EXPANSION STRATEGIES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

BY

LORNA BASWETI ONYONKA

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT OF THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER 2013

DECLARATION

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

Signature: ___________________ _____________________

Student: **LORNA BASWETI ONYONKA** Date

REG NO: D61/70916/2008

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

Signature: ___________ Date ______________

PROF PETER K'OBONYO, PHD,

Department Of Business Administration,

School of Business,

University of Nairobi

DEDICATION

This project is dedicated to my husband, Samson Masila and our lovely sons, Rudney and Fanaka who have been my main pillar for success. I cannot forget my parents whom I owe all my achievements in life because they gave me a good foundation and hope for a bright future. Because of them I write this paper today.

ACKNOWLEDGEMENTS

It has been an exciting and instructive study period in the University of Nairobi and I feel privileged to have had the opportunity to carry out this study as demonstration of knowledge gained during the period studying for my master's degree. With these acknowledgments, it would be impossible not to remember those who in one way or another, directly or indirectly, have played a role in the realization of this research project. Let me, therefore, thank them all equally.

First, I am indebted to the all-powerful God for all the blessings he showered on me and for being with me throughout the study. I am deeply obliged to my supervisor for his exemplary guidance and support without whose help; this project would not have been a success.

Finally, yet importantly, I take this opportunity to express my deep gratitude to the lasting memory of my loving family, and friends who are a constant source of motivation and for their never ending support and encouragement during this project.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

Much of the research done so far has focused on growth and its antecedents in commercial banks. Firms are employing different strategies to accomplish growth and gain competitive advantage in the market. Among the key strategies that firms employ in attaining and sustaining competitive advantage is expansion. Commercial banks in Kenya have expanded regionally as the industry has undergone internal and external expansion. The ongoing regional integration efforts and the increasing competition in the banking sector have seen a number of Kenyan banks establish their footprint in the East African Community partner states and South Sudan. This research therefore sought to establish the effect of expansion strategy on the performance of commercial banks in Kenya. The main purpose of the study was to determine if there was a link between expansion and performance. The research target was the entire population of commercial banks in Kenya data was collected from the managerial staff. Both primary and secondary data were used. Primary data was collected by means of a questionnaire. The data was coded, tabulated and analyzed using Statistical Package for Social Science (SPSS) software and Excel. Descriptive statistics such as frequency distribution and percentages were used to analyze the data. Research questions were analyzed using descriptive statistics. The study established that commercial banks in Kenya are impacted positively by expansion strategies. Therefore, to gain sustainable growth and achieve economies of scale, banks are embracing expansion strategy as key competitive strategy. From the study it is clear that expansion strategy is one of the strategies applied by banks in Kenya and has a positive effect on performance. Researchers' and banks have to establish further what other strategies when combined have positive impact on performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The importance of the long-term success of firms has seen the emergence of a body of literature which addresses the content of sustainable competitive advantage (SCA) as well as its sources and different types of strategies that may be used to achieve it (Hoffman, 2000). Among the key strategies that firms employ in attaining and sustaining competitive advantage is expansion. Firm survival in emerging economies is often related to having access to valuable resources that are in stakeholders' hands (Bandeira-de-Mello et al., 2011). Expansion strategies help firm's access these resources in stakeholders' hands.

According to Bandeira-de-Mello et al. (2011) there is scant information on the efficiency of acquiring stakeholder resources through expansion and its effect on firm performance. For organisations to respond effectively to the challenges inherent in the environment they need sufficient resources (Pfeffer & Salancik, 1978). Large firms are associated with economies of scale and scope, ease of access to credit financing, brand visibility and allegiance, significant resources to foster research and development, valuable patents and competences among others. Growth is often viewed as an important organizational outcome, and firms have a number of motivations to expand (Penrose, 1959).

The discussions in this paper are grounded in the resource based theory (RBT) (Helfat and Peteraf, 2003; Barney, 1991) and the dynamic capabilities theory (Teece et al., 1997).According to the RBT the unique configuration and bundling of resources in competitive markets leads to competitive advantage (CA) (Helfat and Peteraf, 2003; Barney 1991).

The dynamic capabilities theory sees an organization's ability to achieve innovative forms of competitive advantage given path dependencies and market positions as a source of CA (Leonard-Barton, 1992). Expansion is underpinned by the tradeoff theory (Cheng & Weiss, 2012). According to the tradeoff theory, firms trade off the benefits of holding capital with the costs of holding capital in arriving at an optimal or target capital level. The competitive advantage of firms is seen as resting on distinctive processes (ways of coordinating and combining), shaped by the firm's specific asset positions such as the firm's portfolio of difficult-to-trade knowledge assets and complementary assets; and the evolution path(s) it has adopted or inherited (Teece et al., 1997).

Commercial banks in Kenya expanded regionally as the industry underwent internal and external expansion. The ongoing regional integration efforts and the increasing competition in the banking sector saw a number of Kenyan banks establish their footprint in the East African Community partner states and South Sudan (CBK, 2011). Two additional foreign financial institutions, namely HSBC of UK and FirstRand Bank of South Africa, established physical presence in Kenya in 2011 through establishment of representative offices (CBK, 2011).

The regional expansion is aimed at reaching the pool of about 150 million customers within the East African community. Customer deposits grew by 20.2 percent from Ksh. 1.24 trillion in December 2010 to Ksh. 1.49 trillion in December 2011. The growth was attributed to increased deposit mobilization by banks as they expanded their outreach and opened new branches to tap new customers. The use of agents by banks also contributed to increased mobilisation of deposits (CBK, 2011).

1.1.1 Expansion Strategies

Chandler (1962) defined strategy as the determination of long-term goals and assigning of resources to facilitate appropriate actions. Expansion strategies would then be strategies that the organisation employs in realizing its long-term expansion goals. Business strategy is fundamentally concerned with the actions required to create superior customer value in the firm's target markets with the ultimate goal of achieving superior performance (Slater et al., 2006). Westerlund and Leminen (2012) define a firm's expansion strategy as the means by which the organization plans to achieve its objective to increase in size, volume and turnover. The terms growth and expansion are used interchangeably to refer to one and the same thing by most scholars (Kuuluvainen, 2011; Geroski, 2005).

Population ecologists Hernan and Freeman (1984) as well as Aldrich (1979) argue the case for firm expansion arguing that size is attractive because large firms are associated with economies of scale and scope, ease of access to credit financing, brand visibility and allegiance, significant resources to foster research and development, valuable patents and competences among others.

Based on the understanding that larger firms have higher survival rates (Aldrich & Auster, 1986; Baum, 1996; Mitchell, 1994) and firm size economies of scale are related (Porter, 1985; 2001), firm growth is seen as an important indicator of firms' health and market potential. Other authors have related expansion to numerous challenges and long-term problems that could diminish a firm's ability to generate profits (Gartner, 1997). Expansion strategies include growing existing operations, restructuring, franchising, strategic alliances, mergers and acquisitions. Increased size has been associated with visibility, prestige, and the ability to withstand environmental shocks (Hannan & Freeman, 1984).

1.1.2 Firm Performance

The definition of organizational performance is a surprisingly open question with few studies using consistent definitions and measures (Kirby, 2005). McCann (2004) views organization performance as relating to the efficiency and effectiveness of the firm. According to Hofer (1983) performance is a contextual concept associated with the phenomenon being studied. Dess and Robinson (1984) posit that regardless of the framework chosen to conceptualize organisational performance, it is apparent that organisational performance is a complex multidimensional phenomenon.

March and Sutton (1997) suggest three sources of variation in firm performance; information about apparent determinants of differences in performance, the theoretical ideas and analytical models that are normally used and the data that are used to record organizational histories often rely on retrospective recall of informants, recall that is likely to reconstruct the past to make it consistent with subsequent performance results. Financial measures of organizational performance include profit, profit ratios (ROI, EPS, NPR), market share and revenue growth (Pandey, 1999).

According to Gill (1990), liquid funds consist of cash, short-term investments for which there is a ready market, short-term fixed deposits and trade debtors. Higgins (2001) contends that activity ratios such as inventory turnover are used to assess the efficiency with which firms manage and utilize their assets. Dissatisfaction with the exclusive use of financial performance measures led Kaplan and Norton (1992; 1996) to develop the balanced score card (BSC). The BSC framework addresses the perceived shortcomings of financially-oriented performance measurement frameworks.

