Product Diversification Strategies and Performance of Commercial Banks in Kenya

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DECLARATION

This management research project is my original work and has not been presented in any other University or college for the award of degree or diploma or certificate

Signed……………………………Date…………………………………..

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D61/64515/2010

This management research project has been submitted for examination with my approval as the University Supervisor

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DEDICATION

This project is dedicated to my family, parents and friends who gave me an inspiration to go back to school and become a better person.

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ABSTRACT

The Kenyan banking industry has been experiencing cut throat competition which has risen to the point where even international banks have been forced to change their strategies in order to maintain and enlarge their market shares (Nyatich, 2009). In the last 5 years the market has experienced a shift in the market leadership where locally instituted commercial banks have taken over the leadership from the multinational banks. This has necessitated a research agenda into the forces behind the dislodgement and thus one of the strategies that has taken a huge focus is diversification and more specifically product diversification. In retrospect therefore, this research intended to make its contribution by taking a look at the various product diversification strategies that commercial banks are adopting in an endeavor to be at tandem with changing customer lifestyles, market trends, technological advancements, the effects of globalization as well as the economic and legal regulatory framework. Furthermore the study seeks to assess the relationship of the strategies to the performance of the commercial banks. Data was obtained from 38 commercial banks in Kenya, targeting medium/senior management staff especially marketing managers, product managers, sales managers, branch managers and operations managers across the country. The data was analyzed using descriptive statistics and mainly there was almost a unanimous view that product diversification has been overly adopted by commercial banks in an endeavor to ensure that banks remain relevant and continue to maximize profits in the face of the stiff competition both within the banking industry and even the entire financial industry.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The main aim of any modern business is to develop a competitive edge over its competitors. This is done with the intention that such an edge would enable it not only to outperform its competitors but as well sustain its profit making ability. Competitive advantage occurs when an organization acquires or develops an attribute or combination of attributes that allows it to outperform its competitors (Thathi, 2008).

Product diversification has been used as one of the attributes towards achieving competitive advantage for firms through economics of scale and other synergies from using the firm's resources and capabilities across different product lines. Such synergies from product diversification are more likely to be realized when firms expand into related lines of business or industries and therefore related to a firm's profitability. Product diversification creates a real option that provides additional synergy from diversification which individual investors cannot create through their personal portfolio diversification. Such a real option creates strategic edge that reduces risk (Paynor, 2002).

This research paper is anchored on the Ansoff Matrix (Ansoff and McDonnell, 1990) which provides a simple way of generating four based alternative directions for strategic development. An organisation has a choice between penetrating further within its existing sphere (market penetration) or choose to develop new products for its existing markets (Product development). Furthermore, an organisation may decide to take its existing products into new markets (market development) or decide to take the most radical step of full diversification into new markets along with new products (Johnson, Scholes and Whittington, 2008).

The banking industry has been cited as one of the industries in which cut throat competition thrives. Competition in the Kenyan banking industry has risen to the point where even international banks have been forced to change their strategies from the larger corporate strategy in order to maintain and enlarge their market shares (Nyatich, 2009). Just like other financial institutions, commercial banks in Kenya have in essence been motivated to better their performance in order to remain relevant in the financial market. Diversification as espoused by McDonald (1996) in the Ansoff Matrix has been widely used by firms world over to ensure firms remain relevant in the market place and as well enhance their absolute performance.

1.1.2 Diversification Strategy

Diversification is a strategy that takes the organization away from both its existing markets and products thus increasing the organizations' scope. A good deal of diversification strategy in practice involves building relationships with existing markets and products (Johnson and Whittington 2008). Most commercial banks adopt a diversification strategy for three main reasons. First, the strategy may be aimed to attain efficiency by applying the bank's existing resources or capabilities to new markets and products or services that is economies of scope. In addition, a commercial bank may adopt this strategy to be able to stretch its corporate parenting capabilities into new markets and products or services. Lastly a commercial bank may employ this strategy to increase its market power by having diverse range of products and services. In this regard, a bank can be able to cross-subsidise one business from the surpluses earned by another, in a way that competitors may not be able to (Luo, 2009).

Diversification can be in the form of related diversification which involves corporate development beyond current products and markets but within the capabilities of the value network of the organization. This can either be through vertical or horizontal integration (concentric strategy). Diversification can also be achieved through unrelated diversification which involves development of products and services beyond the current capabilities and value network - conglomerate strategy (Johnson and Whittington, 2008).

1.1.3 Firm Performance

Murimiri (2009) defines performance as the extent to which an investment is profitable. In essence in the corporate world, performance is the criterion through which an organization determines its capability to prevail. Banks exist to inter-mediate the transactions between demanders and suppliers of money at a given consideration (Maxine

2012). Financial liberalization of early 1990s in Kenya opened the banking industry to a number of players leading to stiff competition and weakening of financial performance of a number of commercial banks leading to collapse or near to collapsing of some. In response, commercial banks have changed their behavior. The efficacy of the innovation in behavior change constitutes an important attribute of performance determined thorough performance measurement (Orodho, 2008).

Kaplan and Norton (2001) introduced the balance score card as a more realistic measure of a firm's performance. The balance score card defines a strategy cause and effect relationship and provides a framework to organizing strategic objectives into the financial perspective in line with the vision and mission of the firm. Key items linked are financials, customer service and satisfaction index, learning and growth within organisation and internal business processes. Internal business processes are the path to achieving strong financial results and superior customer satisfaction. Miles and Snow (1987) link success in performance of organisation to types of adaptive strategies that management chooses to engage in. Each of these adaptive strategies: defenders, prospectors, analysers, and reactors has its own competitive strategies for responding to the environment and each has a particular configuration of technology, structure and processes that is consistent with the strategy.

Pearce and Robinson (2007) highlight three economic goals which define a company's performance guided by strategic direction. These are survival in the market, growth and profitability. A firm's growth is tied explicitly to its survival and profitability. Survival means a long term strategy to remain in business and inability to do so imply that the company is unable to satisfy stakeholders' claims, growth in the number of markets served in the variety of products offered and in the technologies that are used to provide goods and services. Growth means change, and a proactive change that is essential in a dynamic business environment. Profitability is the main goal of business organisation. No matter how profit is measured or defined, it is the clearest indication of a firm's ability to satisfy the claims of all stakeholders. Decisions must be based on long term goals as short term goals more often produce misleading profit results which overlook the enduring concerns of customers, suppliers, creditors, ecologists and regulatory agents.

