended to gather information from Housing finance that will assist the researcher to effectively understand the types of strategies HFC has diversified into for the aim of gaining a competitive edge in the banking industry. The researcher will treat with confidentiality any information gathered with the help of the interview guide.

The interview guide aims to:

i) Establish the influence of diversification strategies employed by HFC limited to achieve competitive advantage.

PART A: PARTICIPANT INFORMATION

1) What position do you currently occupy at HFC?

2) How many years/months have you worked with HFC at your current position?

3) Do you participate in coming up with diversification strategies?

PART B: DIVERSIFICATION STRATEGIES AND COMPETITIVE ADVANTAGE

4) How does HFC diversify?

5) What are some of the diversification strategies adopted by HFC?

6) How does diversification assist HFC in competitive advantage?

7) What benefits has HFC attained from diversification?

Thank you for your co-operation