1.1.3 Commercial Banks in Kenya

As at 31st December 2011, the banking sector comprised the Central Bank of Kenya, as the regulatory authority, 44 banking institutions, 4 representative offices of foreign banks, 6 Deposit-Taking Microfinance Institutions, 118 Forex Bureaus and 2 Credit Reference Bureaus (CBK, 2011). The profitability of commercial banks depends heavily on the net of income generating activities and the related activities expense. Due to the problem of profitability and stiff competition in the industry, commercial banks have changed their behavior of income sources, by increasingly diversifying into non-intermediation income generating activities as opposed to the traditional inter-mediation income generating activities (Teimet et al., 2011). They established the level of income source diversification of commercial banks in Kenya and has a positive influence on the performance of commercial banks in Kenya.

Kenya has the most diversified, mature financial sector in East Africa, and has made strides in recent years particularly in retail banking, mobile money and related services, and regional expansion. As a result, Kenya shows the lowest percentage of the population excluded from financial services in a sample of comparable Sub-Saharan Africa (SSA) countries.

As at 31st December 2011, there were 6 large banks, 15 medium banks and 22 small banks, which was a similar classification registered in 2010 (CBK, 2011). The large banks accounted for 54 percent of total assets, 53 percent of customer deposits, 55 percent of capital & reserves and 62 percent of pre-tax profit. This survey will focus on the banks based on the 2011 annual banking survey by CBK.

Table 1: Banks Market Share Analysis Ksh. -(Millions)					
	Weighted Market Size	**No. of Institutions**	**Total Net Assets**	**Customer Deposits**	**Capital and Revenues**
Large	54. 5%	6	1, 098, 750	795, 517	161, 126
Medium	36. 0 %	15	735, 819	551, 639	102, 841
Small	9. 4 %	22	186, 249	141, 012	27, 265
Total	**100. 0 %**	**43**	**2, 020, 818**	**1, 448, 168**	**291, 232**
Charter House Bank excluded					
Source: (CBK, 2011)					

1.2 Research Problem

Mainstream research in Strategy has focused primarily on industry and firm effects as determinants of firm performance (McGahan & Porter, 1997; Rumelt, 1991). The focus has been to determine the sources and causes of growth and the influence of strategic variables on firm performance. Recently the focus has begun shifting towards the intermediate outcomes of growth and expansion strategies on the overall corporate performance of firms. Gutmann (1964) observed that maintenance of growth rates in profits higher than growth rates in sales becomes progressively more difficult as the rate of expansion in sales rises. He further suggests that, the most important strategic decision in adopting expansion strategy is the choice of field of business.

This choice must be made at least once and often requires subsequent revision based on environmental conditions. The choice is important because some areas yield larger opportunities, some grow quickly, while others stagnate or decline (Gutmann, 1964).

Kenya's financial sector is largely bank-based as the capital market is still considered narrow and shallow (Ngugi et al., 2006). The banking environment in Kenya has, for the past decade, undergone many regulatory and financial reforms. These reforms have brought about many structural changes in the sector and have also encouraged foreign banks to enter and expand their operations in the country (Kamau, 2009). Total assets increased by 20.2 percent from Ksh. 1.68 trillion in December 2010 to Ksh. 2.02 trillion in December 2011. The growth was supported by the increase in loans and advances. The banking sector is expected to maintain its growth momentum underpinned by increased regional presence of Kenyan banks and the adoption of innovative and cost effective methods of offering financial services (CBK, 2011).

According to Cucculelli and Ermini (2012) many studies have investigated the presence of links between firm performance (productivity or firm size growth) and product innovation (Klette & Kortum, 2004; Thompson, 2001; Lentz and Mortensen, 2005). Most of these articles have focused on extending the interpretative notion of the endogenous growth models of Grossman and Helpman (1991) and Aghion and Howitt (1992), which operate at a macro-level perspective, assuming heterogeneity across firm behaviors with regard to innovation propensity and research and development (R&D) investment. There has been little focus on firm expansion strategies and their influence on firm performance. Empirical evidence in some recent studies reported positive correlation between firm growth and age, a result that has been adduced to the specific feature of very innovative output of firm activity (Das, 1995; Heshmati, 2001; Carrizosa, 2010).

Ongore and Kusa (2013) found that bank specific factors significantly affect the performance of commercial banks in Kenya, except for liquidity variable. The effect of macroeconomic variables was inconclusive at 5% significance level. Ogollah (2012) found that the strategy-structure configuration affects market share and non-financial measures but does not affect return on assets (ROA). Olweny and Sipho (2011) found that bank specific factors had a statistically significant impact on profitability, while none of the market factors had a significant impact. All these studies have investigated the effect of bank specific and market factors on the performance of commercial banks in Kenya: none has addressed the effect of expansion strategies on performance. Thus, this study, seeks to fill this research gap by answering the question: what is the effect of expansion strategies on the performance of commercial banks in Kenya?

1.3 Research Objective

To establish the effect of expansion strategies on the performance of commercial banks in Kenya

1.4 Value of the Study

The study will contribute towards enhancing practice by making apparent the effect of expansion strategies on the performance of commercial banks in Kenya. By interrogating the effects of expansion strategies on performance, the study will enable commercial bank managers make appropriate decisions regarding the expansion strategies that will positively influence their banks' performance. The study also provides a framework for measuring the success (performance) of current expansion strategies employed by various commercial banks from an expanded sustainable balanced scorecard perspective.

The study will appraise policy development making recommendations on policies that regulate and support expansion of commercial banks. The banking industry acts in an agency role by securing customer deposits. This puts commercial banks in a liability position hence the need for sound policies governing expansion by commercial banks. Based on the findings of the study, policy recommendations will be made to ensure that expansion strategies adopted by commercial banks meet the regulatory requirements for safeguarding customer deposits as well as shareholder returns.

The study will aid in theory building by enabling critique, extension and replication. It will support future studies by making recommendations for future studies and gaps in knowledge. Finally, the study will add to the steadily growing body of literature on performance of commercial banks in Kenya and expansion strategies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews the prominent theories that support the discussions and propositions in the paper. It then presents an in-depth review of related literature on key aspects such as resources which are both an antecedent and a consequence of firm expansion and firm performance. Literature on expansion strategies and their effect on organisational performance is then reviewed to provide conceptual linkages. The variables are related to performance in the discussion so as to link them to the dependent variable.

2.2 Theoretical Perspectives

For organisations to expand, they need resources to invest in new strategic business units, products and process as well as distinct capabilities to make them competitive in new markets. As such, the study will be anchored by the resource based theory (RBT) and the dynamic capabilities theory DCT. The tradeoff theory is a support theory that will anchor discussions on expansion strategies. Penrose (1959) posited that the manner in which organisational resources are deployed can be a source of competitive advantage. The RBT makes the proposition that resources contribute to a firm’s competitive position if they are exploited in such a manner that their potentially valuable services are made available to the firm (Helfat and Peteraf, 2003; Barney, 1991; Penrose, 1959). Wernerfelt (1984) argues that the fundamental principle of the RBT is that the basis for CA of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal.

Dynamic capability is the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece et al. 1997).

Dynamic capabilities thus reflect an organization's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions (Leonard-Barton, 1992). The tradeoff theory of firm expansion suggests that firms trade off the benefits and costs of holding capital in arriving at an optimal or target capital level (Cheng & Weiss, 2012). The theories help organisations make the decision on whether to expand or not and the source of capital (resources) to support this expansion.

2.3 Expansion Strategies And Organizational Performance

A firm's expansion strategy may be defined as the means by which the organization plans to achieve its objective to increase in size, volume and turnover (Westerlund and Leminen (2012). Expansion strategies include market expansion strategies, product innovation and diversification, regional and international expansion. Santomero & Eckles (2000) and Berger et al. (2000) discuss expansion strategies by commercial banks. They focus on size, the likely effect of size on bank operating costs, that is, the alleged benefit of economies of scale and scope and the best method of expansion acquisition or entry (Santomero & Eckles, 2000; Berger et al., 2000). They argue that economies of scale and scope are related to the increased cost efficiency.