1.1.4 The Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The CBK which falls under the National Treasury is responsible for formulating and implementing monetary policy and fostering liquidity, solvency and proper functioning of the financial system (CBK, 2011).

As at December 2013 there are 43 commercial banks, 15 deposit taking microfinance and 119 Forex bureaus operating in Kenya. The banks in Kenya have come together under the Kenya Bankers Association (KBA) which serves as a lobby for the banking sector's interests. The association serves as a forum to address issues affecting the members. Over the last few years, the banking sector has continued to grow in assets, deposits profitability and product offering. The growth has been mainly underpinned by; an industry wide branch network, expansion strategy both in Kenya and the extensive East Africa community region, automation of a large number of services and a move towards giving greater emphasis on the emerging complex customer needs rather than the traditional "off the shelf" banking products, not t o mention the technological craze of internet and mobile banking which has completely revolutionalised the banking industry (Njoroge, 2010). During the period ended December 2013, the Kenyan Banking sector registered improved and tremendous growth in assets driven by growth in deposits, injection of capital and retention of profits. The sector registered improved performance in earnings and capital and the level of non-performing loans reduced compared with a similar period in 2012 (CBK, 2013).

Some of the key challenges the banking industry faces are new regulations from the CBK being brought up from time to time e.g. building up core capital requirement to Kenya shillings one billion, this made most banks look for ways to raise capital and even the 2014 Financial bill which dictates the lending rates on base indicative rate set by the Central Bank (CBK, 2014). There is also technological advancement especially the mobile and internet banking craze which has becomes a great challenge for the banks as they have to keep up with the various technological advancements to stay competitive. Another challenge is Cooperatives societies offering cheaper products for their members and front end services which seem to be better for their members. This has been a major challenge to commercial banks since these vibrant Sacco's are eating into the banks customer base and subsequently their revenues (Maxine, 2012).

1.2 Research Problem

Diversification as a sub strategy of a corporate growth strategic plan has been on average deemed to impact on performance of firms as they shift from single business strategies to product-related diversification, but performance may decrease as firms change from product related diversification to unrelated diversification. (Kiyohiko and Rose, 2008). Hitt et al (2011), found that firms that operate with a single business strategy can be potentially risky and vulnerable, furthermore product unrelated diversification strategy reduces risk substantially but its successful execution requires strong organizational capabilities that many firms lack. Consequently therefore, product related diversification has emerged as a balanced way to reduce risks, gain considerable competitive advantage and leverage synergy thus impact on firms absolute performance. In relation to this, firms are usually at pains to establish the extend at which to embrace product diversification strategies.

The banking industry in Kenya is characterized by intense rivalry and competition. In order to compete effectively in this environment it has become imperative to have an aggressive search and development of strategies that provide competitive advantages as competitors step-up both offensive and defensive strategies to protect and or enhance their market share. Superior performance is achieved through proper identification and implementation of successful strategies. The ability of commercial banks to command and uphold a competitive edge depends on the sustainability of the competitive advantage it holds. Commercial banks operating in Kenya have been largely affected by factors such as relative cost advantage which could be due to different operating strategies, different organizational structures, differences in regulatory requirements and or support from home governments.

Among studies on competitive strategies include Illovi (2008) who analysed the competitive strategies adopted in the courier industry in Kenya. The researcher found out that the firms applied cost leadership strategy by ensuring that rates were as competitive as possible. Thathi (2008) focused on competitive strategies by advertising firms in Kenya and found out that discounts, competitive pricing and quality service were the major strategies applied.

Nyatich (2008) explored the challenges faced by commercial banks in Kenya in adoption of various competitive strategy and documented intense rivalry, government policy and changing rates in awareness among customers. Murimiri (2009) found out that commercial banks in Kenya pursue cost reduction, outstanding customer service and operational efficiency strategies with respect to performance indicators of revenue growth, asset growth, customer base and market share. The findings of this study may not be generalized as well to this study because the parameters of performance were financially measured by return on assets, return on equity, return on capital employed and profitability. Wheeller et al (2008) study found that performance differences existed across seven out of nine diversification strategies. Some subsequent strategic literature supported his finding that firms which diversified into related product areas performed better than those that diversified into unrelated areas (Matsusaka 2011).

To date there is a persistent research gap of an empirical study to identify and assess how product diversification strategies as employed by commercial banks relate to performance in Kenya. This research therefore intends to make its contribution by taking a look at the various product diversification strategies the Kenyan commercial banks have adopted and asses the relationship to the banks overall performance.

1.3 Research Objectives

i. To identify the product diversification strategies being adopted by commercial banks in Kenya.
ii. To assess the relationship of product diversification strategies on the performance of commercial banks in Kenya.

1.4 Value of the Study

The findings of this study will contribute to the existing vast body of knowledge in validating product diversification strategy as an optimal strategy in enhancing firm's performance both in financial and non-financial measures. In addition, the current and future scholars will find the findings useful in filling the gaps identified in previous and current studies of the strategy.

This study will be beneficial to several stakeholders including among others, the Central Bank of Kenya, other banks and investors. It will be invaluable to regulators like Central Bank in its mandate of regulating and supervising the banking sector. Additionally, Kenya bankers association, Treasury Ministry, Capital Markets Authority and other regulatory bodies will find the study useful for purposes of enacting policies and regulations that would enhance the value and contribution of commercial banks to the economic pillar of the Kenya Vision 2030.

The findings of this study will also be helpful to the commercial banks in their strategy formulation processes especially in product development in light of stiff competition among the various commercial banks and more so the upcoming non commercial banks and deposit taking microfinance entities who have greatly eaten into the commercial banks market share and thinned their customer base. It will also help the commercial banks in establishing to what level in terms of relatedness their diversification strategies should extent in relation to performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter gives an account of what has been published on diversification strategies and performance by accredited scholars and researchers with the purpose of conveying to the readers the knowledge and ideas that have been established on the topic relative to their strengths and weaknesses and how they contribute to firms performance. The chapter will critically look at the theoretical and empirical literature of the subject under study.