The basic idea according to them is that the emergence of broad financial firms enables costs to be lowered, if scale or scope economies are relevant and if the range of expansion is within the band whereby they can be achieved. If economies of scale and scope prevail, increased size will help create systemic financial efficiency and shareholder value to the firm. However, if diseconomies prevail, both will be destroyed. In an information and distribution-intensive industry with high fixed costs such as financial services, there should be an ample potential for scale and scope economies (Santomero & Eckles, 2000; Berger et al., 2000).

Ayal and Zif (1979) contend that the choice of a market expansion strategy is a key strategic decision in multinational expansion. To develop such a policy, a firm has to make decisions regarding; identification of potential markets and determination of some order of priorities for entry into these markets, the overall level of marketing effort that the firm is able and willing to commit, and selection of the rate of market expansion over time, and determination of the allocation of effort and resources among different markets. The major strategic alternatives of market expansion, within the third area, are market concentration versus market diversification (Ayal and Zif, 1979).

A strategy of market concentration is characterized by a slow and gradual rate of growth in the number of markets served. On the other hand, a strategy of market diversification is characterized by a fast rate of growth in the number of markets served at the early stages of expansion (Ayal and Zif, 1979). It is, therefore, expected that a strategy of concentration will result in a smaller number of markets served, at each point in time, relative to a strategy of diversification. The profitability of a late entry into new markets is affected by these competitive conditions and by the length of the product life cycle. As a result, the optimal number of markets served in the long run is not necessarily the same for both strategies.

Firms can gain a competitive advantage through differentiation of their product offering or marketing mix which provide superior customer value or by managing for lowest delivered cost. These two means of competitive advantage when combined with the competitive scope of activities (broad vs narrow) result in four generic strategies: differentiation, cost leadership, differentiation focus and cost focus (Porter, 1985).

The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments whereas differentiation focus and cost focus strategies are confined to a narrow segment (Porter, 1985). Market and product expansion strategies are also referred to as diversification strategies. Regional and international expansion involves either using a foreign subsidiary or incorporating a foreign company. Subsidiary growth and expansion are driven by a firm's own distinctive capabilities developed through the entrepreneurial efforts of subsidiary management, rather than given by parent management (Birkinshaw, 1996; Birkinshaw et al., 1998).

If subsidiary capabilities remain locally focused and globally underutilized, they cannot become the MNC's firm-specific advantage (Luo & Peng, 1999). Luo and Tung (2007) suggest that emerging market multi-national enterprises (EM MNEs) systematically and recursively use international expansion as a springboard to acquire critical resources needed to compete more effectively against their global rivals at home and abroad and to reduce their vulnerability to institutional and market constraints at home.

Prior studies have shown that a combination of institutional factors such as regulation, industry factors such as competitive forces (Porter, 1985) and organizational factors such as resources drive international expansion by new venture firms (Brush & Vanderwerf, 1992). There are four basic international expansion strategies: multi-domestic strategy, international strategy and global strategy or a transnational strategy (Bartlett and Ghoshal, 2003). A multi-domestic strategy is where a company has operations in more than one country. The goal of a multi domestic strategy is to optimize local competitive advantages, revenues, and profits. A global strategy is where a company has integrated operations in more than one country.

In international strategy competencies are centralized and other activities are decentralized. A transnational strategy is a typically a global matrix that seeks to be both locally responsive and efficient. This strategy is based on the simultaneous attainment of location and experience curve economies, local responsiveness, and global learning (Bartlett and Ghoshal, 2003). Even when firms have technologically superior products, they must learn other skills to position their products successfully and develop the competencies that are necessary for superior performance (McGrath. MacMillan, & Venkataraman, 1995). Internationalisation can promote organizational especially technological learning (Barkema & Vermeulen, 1998), facilitating the development of skills and competencies that help the firm achieve a competitive advantage (Dodgson, 1993). Delios and Beamish (1999) found that international diversification is positively associated with profitability, whereas Geringer, Tallman, and Olsen (2000) reported a negative link.

Performance, according to McCann (2004) relates to the efficiency and effectiveness of the firm. According to Hofer (1983) performance is a contextual concept associated with the phenomenon being studied. Dess and Robinson (1984) posit that regardless of the framework chosen to conceptualize organisational performance, it is apparent that organisational performance is a complex multidimensional phenomenon. Kaplan and Norton (1992) opined that different measures of organizational performance have been used in management studies with little or no thoughtful discussion of why the measures used in the studies were chosen. Financial measures of organizational performance include profit which is the difference between revenue and expenses over a period of time and has been defined by proponents of financial measurement as the ultimate output of the firm (Pandey, 1999).

According to Gill (1990), liquid funds consist of cash, short-term investments for which there is a ready market, short-term fixed deposits and trade debtors.

The current ratio helps to measure a firm's liquidity (Pandey, 1999). Higgins (2001) contends that activity ratios such as inventory turnover are used to assess the efficiency with which firms manage and utilize their assets. According to Pandey (1999) inventory turnover ratio reflects the rate at which the firm is turning its finished goods into sales. Cash flows are measures of financial performance as they will allow an analyst to examine a company's financial health and how the company is managing its operating, investment and financing cash flows (Papleu, 2000). Kaplan and Norton (1992) noted that some researchers have expressed dissatisfaction with exclusive use of financial data to measure performance because it encourages short term and local optimization thus overlooking the long term improvement strategy and ignoring competitor information. They suggest the use of multiple indicators while undertaking to understand stable relations over time.

Johnson and Kaplan (1987) propose an integrated model of performance measurement that focuses on continuous improvement. Martins (1982) points that multiple respondents within firms and multiple measures of the constructs of interest should be used. Kargar and Pannel (1996) proposed satisfaction with the financial outcomes perceived to be associated with the planning process and contribution of strategic planning efforts to organisational outcomes as measures of performance. O'Regan and Ghobadian (2004) propose customer satisfaction and innovation as important performance dimensions. Kaplan and Norton (1996) developed the balanced scorecard which makes the proposition that a firm’s performance may be viewed in terms of the expected customer oriented results and can be measured by the level of customer satisfaction, loyalty, frequency of purchase and repurchase of a firm’s products. Liquidity is another measure of financial performance.

2.4 Expansion strategy and performance

The definition of organizational performance is a surprisingly open question with few studies using consistent definitions and measures (Kirby, 2005). McCann (2004) views organization performance as relating to the efficiency and effectiveness of the firm. According to Hofer (1983) performance is a contextual concept associated with the phenomenon being studied.

Expansion strategies would then be strategies that the organisation employs in realizing its long-term expansion goals such as improved performance. Business strategy is fundamentally concerned with the actions required to create superior customer value in the firm's target markets with the ultimate goal of achieving superior performance (Slater et al., 2006). Financial measures of organizational performance include profit, profit ratios (ROI, EPS, NPR), market share and revenue growth (Pandey, 1999). According to Gill (1990), liquid funds consist of cash, short-term investments for which there is a ready market, short-term fixed deposits and trade debtors. Higgins (2001) contends that activity ratios such as inventory turnover are used to assess the efficiency with which firms manage and utilize their assets. Dissatisfaction with the exclusive use of financial performance measures led Kaplan and Norton (1992; 1996) to develop the balanced score card (BSC). The BSC framework addresses the perceived shortcomings of financially-oriented performance measurement frameworks. The BSC main pillars are financial, internal business processes, customer and learning and growth (Kaplan and Norton, 1992; 1996). The BSC has evolved into the Sustainable balance scorecard (SBSC) which encompasses the social and environmental aspects of performance measurement

Empirically, some authors have found significant disparities in cost structures among banks of similar size, suggesting that the ways in which banks are run can be more important than their size or the range of business that they pursue. In other words, management efficiency per se may be a more important factor than scale economies in bank performance. This may suggest that any shareholder value gains in many of the financial services mergers in the 1990s were more highly associated with increases in production and management efficiency than scale and scope economies (Walter, 1999 and Molyneux, 2000)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used to address the research problem. The chapter describes the research design, context of study, target population, the sample and sampling procedures, instruments, validity and reliability of instruments, data collection and analysis procedures that was used.