2.2 Theoretical Foundation of the Study

The changing roles that banks have adopted can broadly be described as an exploitation of growth strategies available to them in the market and effectively incorporating such strategies in enabling them to grow and expand in terms of market share while at the same time ensuring that their presence is felt in the industry. Theoretically, the banks are in essence adopting the Ansoff Matrix theory espoused by Ansoff and McDonald (1990) which brings into fore the four main growth strategies namely market penetration, product development, market development and diversification.

Market Penetration refers to where an organisation takes increased share of its existing markets with its existing product range (Wheeller and Hunger, 2008). An organisation builds on the existing strategic capabilities and does not require the organisation to venture into uncharted territory, essentially maintaining the scope. Moreover, greater market share implies increased power vies a vis buyers and suppliers (in terms of the five forces), economies of scale through more efficient manufacturing, distribution, purchasing power and overhead sharing and lastly experience curve benefits (Johnson et al, 2008).

Product development is where an organisation delivers modified or new products (or services) to existing markets. This in essence entails a limited extension of organizational scope (Johnson et al, 2008). In practice market penetration will probably require some product development, but product development involves a greater degree of innovation to come up with solutions for the market specific needs (Keller and Kotler, 2006).

Miles and Snow (1987), describes market development as offering existing products to new market though limiting the extend of the scope. This strategic decision directs the firm to either new segments or even new users of their products. The strategies applied often try to lure clients away from competitors or introduce existing products in foreign market or introduce new brand names in a market (Keller and Kotler, 2006).

Mintzberg and Ghoshal (1999) views diversification as strictly a strategy that takes the organisation away from both its existing markets and its existing products radically increases the organisation's scope. The strategy essentially may be in the form of concentric or conglomerate but a good deal of diversification in practice involves building on relationships with existing markets or products. Frequently too, market penetration and product development entail some diversifying adjustment of products or markets (Johnson et al, 2008). Pearce and Robinson (2007) acknowledges that as organisations move from their starting point of existing products and existing markets, then the more the organisation has to learn because diversification is just one direction for developing the organisation, and needs to be considered alongside its alternatives. The drivers of diversification, its various forms and the ways in which it is managed in relation to firm performance forms the foundation of this study.

2.3 Product Diversification Strategies

In the application of product diversification strategies, a good opportunity can be found outside the present businesses (Kotler, 2006). A good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Ansoff (1990) in the market grid notes that on the other hand diversification strategies can also decrease risk because a large corporation can spread certain risks if it operates on more than one market.

Product diversification strategies are broadly classified into related diversification (different lines of products are linked) or unrelated diversification (no links between products). Related diversification is diversifying into businesses that posses some kind of 'strategic fit'. Strategic fit exists when business es have sufficiently related value chains that give rise to important opportunities for example, transferring skills and expertise from one activity to another (Johnson and Whittington 2008). It involves developing beyond one's product but still within the confines of the industry (Kotler and Keller, 2006). Related diversification as well refers to getting into a new business activity in a different industry that is related to a company's existing business activity(s) by commonalities between one or more components of each activity's value chain. These commonalities are mainly marketing, manufacturing or technological. Gains arise from the transferring and leveraging of competencies and from the sharing of resources (Johnson and Whittington 2008). Lepetit et al (2007) suggests that the ideal concentric diversification occurs when the combined company profits increase strengths and opportunities, as well as decrease weaknesses and exposure to risk.

Product diversification may also take the form of unrelated (conglomerate) diversification that is entry into industries that have no obvious connection to any of a company's value chain activities in the present industry. The chief focus is to increase profitability by exploiting general organization's competencies however, it is difficult to transfer or leverage competencies and to realize economies of scope (Griffin and Pasta, 2010). Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. Hamel and Prahalad (1998) states that the principal and often sole concern of the acquiring firm is the profit pattern of the venture and thus there is little concern given to creating product market synergy with existing businesses, unlike the approach taken in concentric diversification.

Miles and Snow (1987) states that firms adopting a concentric diversification are seeking a balance in their portfolios between current businesses with cyclical sales and acquired businesses with counter-cyclical sales, between high-cash/low-opportunity and low-cash/high-opportunity businesses, or between debt-free and highly leveraged businesses. Since conglomerate diversification involves seeking new businesses that have no relationship to its current technology, products or markets, this gives an impression that firms can be involved in businesses that are completely in a different industry for example banks venturing into hospitality industry. However, in its quest to diversify its products in unrelated industries, the firm may encounter significant challenges. A question therefore arises: "To what extent can firm s diversify into non-core industries?" That is, are there businesses that firms should not engage in, possibly because of conflict of interest, lack of adequate expertise, among other constraints that may arise? (Pearce and Robinson, 2007).

2.4 Empirical Literature on Product Diversification

Berger and Ofek (2010) in their study on diversification effect on firm value describe diversification as the entry of a company into new lines of activity through a process of internal development or through acquisition, which entails changes in its administrative structure, system or other management procedures. Any modification of a current product that serves to expand the potential market implies that the company is following a strategy of product diversification. Product diversification strategy is different from product development in that it involves creating a new customer base, which by definition expands the market potential of the original product. This is achieved through brand extensions or new brands, but in some cases the product modification may create a new market by creating new uses for the product. The study suggested that related product diversification achieves competitive advantage for firms through economies of scale and other synergies from using the firm's resources and capabilities across different product lines. Luo (2009) adds that such synergies from product diversification are more likely to be realized when firms expand into related lines of business or industries. Furthermore, product related diversification emphasizes on operational synergy (economies of scale), that is, increase on competitiveness beyond what can be achieved by engaging in two markets or activities separately. This translates to firms benefiting from declining unit costs by leveraging on product relatedness and thus expand the firms' performance gains.

Kiyohiko and Rose (2008) did a study on Japanese firms and established that most of these firms appear to have shifted their operational focus from developing growth-enabling core competencies to reducing organizational costs through diversification.

Most Japanese firms experienced extensive Mergers & Acquisitions (M&A) activity at earlier points in their corporate histories. According to Kiyohiko and Rose (2008) the recent flurry of M&A's in global market is nothing new, but rather a resurgence of past practices in a bid to allow rapid downsizing and increased scale of economies while avoiding massive layoffs. Rowley and Baum (2009) from their study on 40 Canadian firms with special focus on the financial industry developed the theory that brokerage and investment activities that financial firms are recently engaging in allow them to have a greater discretion in choosing syndicate partners and together are able to provide access to timely and non-redundant information to investors.

Lepetit et al (2007) in their research in the financial industry states that the banking industry is consolidating at a rapid pace, with integration of related financial services (insurance, credit card) along with input services (cheque clearing payments, electronic funds transfer and money transfer services) into the parent companies. This in effect results to the banks acquiring operational synergy. The study points that product related diversification "essentially putting ones eggs in s imilar baskets" has emerged as a balanced way to both reduce risk and leverage synergy. When diversification involves the addition of a business related to the firm in terms of technology, markets or products, it is concentric diversification. With this type of strategy, the new businesses selected possess a high degree of compatibility with the current business, thus the acquiring company needs to search for new businesses with products, markets, distribution channels, technologies and resource requirements that are familiar but not identical, synergistic and not wholly interdependent. This diversification mode therefore means seeking new products that have technological or marketing synergies with existing product lines, even though the products themselves appeal to a different group of customers. The study suggested that concentric diversification, as a strategy, may be more logical for service firms than for product firms because many offerings of new core services by a firm are not compatible with the existing line or existing market segments.

A study conducted by Hitt, Hoskisson and Kim (2011) shows that firms that have diversified into products that use the existing internal resources or capabilities of the firm will benefit from economies of scale thus earn higher returns. The study asserts that the payoff created by diversification may be magnified when Multi-national corporations capitalize on economic rents derived not only from product and market diversity but also from the various advantages embodied in foreign activities such as knowledge acquisition, capability development, risk reduction and complementary synergies.

Yaser (2010) on a study on competitive strategies and firm performance acknowledges that while unrelated diversification helps firms achieve economies of scope, the benefits of this strategy might be offset by several disadvantages when implemented in international markets. International diversification into unrelated product areas means a broadened scope of operations, which implies that additional costs may be incurred because the transferability of a competitive advantage between countries can be inhibited by institutional and cultural barriers. Diversifying into unrelated product areas in foreign market places also frustrates corporations due to the difficulty of applying existing product experience to unfamiliar market conditions. By contrast, related diversification allows multinational corporations to realize economies of scale and since foreign markets represent additional sales outlets for existing products, potential profit gains are made possible. According to Matsusaka (2010) study on Chinese firms, related diversification strategy is preferable because it enables subsidiaries of MNCs to export more products to international markets through their foreign parents' distribution channels and global networks. It also helps local firms upgrade technological skills and managerial expertise. This institutional effect reduces transaction costs and operational uncertainty, and is thus beneficial to subsidiary performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter gives an introduction to the methodology adopted and used in the study; it describes the study design, target population, sample design, data collection procedure and data analysis method.

3.2 Research Design

The research design is the arrangements of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in the procedure (Mugenda & Mugenda, 2003). It specifies the objective of the study, methodology and techniques to be adopted for achieving the objective (Orodho, 2008).

In this study the researcher employed a cross sectional survey design, majoring on descriptive survey to obtain information on the product diversification strategies in relation to performance of commercial banks in Kenya. Descriptive survey design was appropriate because the researcher was able to get a detailed and highly accurate picture of the way things are. The technique was able to give a vivid descriptive account of the strategies identified and how they relate to the commercial banks performance.

3.3 Population

The research was based on the Kenyan banking sector where the population under research exclusively consisted of all the commercial banks. As per CBK (2014), the banking system comprises of 43 commercial banks, which formed the basis of the target population.

3.4 Data Collection

Data was collected by use of semi-structured questionnaires containing both closed and open-ended questions covering various product diversification and performance related issues employed by commercial banks to gain competitive advantage over their rivals and subsequently improve on their performance. The questionnaires were used because they helped in the collection of large volumes of data within a short period of time and were easy to administer (Robson, 2002). The respondents included the various banks' product managers, branch managers, operations managers and sales managers who are actively involved in firm strategy especially product development and product design formulation strategies. Face to face interviews and drop and pick and emailing methods were used to administer the questionnaires. Follow up was made through personal visits, telephone calls and e-mail to enhance response rate.

The study targeted all commercial banks in Kenya. As per CBK 2013, there are 43 commercial banks and out of the 43 banks, 5 did not respond. The response rate as per was 88.3%; this indicative of a good cooperation because 38 respondents were willing to take part in the research while 5 (11.7%) declined to participate citing company policy not to divulge company information without consent from head offices. Despite the non response of 11.7%, this did not really have a significant effect on the outcomes of the research.

Secondary data on various performance trends of the commercial banks- mainly profits, Liability Values and the Assets Books, was collected over a period of four consecutive years starting year 2010 to year 2013 and correlated using Pearson Correlation technique and the correlation matrices for each year presented.

3.5 Data Analysis

Analysis procedures employed included both qualitative and quantitative techniques. Data collected by use of questionnaires was coded and analyzed using statistical package for social scientists (SPSS) version 20 for windows and use of descriptive statistics. Qualitative data was analyzed thematically to get counts and then percentages calculated based on the total number of responses.

Descriptive statistic using percentages, mean and standard deviation were used to analyze quantitative data. According to Orodho (2008) the advantage of descriptive statistics is that they enable the researcher to use one or more numbers (e.g. the mean, median, variance) to indicate the average score and variability of scores of a sample. Mugenda and Mugenda (2003) argue that when making the results known to a variety of readers, percentages have considerable advantage over more complex statistics. Data was then presented using frequency tables, and correlation matrices

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents an analysis of the data collected from a sample of 38 commercial banks in Kenya staff in various senior management positions. Data analysis and report of findings was done using descriptive statistics in the form of frequency tables, percentages, mean and standard deviation. The relationship of the elements were investigated by use of mean ranking. The findings of the study were discussed under the research objectives; to identify the product diversification strategies being adopted by commercial banks in Kenya and to assess the relationship of product diversification strategies on the performance of commercial banks in Kenya.

4.2 Profile of Respondent Commercial Banks

The Profile of the commercial banks was analysed based on the based on the number of years the bank has been in operation in the Kenyan Banking Industry, ownership of the bank and the branch network of the bank (coverage). The profiling was important because it affects organizational decision making processes, strategy formulation and implementation processes as well. Data was collected by use of a questionnaire and analysed and presented by use of frequency tables.

4.2.1 Length of the Banks' Operation

The respondents were required to indicate the number of years the banks have been in operational in the country. This was critical for the purposes of establishing the expertise and knowledge of the Kenyan market in order to come up with sustainable diversification strategies. The data collected was analysed and presented as per Table 4.1.