3.2 Research Design

The study adopted a cross-sectional survey. A cross-sectional survey collects data to make inferences about a population of interest (universe) at one point in time. The research design was chosen because it enabled collecting data about a given aspect (expansion strategies) on a given outcome (organisational performance) from a number of institutions (Orodho & Kombo, 2002). A cross-sectional study is an observational and enables the researcher record information about the subjects without manipulating the study environment (Babbie, 2010). The process has greater control over measurement, maximizes completeness of key data and requires no follow-up (Mugenda & Mugenda, 2003). It has enabled collection of empirical data to enable testing of the hypotheses to answer the research questions because it supports inferences of cause and effect.

It facilitates collection of data about the same subject from different respondents over the same period and at the same point in time (Babbie, 2010). Cross-sectional survey design is prone to common method variance which reduces causal inference.

Multiple informants will be employed during the survey to reduce systematic method error due to the use of a single rater or single source otherwise known as common method variance (CMV) and to enhance causal inference (the ability to infer causation from empirical relations) (Erdem, Swait, and Valenzuela 2006).

3.3 Population Of Study

The target population is an entire group of persons or elements that has at least one thing in common (Kombo and Tromp, 2006). This is a group of individuals, objects or items from which samples will be taken.

According to the Central Bank of Kenya (CBK) annual banking survey report there is a total of 43 banks in Kenya with six of them described by CBK as large banks (see Table 1, chapter 1). Strategic expansion decisions are spearheaded by senior management of the commercial banks. The study's target population will therefore be the CEOs of each bank

3.4 Data Collection

Both primary and secondary data was collected for by the researcher. Primary data was collected by means of a questionnaire (see appendix 1). Secondary data was obtained from published financial statements and other internal and external publications. Questionnaires were used because of a number of advantages associated with their use. They were advantageous since they were easy to administer and also confidentiality of respondents was upheld (Kombo & Tromp, 2006). The questionnaires used comprised both open-ended and closed-ended questions. Closed-ended questions were easy to administer and analyze hence economical in terms of time and money whereas open-ended questions though difficult to analyze, stimulate a person to think hence respondents gave an insight into their feelings, interests and decisions (Mugenda &

Mugenda, 2003). A research assistant was used to drop and pick the questionnaires from the respondents in the commercial banks. Initial follow up was done by contacting the contact persons via telephone a week after the questionnaires were dropped.

3.5 Data Analysis

The data was coded, tabulated and analysed using Statistical Package for Social Science (SPSS) software and Excel. Descriptive statistics such as frequency distribution and percentages were used to analyse the demographic data. Research questions were analysed using descriptive statistics. Tables, charts and graphs were used to present the responses for each item used. The number of persons among the total group giving responses were converted to percentage value.

A regression model has been used to examine relationship between the variables. Expansion strategies in commercial banks constitute the dependent variable while the independent variable is performance. Document analysis has been used to corroborate the information gathered through the questionnaires. The regression model takes the following form,

$P = \beta_0 + \beta_1 X_1 + \varepsilon_i$

Where

P = Performance

β_0 = is a constant

β_1 = the coefficient of the criteria

X_1 = Expansion Strategies

ε_i = Error term

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSION

4.1 Introduction

The race for globalisation driven by the population ecologist hypotheses such as bigger is better; the advent of the worldwide web and related ICT infrastructure, the growth in multinational corporations, shrinking domestic market niches among others has heaped pressure for expansion on institutions and more so financial institutions. This necessitates the adoption of a number of expansion strategies to effectively allocate competing resources. Given a fixed marketing budget the firm must also decide how to allocate its efforts among different markets served. The choice of expansion strategies ranges from internal volume/capacity expansion (growth), product expansion, regional expansion and global expansion or internationalisation.

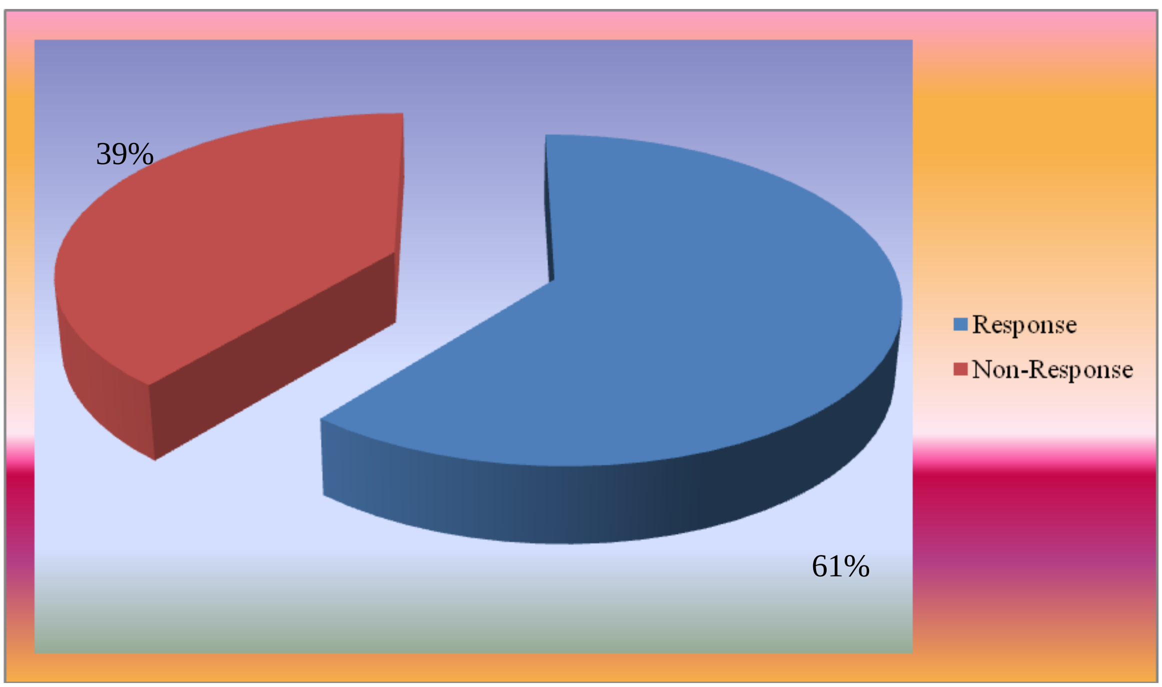
The mode of expansion is appraised by a number of factors key among which are resources and management philosophy or organisation culture regarding expansion and modes of expansion. The proliferation of multiproduct and borderless Multinational Corporation's proof of the adoption of the expansion strategies above. Commercial banks in Kenya have been adopting the agency model to expand locally and regionally, entering into cooperative agreements with mobile service providers, increasing product ranges and increasing turnover and profits. The academic curiosity to establish the drivers of this trend motivated this study.

4.2 General Information

4.2.1 Response Rate

The entire unit of analysis constituting 43 banks was targeted and questionnaires sent to the CEOs in all the commercial banks. CEOs from 26 out of the 43 commercial banks responded giving a 61 percent. CEOs from most big and medium sized banks with a market share of over 70 per cent of responded which is representative of the banking industry, as shown in figure 4.2.1

Figure 4.2.1 Response Rate



4.2.2 Years of Employment with the Current Bank

Out of the CEOs who responded to the questionnaire, none had worked for the current employer for less than a year while only four (representing 15% of the sample) had worked with the current employer for between 1-5 years. Fifteen employees constituting 58 percent of the respondents had worked for the current employer for between six and ten years while the remaining 27 percent had been with the current employer for over 10 years. These statistics are presented in Table 4.2.1.

Table 4.2.1 Years of Employment with the Current Bank

Range of Years	Number of Respondents	Percentage
Less than 1 year	0	0
1-5 years	4	15
6-10 years	15	58
Over 10 years	7	27
Total	26	100

A number of possible interpretations can be drawn from this finding. The first is that though a number of banks would head hunt for a CEO from outside its ranks, a majority entrust the leadership of the bank to people who have been within for a number of years. This could be due to boardroom politics, regulator influence or simply a better understanding of the institution's operations, policies and culture. Secondly, it could be that the higher offices are accompanied good remuneration and benefits to office holders which make them stay longer in these positions.