Table 4.1 Length of the Banks' Operation

No. of Years	Frequency	Percentage	Cumulative Percentage
1 – 10 Yrs	5	13.1	13.2
11 – 20 Yrs	10	26.4	39.5
20 -30 Yrs	18	47.4	86.9
Over 30 Yrs	5	13.1	**100**
Total	**38**	**100**	

Source: Research Data (2014)

According to the results of the analysis shown in Table 4.1, most banks have been in operation in the Kenyan Market between 20-30 years (47.4%) followed by those that have been operational for between 11 – 20 (26.4%). Those that have been operational between 1-10 years and over 30 years shared the same percentage of 5%. This is an indication that 86.9% of the banks have been operational for than 10 year and therefore have adequate expertise and knowledge of the Kenyan Market and its dynamism.

4.2.2 Bank Ownership

The respondent's bank ownership was required to establish the banks versatility in the decision making processes as well as the resource based muscles in engaging in market feuds and ability to out muscle competitors in terms of number of products/services. The findings of the study are summarized in Table 4.2.

Table 4.2: Bank Ownership

Type of Ownership	Frequency	Percentage
Locally Owned	16	42.1
Multi nationally Owned	22	57.9
Total	**38**	**100.0**

Source: Research Data (2014)

The results of the analysis of the respondent commercial banks ownership as shown in Table 4.2 shows that majority of the respondent banks are foreign owned (multinational) banks 57.9%, while those that are locally owned constitute 42.1%. This is a fair distribution of the ownership structure thus giving all the banks a fair playing ground without either of the side monopolizing the banking industry.

4.2.3 Job Designation

The respondents were also required to indicate the positions they each held at their bank to determine whether they were competent to provide relevant information for this research. Their responses were as is summarized in Table 4.3.

Table 4.3: Respondents Job Designation

Job designation	Frequency	Percentage
Marketing Manager	5	13.2
Corporate Manager	3	7.9
Financial Manager	2	5.3
Branch Operations Manager	2	5.3
Product Development Manager	15	39.5
Senior Management	1	2.6
Relationship Manager.	1	2.6
Branch Retail Manager	3	7.9
Sales Manager	6	15.8
Total	**38**	**100.0**

Source: Research Data (2014)

The results according to the summary of Table 4.3 shows that the respondents were drawn from across the management spectrum including 15 (39.5%) product development managers, 5 (13.2%) Marketing managers, 3 (7.9%) corporate managers as well as branch retail managers of equal magnitude and 2 (5.3%) branch operations managers. Other officers included 6 (15.8%) sales managers, 2 (5.3%) financial managers and 1 (2.6%) senior and relationship managers.

4.2.4 Commercial Banks Branch Network

The respondent banks were required to give their coverage in the country to validate the overall effectiveness in the product diversification strategy and thus covert intended target group. Their response is as indicated in Table 4.4.

Table 4.4: Commercial Banks Branch Network

No. of Branches	Frequency	Percentage	Cumulative %
1 – 10 Outlets	6	15.8	15.8
11 – 20 Outlets	17	44.7	60.5
21 – 30 Outlets	8	21.1	81.6
Over 30 Outlets	7	18.4	100
Total	**38**	**100.0**	

Source: Research Data (2014)

According to the results of the analysis summarized in Table 4.4, a majority of the banks 84.2% had more than 11 branch outlets in the entire country.. Except for 6 respondents (15.8%) who had 10 or less branches, 17 (44.7%) respondents had between 11-20 branches, 8 (21.1%) respondents had between 21 and 30 branches and the remaining 7 (18.4%) respondents for over 30 branch outlets.

Consequently, all the respondents (Officers interviewed) indicated that they understood the bank's product diversification strategies to enhance performance. The banks as per the respondents, aims at being the go to bank with specific focus on provision of products as solutions that meet customer needs and exceed customer expectations, Revenue maximization, Customer retention, profit maximization, increase in market share, increase in the product holding index per customer, enhance customer convenience and ultimately enhance the customer experience levels.

4.3 Product Diversification Strategy Mode

The respondents were required to give an insight of the type of product diversification strategy mode their bank had been leaning towards. The results are as indicated in Table 4.5.

Table 4.5 Product diversification Strategy Mode

Product Diversification Type	**Frequency**	**Percentage**
Related	36	94.7
Unrelated	2	5.3
No Diversification	0	0.0
Total	**38**	**100**

Source: Research Data (2014)

From the study, 36 (94.7%) of the respondents affirmed that their bank was more skewed to related product diversification while 2 (5.3%) asserted that the bank was leaning towards unrelated diversification strategies. From the respondents, it was noted that at least all the commercial banks have adopted product diversification strategies with related product diversification being more preferred.

4.3.1 Products/Services Diversified into in the last 3 Years by the Banks

From the respondents the main products/services that most of the commercial banks have diversified into were mobile and internet banking services. With over 20 Million Kenyans having Mobile phones the banking industry has leveraged on that and products developed to maximize on the telecommunication platform. The platform and the easy access to the internet has been instrumental in the banking sector for provision of banking services at the convenience of the customer and ultimately reduced the transactional costs for the banks. The real estate business has been in the boom in the Kenyan Market and the commercials banks have taken advantage of the boom and aggressively diversified into the mortgage market as a diversification strategy. Products that been introduced in the market related to this boom are Mortgage Equity Releases, Re-Mortgages, Constructions and the traditional home-loans (Mortgages), while the traditional financing levels (Loan to Value - LTV) percentages increased from an average of 85% to 105%. The banks have as well heavily invested in Asset Financing with most banks forming partnerships with automobiles companies and insurance firms to facilitate a one full package for the would be customers.

The respondents furthermore cited agency banking to have taken prominence with the aim of expanding the banks reach and providing banking services at the customer's door step. Money transfer services like Cash send Money transfer services for Barclays bank, Pesa Pap for Family Bank and M-Benki for Equity Bank among others were cited as a critical milestone in product diversification for banks. Equity bank's EquiTel as a telecommunication platform for Equity Banks customers (for now) will revolutionalise the banking sector and furthermore help consolidate Equity Banks position in the Industry. Bancassurance products/services were also among the products that have taken prominence in the banking industry where products insurance covers like retrenchment covers, Life covers, Sportsman equipment covers, Last expense covers which are all positioned as "adds-on" on the main bank products.

4.3.2 Commercial Banks' Competitors

The commercial banks main competitors according to the respondents were mainly telecommunication firms like Safaricom, Airtel, Yu mobile services. Platforms like

Safaricom's *M-pesa* and *M-Shwari* and Airtel's *Airtel-Money* have revolutionalised the savings/lending and money transfer services which the banking industry previously monopolized. This has resulted to intense rivalry between the banks and the telecommunication firms where some banks have diversified into the telecommunication industry though with the disguise of using their customer base as the target market. Other competitors as per the respondents included Microfinance Institutions (MFIs) which have evolved from only dealing with a specific group of clientele to an overly a deposit taking and lending institutions. Saccos that normally were poised as being mandated to take care of the members social welfare have also transformed into Back and Front office services financial institutions offering end to end financial solutions to their members and thus eating into the commercial banks market especially with their lower interest rates on lending products.

The respondents cited Money transfer firms both formal (Cash express, MoneyGram, Western Union among others) and informal as having taken center stage in the money transfer business which previously was controlled by commercial banks with products like telegraphic transfers, Electronic Funds Transfers and Travellers Cheques taking a dive in prominence. The respondents also cited Insurance firms as forming part of commercial banks competitors who have developed savings and investment solutions.

4.4 Product Diversification and Banks Performance

The respondent banks were required to identify on a comparative scale of no extent (NE) to a very great extent (VGE) of various operational variables in relation to product diversification and their effect to the banks performance. A range of variables were presented to the respondents assess their relationship to performance. An assessment of five performance indicators of the commercial bank's operations in relation to product diversification strategies was carried out where respondents were required to indicate on a scale of 1 to 5 (with 1 being No extend and 5 being Very great extend) the effect of product diversification strategies on the selected key performance indicators. The results are as indicated in Table 4.6.

Table 4.6: Effects of Product diversification strategies on selected performance Indicators

Variable	NE		LE		SE		GE		VGE		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Improved customer satisfaction/ retention	-	-	6	15.8	8	21.1	12	31.6	12	31.6	38	**100**
Increased product holding index per customer	-	-	1	2.6	12	31.6	18	47.4	7	18.4	38	**100**
Reduced transactional costs due to enhanced bank operating systems	-	-	3	7.9	12	31.6	18	47.4	5	13.2	38	**100**
Increased Revenues	-	-	4	10.5	10	26.3	10	26.3	14	36.8	38	**100**
Increased Customer base/or market share	5	13.2	3	7.9	3	7.9	13	34.2	14	36.8	38	**100**

Source: Research Data (2014)

Results obtained from the respondents on the assessment of the product diversification strategies on the 5 performance indicators for commercial banks as shown in Table 4.6 shows that 32 (84.2%) respondents indicated that the banks have witnessed improved customer satisfaction/retention, 37 (97.4%) said there was increased product holding index per customer and 35 (92.1%) of respondents cited reduced transactional costs. Further, 34 (89.5%) respondents indicated an increase in bank revenues while 30 (78.9%) respondents said the commercial banks have witnessed an increase in their client base. From the above data, it is eminent that a majority of the respondents consider the strategies as having a positive impact on the performance of the respective bank.

The Mean Calculations of the key performance indicators in relation to product diversification were calculated and the results analysed as per Table 4.7.

Table 4.7 Mean Rankings of Product Diversification Strategies on Performance

Competitive Strategy	N	Mean	Std. Deviation
Improved customer satisfaction/retention	38	3.79	1.069
Increased Product Holding Index	38	3.82	0.766
Reduced Transactional Costs	38	3.66	0.815
Increased Bank Revenues	38	3.89	1.034
Increased Customer base / Market share	38	3.74	1.389
Grand Mean		**3.78**	

Source: Research Data (2014)

From Table 4.7 which contains the mean ranking of the effects of competitive strategies on performance shows that increased bank revenues had the highest mean rating of 3.89 followed by increased product holding index per customer (3.82), then improved customer satisfaction/retention (3.79), increased customer base (3.74) and lastly reduced transactional costs. This essentially points out that increase in bank revenues has been the significant beneficiary of the product diversification strategies while transactional costs of the commercial banks benefited the least.

4.4.1 Product Diversification Strategy and Bank Profits

For the Researcher to be able to assess the relationship of product diversification strategy and the performance, secondary data in relation to the commercial banks profits before taxes was collected for the 38 respondent banks for the period between 2010 and 2013. The data was analysed by use of descriptive statistics and further correlated using Pearson Correction using dummy variable (1,0) for the diversification strategy . The Findings of the analysis is as shown below in Tables 4.8 to Table 4.10

Table 4.8 Correlated Bank Profits Yr 2010 and Product Diversification Strategies

		Product Diversification Strategy	Profit for 2010
Product Diversification Strategy	Pearson Correlation	1	-.642**
	Sig. (2-tailed)		.005
	N	38	38
Profit for 2010	Pearson Correlation	-.642**	1
	Sig. (2-tailed)	.005	
	N	38	38

* Correlation is significant at the 0.01 level (2-tailed).

From the findings above, it shows that the relationship between product diversification and performance in relation to the bank profits for the year 2010 was at 99% significance, while the strength of relationship was at -0.642 an indication of high degree of correlation between the employment of product diversification and its contribution to profits for the banks.

Table 4.9 Correlated Bank Profits Yr 2011 and Product Diversification Strategies

		Product Diversification Strategy	**Profit for 2011**
Product Diversification Strategy	Pearson Correlation	1	-.559*
	Sig. (2-tailed)		.020
	N	38	38
Profit for 2011	Pearson Correlation	-.559*	1
	Sig. (2-tailed)	.020	
	N	38	38

From the findings above in Table 4.9. it shows that the relationship between product diversification and performance in relation to the bank profits for the year 2011 at 95% significance had a scored a strength of relationship of -0.559, an indication of high degree of correlation between the employment of product diversification and its contribution to profits for the banks, however the strength of the relationship was lower than in 2010, showing a lesser degree of the relationship.