4.2.3 Number of Years as CEO

Table 4.2.2 Number of Years as CEO

Number of Years	< 1 year	1-5 years	6-10 years	Over 10 years	Total
Number of Respondents (Frequency)	0	5	16	5	26

The reasons highlighted above in 4.2.1 table interpretation (boardroom politics, regulator influence, a better understanding of the institution's operations, policies and culture, higher perks associated with the office) provide partial explanations for the number of years CEOs have been holding their current positions. Another reason would be that high turnover for CEOs usually reflects adversely on a bank's reputation and would be a source of concern both for the regulator and stock markets. This makes commercial banks try as much as possible to reduce CEO turnover. Firing and hiring a bank CEO is a rigorous, time consuming and expensive affair and as such low turnover would be expected.

4.3 Effect of Expansion Strategies on Firm Performance

4.3.1 Measures of Central tendency

Data from the 26 respondents (commercial bank CEOs) was coded in excel to facilitate statistical analysis within excel and in SPSS as well. Responses were grouped based on the dependent and independent variables, each code representing a question.

The responses were the averaged and the data run in the SPSS linear regression to give the descriptive and other statistics. The regression model computation did not eliminate any data set for insignificance hence our N consistent with data input was 26.

Table 4.3.1 Mean and Standard Deviation for the Variables

	Mean	Std. Deviation	N
Performance	3.7269	.86281	26
Expansion Strategies	3.8008	.52457	26

As shown in Table 4.3.1, the mean for expansion strategies (ES) response was 3.72 while the mean for performance was 3.8. The first observation we can make from these results is that the means for both ES (X) and performance (Y) are very close. This implies that responses to questions for each variable were more or less the same tending towards agree. First we conclude that the CEOs agree that there is a significant degree of correlation between expansion strategies and the performance of their banks. A divergent view would be that there is an underlying factor strengthening the relationship between the variables. In case the correlation coefficient is low then we would allude to spurious correlation in the means of the two variables.

The standard deviations for the independent variable (X=0.86281) and the dependent variable (Y=0.52457) are spread from their respective means, indicating that within each variable set, there are significant deviation in responses.

They are also clustered about the mean indicating that the responses were not too spread from the mean response. The trend is equally evident in the sample means computed and interpreted above.

A preliminary interpretation could be that since CEOs drive expansion, they have factual and accurate information on the relationship between expansion strategies and performance. Secondly, CEOs are ultimately responsible for the performance of the banks they manage and are answerable for performance outcomes. In fact, CEO bonuses and other benefits are pegged to the performance of the commercial banks. This partly explains why CEOs are very keen on reporting favourable financial results despite the associated tax implications. As such we can conclude that there is likely to be a significant association or relationship between expansion strategies and the performance of commercial banks in Kenya.

4.3.2 Test for the Effect of Expansion Strategies on Performance

Table 4.3.2 Regression Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	df1	df2	Sig. F
1	.539[a]	.290	.261	.74196	9.808	1	24	.005

a. Predictors: (Constant), Expansion Strategies

The goodness of fit of a regression model is measured by the coefficient of determination R^2 i.e. it is a statistical measure of how well the regression line approximates the real data points. The coefficient of determination lies between 0-1; 0 indicates an absolute lack of fit while 1 represents perfect fit.

From Table 4.3.2, the coefficient of determination for our empirical data was 0.29 which implies that the model has a 29 per cent fit which is weak. The logical conclusion is that the predictor variable does not sufficiently account for the regression model variation.

The coefficient of determination ($R^2 = 0.29$) implies that the model (linear regression) may be weak. However, the coefficient of determination helps us predict correlation but as some statisticians have argued, it may not necessarily infer causation.

The coefficient of determination supports the position indicating that the regression model is incomplete which in agreement with the above findings which indicate that there could be other predictors that could make the model complete. We thus cement the position that indeed a strong positive correlation exists between expansion strategies and the performance of commercial banks in Kenya. However, expansion strategies are in themselves not adequate to explain the variation in performance. There are other lurking variables that account for the unexplained relationship in the model. Such factors would be beyond the scope of this paper could be the focus of future empirical investigation into performance.

To test for the effect of expansion strategies on firm performance, the following regression model was used:

$$P = \beta_0 + \beta_1 X_1 + \varepsilon_i$$

The results of this analysis are presented in Table 4.3.3. As evident from the Table, the Beta Coefficient is moderately high and statistically significant ($\beta = 0.886$, $t = 3.132$, $P < 0.05$). This finding implies that a unit change in expansion strategy causes approximately 90 percent changes in firm performance.

4.3.3 Beta Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations		
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
1	(Constant)	.360	1.085		.332	.743	-1.879	2.599			
	Expansion Strategies	.886	.283	.539	3.132	.005	.302	1.470	.539	.539	.539

a. Dependent Variable: Performance

The t-statistic of the model (which is presumed to be a better model predictor than the coefficient of determination) is 3.132. The general interpretation of this coefficient is that a t-statistic value greater than 1.96 at a confidence level lower than 0.05 indicates that the model is a good predictor of the correlation. The correlation coefficient indicated that expansion strategies account for 0.539 of the variation in the dependent variable. The t-statistic confirms the significance of this relationship ($P<0.05$). By extension, we can validate the assertions and conclusions drawn in the preceding sections that there is a significant relationship between expansion strategies and performance.

4.4 Discussion

Out of 26 respondents, four (15 percent) had worked with the current employer for between 1-5 years, fifteen (58 percent) for between six and ten years while the remaining 6 (27 percent) had been with the current employer for over 10 years.

This seemed to mirror the trend in the length of tenure in the current position for the CEOs. A total of 5 CEOs had been in their current position for 1-5 years, 16 for 6-10 years and 5 for over 10 years. This trend was attributed to a number of factors including but not limited to the following.

First, a majority of the banks entrust the leadership of the bank to people who have been within for a number of years due to boardroom politics and a perceived better understanding of the institution's operations, policies and culture. This high level position is associated with good remuneration and benefits making the CEOs stay longer. Another factor that contributes to this trend was the costs, including reputation and image costs, associated with high CEO turnover. It was argued that high CEO turnover could damage a bank's reputation hence banks try as much as possible to retain their CEOs for longer periods of time. These among other factors could account in the fairly stable CEO tenures observed in the data analysis chapter.

The descriptive statistics revealed interesting results. The sample means for expansion strategies and performance were 3.72 and 3.8 respectively while the standard deviations were 0.86281 and 0.52457 respectively. The close means of the independent and dependent variables were attributed to the fact that CEOs based on their experience found a significant degree of correlation between expansion strategies and the performance of their banks. The significant spread in standard deviations indicates, consistent with the sample means, that the responses were clustered around the median response.

The trend was attributed to the existence of a strong positive correlation between ES and performance as well as the fact that since CEOs are in charge of expansion strategies and performance they report positive results to earn higher bonuses.

CEOs choose expansion strategies that will ensure realization of performance objectives and make the necessary resource allocation decisions that ensure the expansion strategies produce the expected results. Expanding the product range increases sales revenue which is likely to result in profit increase if costs are managed. The non-financial implication is that with increased coverage, the firm has a wider pool of stakeholders and environmental concerns to deal with. Experience gained in other markets can be replicated in new markets effectively reducing the learning curve. Economies of scale and scope play a vital role in social and environmental management which greatly boosts a firm's image.

The coefficient of determination ($R^2 = 0.29$) points towards a weak goodness of fit which may not necessarily invalidate previous findings on grounds that it may not necessarily infer causation. The t-statistic of the model which is a better model predictor than the coefficient of determination of 3.132 confirmed the existence and strength of the relationship between expansion strategies and the performance of commercial banks in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The main objective of the study was to establish the effect of expansion strategies on the performance of commercial banks in Kenya. As noted in the research methodology, the study relied on both primary and secondary data to answer the research questions in a bid to realize the objective of the study. The primary data was collected via a questionnaire that returned an impressive 60 percent response rate which we considered representative enough. The secondary data was collected via previous and current banks financial reports registered with the central bank of Kenya.

Most of the big and medium banks which control over 70 percent of the market responded. The primary data was coded and sorted in excel and analysed using the Statistical Package for Social Sciences (SPSS) and the results displayed and interpreted as detailed in chapter four. The framework developed for the analysis was a linear regression model. The preliminary data analysis focused on the response rate, number of years in employment with the current bank and length of tenure in the current position. The response rate as noted above was 60 percent with the representative response rate based on bank size and market share standing at well over 70 percent.

From the research it is evident that there is a significant degree of correlation between expansion strategies and the performance of commercial banks. The mean for expansion strategies (ES) response was 3.72 while the mean for performance was 3.8. The first observation we can make from these results is that the means for both ES (X) and performance (Y) are very close. This implies that responses to questions for each variable were more or less the same tending towards agree

5.2 Conclusion

The results of the study confirmed the existence of a significant positive relationship between expansion strategy and performance. Expansion strategy has an effect on performance of commercial bank in Kenya. The study concluded that banks are employing expansion strategy in attaining and sustaining competitive advantage in the local and regional market. The study further concluded that for banks to reach the target market more conveniently and swiftly, they have had to embrace expansion as one of their focus in the overall strategy.

5.3 Recommendations

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

The empirical results further have implications for the regulator (central bank of Kenya) who will find this study useful in advising and reviewing applications by banks for expansion. The results contribute towards making requisite recommendations that will foster a productive and resilient banking industry. In the long-run this enhanced regulatory pronouncement will strengthen the industry against failures and enhance the corporate performance of individual commercial banks.

From a conceptual standpoint, the empirical results will contribute to the steadily growing knowledge on the effects of expansion strategies on performance. The empirical results validate the current theories and paradigms. This will advance strategic management discipline, which is still in the pre-paradigmatic stages.

5.4 Suggestions for Further Research

Studies could be conducted on the risks associated with expansion strategies, the likely effects of these risks on performance and the framework which commercial banks could establish to mitigate against such risks. Research can also be carried out to establish the long-term sustainability of expansion as means of improving performance of commercial banks vis a vis concentrating on enhancing the value offering of existing products and services. Studies should be done to establish the factors driving the quality, efficiency and effectiveness of expansion strategies in commercial banks in Kenya and if the trend being observed is sustainable in the long run. Other studies could interrogate the individual expansion strategies and link them to other outcomes such as service quality, performance and brand image.

5.5 Limitations of the Study

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

The second limitation is that the study was only done in one sector and therefore confined; in future this could be expanded to other financial and non banking institutions.

The third limitation is that the study had only one predictor variable used, that's expansion strategy; it is possible to have other predictors whose joint effect on performance is much greater than any other.

REFERENCES

Ahuja, G. and Katila, R. (2004). Where do Resources Come From? The Role of Idiosyncratic Situations. *Strategic Management Journal*, 25, 887–907.

Aldrich, H. E., & Auster, E. (1986). *Even Dwarfs Started Small: Liability of Age and Size and their Strategic Implications*. Uppsala: Uppsala University Press.

Akerlof, G. A., & Kranton, R. E. (2010). *Identity Economics: How our Identities Shape our Work, Wages, and Well-Being*. Princeton: Princeton University Press.

Amit R., Schoemaker P. (1993). Strategic Assets and Organizational Rent. *Strategic Management Journal*, 14, 33-46

Ansoff, H. I. (1998). *The New Corporate Strategy*. New York: John Wiley.

Bandeira-de-Mello, R., Marcon, R., & Alberton, A. (2011). Performance Effects of Stakeholder Interaction in Emerging Economies: Evidence from Brazil. *Brazilian Administrative Review*, 8(3), 329-350

Barney, J. B. (2002). *Gaining and Sustaining Competitive Advantage*, 2nd ed. Reading, Mass.: Addison-Wesley.

Barney, J. B. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17, 99-120.

Barnett, M. L. (2007). Stakeholder Influence Capacity and the Variability of Financial Returns to Corporate Social *Responsibility*. *Academy of Management Review*, 32(3), 794–816.

Baum, J. A. C. (1996). *Organizational Ecology*. In S. R. Clegg, C. Hardy & W. R. Nord (Eds.), Handbook of Organization Studies. Thousand Oaks, CA: Sage.

Bercovitz, J., & Mitchell, W. 2007. When is more Better? The Impact of Business Scale and Scope on Long-Term Business Survival, while Controlling for Profitability. *Strategic Management Journal*, 28, 61-79.

Bergh, D. D., Ketchen, D. J. Jr., Boyd. B. K. & Bergh, J. (2010). New Frontiers of the Reputation-Performance Relationship: Insights from Multiple Theories. *Journal of Management*, 36, 620-635

Berman, S. L., Wicks, A. C., Kotha, S. & Jones, T. M. (1999). Does Stakeholder Orientation Matter? The Relationship between Stakeholder Management Models and Firm Financial Performance. *Academy of Management Journal*, 42(5), 488–506.

Bromiley, P. (2005). *The Behavioral Foundations of Strategic Management.* Malden: Blackwell Publishers.

Bryman, A. & Bell, E. (2003). *Business Research Methods*. New York: Oxford University Press.

Bryson, J.M. (2004). What to do when Stakeholders Matter: Stakeholder Identification and Analysis Techniques. *Public Management Review*, 6(1), 21-53.

Buckley, P. J. & Ghauri, P. N. (1993). *Introduction and Overview. In: The Internationalization of the Firm*. London: Academic Press.

Burnes B. (1996). *Managing Change: A Strategic Approach to Organisational Dynamics*. London: Pitman Publishing.

Calvert, S. (1995). *Managing Stakeholders: The Commercial Project Manager*. New York: McGraw-Hill.

Cattani, G. (2005). Preadaptation, Firm Heterogeneity, and Technological Performance: A Study on the Evolution of Fiber Optics, 1970–1995. *Organization Science*, 16, 563–580.

CBK. (2011). *Bank Supervision Annual Report 2011*. Nairobi Central Bank of Kenya

Chang, G. (2009). Total Quality Management in Supply Chain. *International Business Research*, 2 (2).

Cheng, J. & Weiss, M. A. (2012). Capital Structure in the Property-Liability Insurance Industry: Tests of the Tradeoff and Pecking Order Theories. *Journal of Insurance Issues*, 35, 1–43

Chetty, S. & Campbell-Hunt, C. (2004). A Strategic Approach to Internationalization: A Traditional Versus a 'Born Global' Approach. *Journal of International Marketing*, 12 (1), 57–81.

Chiles, T. & McMackin, J. (1996). Integrating variable risk preferences, trust, and transaction cost economics. *Academy of Management Review*, 21, 73-99.

Chow, G., Heaver, T.D. & Henriksson, L.E. (1994). Logistics Performance: Definition and Measurement. *International Journal of Physical Distribution &Logistics Management*. 24 (1), 17-28.

Clarkson, B.E. (1995). A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance. *Academy of Management Review*, 20, 92-117.

Conner, K. R. (1991). A Historical Comparison of Resource-Based Theory and Five Schools of Thought Within Industrial Organization Economics: Do We Have A New Theory of the Firm? *Journal of Management* 17, 121-154.

Cooper, R. D. & Schindler, S. P. (2006). Business Research Methods. New York: McGraw Hill

Cucculelli, M., & Ermini, B. (2012). New Product Introduction and Product Tenure: What Effects on Firm Growth? *Research Policy*, 41, 808– 821.

de Bakker, F. & Nijhof, A. (2002). Responsible Chain Management: A Capability Assessment Framework. *Business Strategy and the Environment*, 11, 63-75

De Long, D. (1997). *Building the Knowledge-Based Organization: How Culture Drives Knowledge Behaviors*. Ernst & Young LLP.

Deephouse, D. L. & Carter, S. M. (2005). An Examination of Differences between Organizational Legitimacy and Organizational Reputation. *Journal of Management Studies*, 42, 329-360.

Dess, G.G. & Robinson, R.B Jr. (1984). Measuring Organizational Performance in the Absence of Objective Measures: The Case of the Privately-Held Firm and Conglomerate Business Unit. *Strategic Management Journal*, 5, 265-273.

Donaldson, C. (1961). *Corporate Debt Capacity*. Harvard University.

Donaldson, T. & Preston, L. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence, Implications. *Academy of Management Review*, 20, 65-91.

Dyer, J., & Singh, H. (1998). The Relational View: Cooperative Strategies and Sources of Inter Organizational Competitive Advantage. *Academy of Management Review*, 23(4), 660–679.

Eisenhardt, K. M., & Schoonhoven, C. B. (1990). Organizational Growth: Linking Founding Team, Strategy, Environment, and Growth Among U.S. Semiconductor Ventures, 1978–1988. *Administrative Science Quarterly*, 35,504–529.