Table 4.10 Correlated Bank Profits Yr 2012 and Product Diversification Strategie

		Product Diversification Strategy	**Profit for 2012**
Product Diversification Strategy	Pearson Correlation	1	-.513*
	Sig. (2-tailed)		.035
	N	38	38
Profit for 2012	Pearson Correlation	-.513*	1
	Sig. (2-tailed)	.035	
	N	38	38

*Correlation is significant at the 0.05 level (2-tailed)

The year 2012 analysis of the correlation of the banks performance and product diversification strategies gives a score of -0.513 of the strength of the relationship at 95% significance, an indication of a strong relationship of the diversification strategies employed by the commercial banks and the performance, however the strength was weaker as compared to the year 2010 and 2011 which had a score of -0642 and a score of -0.0559 respectively.

Table 4.11 Correlated Bank Profits Yr 2013 and Product Diversification Strategies

		Product Diversification Strategy	Profit for 2013
Product Diversification Strategy	Pearson Correlation	1	-.536*
	Sig. (2-tailed)		.027
	N	38	38
Profit for 2013	Pearson Correlation	-.536*	1
	Sig. (2-tailed)	.027	
	N	38	38

* Correlation is significant at the 0.05 level (2-tailed).

The Year 2013 analysis gives a -0.536 strength of relationship at 95% significance, an indication of a stronger relationship of product diversification and its contribution to performance, an improvement from the previous year (2012) value of -.513, however lower than year 2010 and 2011.

From Tables 4.8, 4.9, 4.10 and 4.11 mean ratings of the bank profits there is a noted increase of the mean profit values, increasing from a figure of Ksh 6.159.94 Millions in 2010 to Ksh. 9,569.29 Millions in 2013. Furthermore for the entire four years under focus the mean value of the strategy scored at a consistent 1.12, an indication that the banks adopting the product diversification strategy has been a worthwhile strategy that paid off through increased bank profits as evidenced by the consistent increase of the banks' profits mean values for the four years.

4.5 Discussions of Research Findings

Having collected and analsyed the data collected, an attempt has been made to internalise the information obtained from respondents of 38 commercial banks in various positions with the aim of identifying the diversification strategies adopted by commercial banks and an assessment of the relationship of the strategies on performance. The research established that the choice of the product diversification strategies was not influenced by the profile of the bank rather than appetite for better performance both financially and non-financially. The research confirmed that 94.7% of the banks have embraced diversification more so related product diversification while a paltry 5.3% had been involved in unrelated product diversification. The 94.7% adopting of related product diversification by the Kenyan commercial banks is affirmed a per Luo (2009) who asserts that synergies that accrue form product diversification are more realized when firms expand into related lines of businesses thus achieving operational synergies which translates to firms benefiting from declining unit costs by leveraging on product relatedness and thus expand the banks performance gains. The multinational banks which constituted 58% of all the total banks in Kenya have also preferred concentric diversification which enables them export more products to the Kenyan market through their established distribution channels. This also results to the local subsidiaries upgrading their technological skills and managerial expertise (Matsusaka, 2010), while Hitt, Hoskisson and Kim (2011) asserts that the payoff created by related product diversification by Multinational banks are magnified by the multinational capitalizing on economic rents derived various advantages embodied in foreign activities such as knowledge acquisition, capability development, risk reduction and complimentary synergies. This has been affirmed by the Kenyan multi nationals who have been on the fore front in embracing product diversification strategies to enhance their performance gains.

Majority of the respondents cited electronic banking (Mobile and internet banking), agency banking, money transfer services and bancassurance products as the main products that most banks have diversified into. This integration of related financial services is part of Kenyan banking industry’s consolidation strategy to ensure that customers have a one stop shop for all their financial services. This in effect results to commercial banks achieving a balanced way to both reduce risks and leveraged synergies as espoused by Lepetit et al (2007) in their research in the financial Industry.

Consequently on average the commercial banks liability and assets books have shown a substantial increment of 16% and 25% respectively attributed to the various product diversification strategies that the banks have adopted in the previous four financial years of 2010, 2011, 2012 and 2013. Furthermore the banks profit before tax have grown on average by 7% partly owing to increased bank revenues accruing from the product diversification strategies that the commercial banks have been engaging in, in an endeavour to achieve a competitive edge among each other. Some of the other pertinent income streams that have notably gained a substantial positive trends are treasury sales, improved performing asset book due to the versatility of repayment systems especially with onboarding of internet and mobile banking, trade and asset financing going up by 15% while cash management systems appreciating by 10% over the last four years.

From the correlation of the product diversification strategies and performance of the banks for the four years, there was a noted strong relationship of the strategies and performance, while the mean of the strategies of 1.12 through the entire four years was consistent thus indicating that the strategies are worth the adoption. The research findings seems to assert the observations of Porter (1985) who asserts that institutions (commercial banks included) develop strategies to enable them seize strategic initiatives and maintain a competitive edge in the market. It also concurs with the findings of Luo (2009) who noted that synergies from product diversification are more likely to be realized when firms expand into related lines of businesses thus acquiring operational synergy (economies of scale) which translates to firms benefiting from declining unit costs by leveraging on product relatedness and thus expand the firms performance gains.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings gathered from analysis of the data collected from 38 commercial banks operating in Kenya. Conclusions have been drawn from the study and recommendations put forward concerning product diversification strategies and performance of commercial banks in Kenya.

5.2 Summary

The study sought to find out the various product diversification strategies put in place by commercial banks in Kenya and assess their relationship with their performance. The study consisted of 38 different management employees of the commercial banks based in various locations in the country. The study found out that there is a fair distribution of job opportunities across the gender at senior management level of the banks with the males being slightly more. An enquiry on the particular product diversification strategies adopted by banks revealed that related (concentric) diversification was more preferred with the motivational factors behind the this type of strategy being increased bank revenues, profit maximization, ability to remain relevant in the market place, expand the banks customer base and subsequently achieve a greater market share.

Furthermore it was noted many of respondents asserted that commercial banks are embracing product diversification strategies to enhance their portfolio growth through retention and enhanced customer experiences. The respondents noted that main competitors of commercial banks are the telecommunication companies that slowly have encroached the financial market with money transfer services, savings and lending facilities and that these have to a greater extend hived a big chunk of the market, off from the main financial players. Other competitors have been the Saccos, the deposit taking Microfinance institutions and insurance firms who are offering various savings and investment platforms.