Elkington J. (1997). *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*. Oxford: Capstone

Ferreira, M. P. & Serra, F. A. R. (2010). Make or Buy in a Mature Industry? Models of Client-Supplier Relationships under TCT and RBV Perspectives. *Brazilian Administrative Review*, Curitiba, 7(1), 22-39

Freeman, R. E. & Phillips, R. A. (2002). Stakeholder Theory: A Libertarian Defense. *Business Ethics Quarterly*, 12 (3), 31-49

Freeman, E. R, Wicks A. C. & Parmar, B. (2004). Stakeholder Theory and the Corporate Objective Revisited. *Organization Science*, 15(3), 364-369.

Gartner, W. B. (1997). When Growth is the Problem, not the Solution. *Journal of Management Inquiry*, 6 (1), 62-68.

Geroski, P.A. (2005). Understanding the Implications of Empirical Work on Corporate Growth Rates. *Managerial & Decision Economics*, 26, 129-138.

Gibson, B. & Cassar, G. (2005). Longitudinal Analysis of Relationships Between Planning and Performance in Small Firms. *Small Business Economics*, 25, 207-222.

Hamel, G., & Prahalad, C.K. (1990). The Core Competence of the Corporation. *Harvard Business Review*, 6, 79-91.

Hannan, M. T., & Freeman, J. (1984). Structural inertia and organizational change. *American Sociological Review*, 49, 149–164.

Helfat, C., Finkelstein, S., Mitchell, W., Peteraf, M., Singh, H., Teece, D. & Winter, S. (2007). *Dynamic Capabilities: Understanding Strategic Change in Organizations.* Malden, MA: Blackwell.

Helfat, C. E. and M. Peteraf (2003). The Dynamic Resource-Based View: Capability Lifecycles. *Strategic Management Journal*, 24, 997-1010.

Hill, C. (2004*). International Business*. 5th Ed. McGraw Hill International

Hooley, G. & Greenley, G. (2005). The Resource Underpinnings of Competitive Positions. *Journal of Strategic Marketing.* 13(2), 93-116.

Hubbard, G. (2009). Measuring Organizational Performance: Beyond the Triple Bottom-Line. *Business Strategy and the Environment*, 19, 177-191

Hult, G. T. M., Ketchen, D. J., & Arrfelt, M. (2007). Strategic Supply Chain Management: Improving Performance through a culture of Competitiveness and Knowledge Management. *Strategic Management Journal*, 28(10), 1035–1052.

Istaitieh A., Rodriguez-Fernandez J., (2006). Factor-Product Markets and Firm's Capital Structure: A Literature Review. *Review of Financial Economics*, 15, 49–75.

Ittner, C.D., Larcker, D.F. & Randall, T. (2003). Performance Implications of Strategic Performance Measurement in Financial Service Firms. *Accounting, Organisations and Society*, 28 (8), 715-741.

Kamau, A.W. (2009). Efficiency in the Banking Sector: An Empirical Investigation of Commercial Banks in Kenya. *Unpublished Doctoral Thesis.* Nairobi: UON

Kaplan, R. & Norton, D. (1996). Linking the balanced scorecard to strategy. *California Management Review* 39(1), 53–79.

Kaplan, R. & Norton, D. (1992). *The Balanced Scorecard*. Harvard Business School.

Kogut, B. & Zander, U. (1992). Knowledge of the Firm, Combinative Capabilities, and the Replication of Technology. *Organization Science* 3(3), 383–397.

Kolapo, F.T. & Adaramola, A.O. (2012). The Impact of the Nigerian Capital Market on Economic Growth. *International Journal of Developing Societies, 1, 11–19*

Kombo, D. K., & Tromp D. L .A. (2006). *Proposal and Thesis Waiting: An Introduction.* Nairobi: Paulines Publishers Africa

Kraatz, M.S. & Zajac, E.J. (2001). How Organizational Resources affect Strategic Change and Performance in Turbulent Environments: Theory and Evidence. *Organization Science*, 12, 632–657.

Kumbirai, M. & Webb, R. (2010). A Financial Ratio Analysis of Commercial Bank Performance in South Africa. *African Review of Economics and Finance*. 2(1), 30-53

Kuuluvainen, A. (2011). Dynamic Capabilities in the International Growth of Small and Medium-Sized Firms. *Turku School of Economics*. 978-952-249-174-9.

Lavie, D. (2006). The Competitive Advantage of Interconnected Frms: An Extension of the Resource Based View. *Academy of Management Review*, 31(3), 638–658.

Lee, J. (2003). Innovation and Strategic Divergence: An Empirical Study of the US Pharmaceutical Industry from 1920–1960. *Management Science*, 49, 143–159.

Luk, C., Yau, O., Tse, A., Sin, L., & Chow, R. (2005). Stakeholder Orientation and Business Performance: The Case of Service Companies in China. *Journal of International Marketing*, 13(1), 89-110

Luo, Y. & Tung, R. L. (2007). International Expansion of Emerging Market Enterprises: A Springboard Perspective. *Journal of International Business Studies*, 38, 481–498

Mackey, A., Mackey, T. B. & Barney, J. B. (2007). Corporate Social Responsibility and Firm Performance: Investor Preferences and Corporate Strategies. *Academy of Management Review*, 32(3), 817–835.

Mahoney, J. T., & J. R. Pandian (1992). The Resource-Based view within the Conversation of Strategic Management. *Strategic Management Journal*, 13 (5), 363-80.

Makadok, R. (2001). Toward a Synthesis of the Resource-Based View and Dynamic-Capability Views of Rent Creation. *Strategic Management Journal*, 22, 387–401.

Markides, C. C. & Williamson, P. J. (1996). Corporate Diversification and Organisational Structure: A Resource-Based View. *Academy of Management Journal*, 39 (2), 340-367.

Mascarenhas, B., A Baveja,. and M. Jamil, M. (1998). Dynamics of Core Competencies in Leading Multinational Companies. *California Management Review*, 40 (4), 117-132.

Mishina, Y., Pollock T. G. & Porac J. F. (2004). Are More Resources always better for Growth? Resource Stickiness in Market and Product Expansion. *Strategic Management Journal*, 25, 1179–1197.

Mugenda, O. M., & Muganda, A. G. (2003). *Research Methods*: *Qualitative and Quantitative Approaches*. Nairobi : Act press

Mulusa, T. (1990). *Evaluation Research for Beginners: A Practical Study Guide*. Bonn: Deutsche Stifling for International Eritwickling.

Mwega, F.M. (2009). Global Financial Crisis Discussion Series. *Overseas Development Institute*. Nairobi: Independent Publisher

Nutt, P.C. (2002). *Why Decisions Fail: Avoiding the Blunders and Traps that Lead to Debacles*. Williston, VT: Berrett-Koehler

Ogollah, K. O. (2012). *Organisational Configurations, Stage of Development and Performance of Commercial Banks in Kenya.* Unpublished PhD Thesis. Nairobi: University of Nairobi

Oloo, O. (2009). *The Banking Survey 2009.* Nairobi: Think Business

Olweny, T. & Shipho, T. M. (2011). Effects Of Banking Sectoral Factors on the Profitability Commercial Banks in Kenya. *Economics and Finance Review*, 1(5), 01 – 30

Ongore, V. O. (2013). Determinants of Financial Performance of Commercial Banks in Kenya. *International Journal of Economics and Financial Issues*, 3 (1), 237-252

Orodho, A. J. (2005). *Elements of Education and Social Science Research Methods*. Nairobi: Mosola Publishers

Otuori, O. H. (2013). Influence of exchange rate determinants on the performance of commercial banks in Kenya. *European Journal of Management Sciences and Economics,* 1(2), 86-98.

Pearce, J. A. (1982). The Company Mission as a Strategic Tool. *Sloan Management Review*, 23, 15-24.

Pandey, I. M. (1999). *Financial Management*. 8th Ed. New Delhi: Vikas Publishing House

Penrose, E.T. (1959). *The Theory of the Growth of the Firm*. Oxford: Oxford University Press.

Peteraf, M. A. (1993). The cornerstones of competitive advantage: A Resource-Based View. *Strategic Management Journal*, 14, 179-191.

Pfeffer, J., & Salancik, G. R. (1978). *The External Control of Organizations: A Resource Dependence Perspective*. New York: Harper & Row

Phillips, R. (2003a). Stakeholder Legitimacy. *Business Ethics Quarterly*, 13(1), 25-41.

Polonsky, J. M., Schuppisser, D. S. W & Beldona, S. (2002). A Stakeholder Perspective for Analyzing Marketing Relationships. *Journal of Market-Focused Management*, 5, 109

Porter, E. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance.* New York: The Free Press

Preston, L.E., & Post, J.E. (1975). *Private Management and Public Policy*. Englewood Cliff, NJ: Prentice-Hall.

Priem, R. L., & Butler, J. E. (2001). Is the Resource-Based View a Useful Perspective for Strategic Management Research? *Academy of Management Review*, 26(1), 22-40.

Pulendran, S., Speed, R. & Widing II, R. E. (2000). The Antecedents and Consequences of Market Orientation in Australia. *Australian Journal of Management*, 25(2), 119-144.

Seashore, S. E. & Yutchman, E., (1967). Factor Analysis of Organisational Performance. *Administrative Science Quarterly*, 12, 377-95.

Saunders, M. Lewis, P. and Thornhill, A. (2007). *Research Methods for Business Students.* 4th Edition. Harlow: Prentice Hall, Pearson Education Limited.

Sekaran, U. (2003). *Research Methods for Business: A Skill Building Approach*. NY: Wiley.

Sexton, D.L, Pricer R.W., & Nenide, B. (2000). Measuring Performance in High Growth Firms. *Paper presented at the Babson Entrepreneurship Research Conference*, Wellesley Mass

Svendsen, A. (1998). *The Stakeholder Strategy: Profiting from Collaborative Business Relationship*. San Francisco: Berrett-Koehler.

Teece, D. J. (1988). *Technological Change and the Nature of The Firm*. In G. Dosi, C. Freeman, R. Nelson, G. Silverberg and L. Soete (eds.), Technical Change and Economic Theory. New York: Pinter Publishers

Teece, D. J., Pisano, G., & Shuen, A. (1997). Dynamic Capabilities and Strategic Management. *Strategic Management Journal*, *18* (8), 509-533.

Teimet, P. R., Ochieng, D. O. & Away, S. (2011). Income Source Diversification and Financial Performance of Commercial Banks in Kenya. *International Journal of Business and Public Management.* 1(1), 69-89

Trochim, W. (2001). *The Research Methods Knowledge Base*. Cincinnati, OH: Atomic Dog Publishing.

Ullman, J. B. (2006). Structural Equation Modeling: Reviewing the Basics and Moving Forward. *Journal of Personality Assessment*, 87(1), 35–50

Wernerfelt, B. (1984). A Resource-Based View of the Firm. *Strategic Management Journal*, 5(4-6), 171-180.

Westerlund, M. & Leminen, S. (2012). Special Issue on Living Labs, Technology Innovation. *Management Review*, 9, 6-11

Willcocks, L.P., Hindle, J., Feeny, D.F. & Lacity, M.C. (2004). IT and Business Process Outsourcing: The knowledge potential. *Information Systems Management*, 21(3), 7-15.

Williamson, O. E. (1996). *The Mechanisms of Governance*. New York: Oxford University Press.

Williamson, O. E. (1985). *The Economic Institutions of Capitalism*. New York: Free Press.

Wood, D. J. & Jones, R. E. (1995). Stakeholder Mismatching: A Theoretical Problem in Empirical Research on Corporate Social Performance. *The International Journal of Organisational Analysis*, 3 (3), 229-267

APPENDICES

APPENDIX 1: QUESTIONNAIRE

THE EFFECT OF EXPANSION STRATEGIES ON THE PERRFORMANCE OF COMMERCIAL BANKS IN KENYA

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

Section A: Respondent Demographics

(Tick where appropriate)

1. Please indicate which bank you work for……………………………………..
2. For how long have you worked for this Bank?

   Less than 1 year [ ] 1-5 years [ ]

   6-10 years [ ] Over 10 years [ ]

3. What is your position? ....
4. Please indicate how long you have worked in this position

   Less than 1 year [ ] 1-5 years [ ]

   6-10 years [ ] Over 10 years [ ]

Section B: Expansion Strategies

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

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

Expansion Strategies	**1**	**2**	**3**	**4**	**5**
I have an understanding of the bank's expansion strategies					
I have had an opportunity to review the banks strategic business plan and expansion strategies					
The bank has ventured into new products in the past 3-5 years					
The bank has a 3-5 year expansion plan encompassing clear strategies					
The bank is growing and expanding at a faster rate now than in the past 10 years					
Employees are appraised of the bank's expansion strategies					
We have entered into strategic alliances in the last 3 years					
The bank has merged with or acquired another institution recently					
The bank has entered into agency agreements recently					
We have opened a branch/subsidiary in a foreign county recently					
The bank invests in market intelligence to enhance market expansion					
Management ensures there are sufficient human, financial and other resources to enhance expansion					
The bank is committed to R&D so as to develop innovative products					

for the market					
Cost Benefit Analysis is used to assess the profit potential of future expansion projects					

Comment on your bank's expansion strategies and their effect on performance

....

Section E: Performance

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

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

Performance	**1**	**2**	**3**	**4**	**5**
Expansion strategies have increased the firm's asset base					
Costs associated with running the business have disproportionately increased in the past 3-5 years					
The bank's profit has been improving over the past 3 years					
We have introduced new products in the last three years					
The firm's capabilities and knowledge have improved due to the firm's expansion strategies					
Our market share has been improving over the years					
The firm's profitability ratios have improved significantly over the past 3-5 years					
Customer satisfaction has improved greatly					
Our product/service quality has improved for the last 5 years					
Net assets, core capital and other assets have grown in last 3-5 years					

Comment on your bank's performance in last 3-5 years

………

Do you feel that expansion strategies played a key role in the performance?

APPENDIX 2: LIST OF COMMERCIAL BANKS IN KENYA

Number	Bank	Market Size Index
1	Kenya Commercial Bank Ltd	14.52%
2	Equity Bank Ltd	9.98%
3	Barclays Bank Ltd	8.90%
4	Cooperative Bank of Kenya Ltd	8.41%
5	Standard Chartered Bank Ltd	7.74%
6	CFC Stanbic Ltd	5.10%
7	I&M Bank Ltd	4.09%
8	Commercial Bank of Africa Ltd	3.98%
9	Citibank N.A.	3.96%
10	Diamond Trust Bank of Kenya Ltd	3.77%
11	NIC Bank Ltd	3.70%
12	National Bank of Kenya Ltd	3.59%
13	Bank of Baroda Ltd	1.83%
14	Bank of Africa Ltd	1.70%
15	Prime Bank Ltd	1.64%
16	Chase Bank Ltd	1.49%
17	Housing Finance Company Ltd	1.48%
18	Family Bank Ltd	1.34%
19	Imperial Bank Ltd	1.27%
20	Bank of India	1.17%
21	Eco-bank Ltd	1.02%
22	Fina Bank Ltd	0.69%
23	Consolidated Bank Ltd	0.68%

Number	Bank	Market Size Index
24	African Banking Corporation Ltd	0.63%
25	Gulf African Bank Ltd	0.60%
26	Giro Comercial Bank Ltd	0.60%
27	Equatorial Commercial Bank Ltd	0.57%
28	Fidelity Bank Ltd	0.50%
29	K-Rep Bank Ltd	0.47%
30	Development Bank Ltd	0.46%
31	Transnational Bank Ltd	0.44%
32	Habib Bank A G ZurichLtd	0.44%
33	Guardian Bank Ltd	0.44%
34	First Community Bank Ltd	0.41%
35	Victoria Commercial Bank Ltd	0.40%
36	Habib Bank Limited	0.32%
37	Oriental Commercial Bank Ltd	0.31%
38	Credit Bank Ltd	0.28%
39	Paramount Universal Bank Ltd	0.28%
40	Middle East Bank Ltd	0.26%
41	Jamii Bora Bank Ltd	0.24%
42	UBA Bank of Kenya Ltd	0.16%
43	Dubai Bank Ltd	0.15%
		100%
44	Charterhouse Bank Ltd* Under receivership*	0

Source; CBK, 2011