From the study, the respondents were indicative of positive relationship between product diversification strategies to reduced transactional costs, improved product holding index per customer, improved and more efficient processes and procedures though the relationship between product diversification strategies seemed to score less on customer perceptions of the bank as a superior brand. Further, it was noted that a majority of the respondents consider the strategies as having a positive impact on the performance of the banks they represented. For instance, the banks' profits before tax on average grew by 7% over the last four financial years while the asset books and liability books grew by 25% and 16% respectively while the overall customer base increasing by 18%.

5.3 Conclusion

Conclusion of the study findings are advanced based on the relationships that were established for each of the different research objectives. It can be concluded that the commercial banks are mainly adopting related product diversification strategies which enables the commercial banks to achieve a high degree of compatibility with the existing business structures and platforms and thus leverage on operational synergy. From the study, the diversification strategies adopted by the commercial banks have been noted to have a positive relationship with performance. The respondents affirmed that product diversification strategies results to increased product holding index per customer, improved customer retention, satisfaction and a higher score of customer experience index (net promoters score), increased bank revenues and consequently higher profits for the bank.

5.4 Recommendations

The study established that 94.7% of the commercial banks are solely using related diversification however its highly recommended that there is need to incorporate unrelated diversification specifically to maximize on revenues. The Kenyan economy has experienced a boom in the real estate sector and given that the sector is majorly financed by the commercial banks there is need for banks to come up with full packaged offerings for their customers who seek to own homes. Commercial banks furthermore need to enhance their presence in the insurance sector and expand the bancassurance space to have fully fledged arms of the bank that offer end to end insurance products/services. Commercial banks are as well encouraged to incorporate other mobile money transfer services apart from MPESA, which seems to enjoy a monopoly in the mobile banking platform, into the mobile banking platforms for the banks. This will ensure that all other players are incorporated and thus net the entire mobile subscribers in the country.

5.5 Limitation of the Study

The study was found to be limiting by two factors. First major limitation of the study was as regards access to relevant information for the study. Due to the sensitivity nature of the relevant information, majority of the respondents were very reluctant to cooperate with the researcher in giving out what they perceived as the bank's secrets of success. Secondly, a majority of the respondents being senior managers were relatively busy and therefore not readily available.

5.6 Suggestions for Further Research

The study has been able to identify the various product diversification strategies that commercial banks have adopted and shown the relationship of the strategies to performance, however the researcher recommends that a further study on the absolute value the strategies has on all stakeholders especially customers given that customer perceptions towards banks diversifying seemed to be low. The researcher as well recommends a comparative study on the overall impact of the product diversification strategies to various banks on a resource based view. This will be necessitated by the fact that currently the commercial banks in Kenya have been categorized into four tiers based on their resource muscle.

5.7 Implications for Policy and Practice

From the study, it's imperative that most banks have embraced related product diversification strategies s on a greater scale as opposed to unrelated product diversification strategies. Furthermore, there was low impact in the relationship towards customer perceptions as relates to seemingly attributing the strategies so adopted to improving the perceptions of the commercial bank to as a superior brand. Commercial banks therefore need to task themselves by tailoring their strategies to be equally beneficial to all stakeholders especially their customers. Customer Perceptions as espoused by Keller and Kotler (2006) "are real" in any marketing agenda, and consequently therefore, commercial banks have to embrace the factor in their decision making processes especially product development process.

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APPENDICES

Appendix 1: Letter to Respondents

ERIC MUEMAWAMBUA

P.O.BOX 1135-80100

MOMBASA

Dear Sir/ Madam,

<u>RE: DATA COLLECTION FOR MBA RESEARCH PROJECT.</u>

I am a student at the University of Nairobi pursuing a Master of Business Administration degree. I am conducting a research on the relationship between product diversification strategies and performance of commercial banks in Kenya.

I would be grateful if you could please provide the information sought by the questionnaire provided.

Your responses will be treated in strict confidence and the results of the report will be used solely for academics purposes.

Yours faithfully	Confirmed by
……………………..	…………
Eric M. Wambua	Dr. Jackson Maalu
Student	**Supervisor, University of Nairobi**

Appendix 2: Questionnaire

Introduction

The statements below are intended to gather information on product diversification and performance of commercial banks. Suggest to the best of your knowledge your opinion against each of the statements given. The information obtained from this guide will be treated with utmost confidentially and will not be used for any other purpose other than academic for which it is intended. Thank you in advance for accepting to take part in the programme.

Section 1: General Information

1. What position do you hold in the bank?

   ………………………………………………………………………………

2. How many years has your bank been in operation in the Kenyan market

   1- 10 years [ ], 11 – 20 years [ ], 20 – 30 years [ ], Over 30 years [ ]

3. In which category does your bank belong to?

   Locally Owned [ ] Multinational [ ]

4. How many branch outlets does your bank operate in the entire country

   1- 10 Outlets [ ], 11 – 20 Outlets [ ], 21 – 30 O utlets [ ], Over 30 Outlets [ ]

5. Since joining, would you say you understand banks diversification strategies to enhance performance? Yes [ ], No [ ]

6. If yes above, highlight the main strategic reasons for your banks' product diversification exercise.

   i)

   ii)

   iii)

   iv)

7. Over the past years, the bank has been leaning towards..(Please Tick)

   i) Related product diversification [ ]

   ii) Unrelated product diversification [ ]

   iii) No product diversification at all [ ]

8. List some products / services that the bank has diversified into in the last 3 years

   i) ii)

iii) iv)

9. What are the main motivating factors for your bank to diversify its products / services

i) ii)

iii) iv)

10. Who are the Bank's main competitors apart from the mainstream commercial banks?

i) ii)

iii) iv)

Section 2: Product diversification and performance ***[Please indicate (by ticking) the extent or effect of each strategy on performance of the bank; NE = No extent, LE = Little extent, SE= Some extent, GE= Great extent, VGE= Very great extent]***

Statements	**NE**	**LE**	**SE**	**GE**	**VGE**
11. Is there a relationship between the banks mission and strategic plan and the banks performance?					
12. To what extent do the Bank's strategy formulation activities impact on performance?					
13. Does the banks processes and procedures benefit from managements decisions to diversify from the main traditional bank products/services.					
14. The banks use of agency banking contributes to the banks performance.					
15. There is a relationship between use of E-banking products /services lead to reduced transactional costs thus improved performance.					
16. The bank's decision to diversify into money transfer services and Bancassurance services leads to improved performance.					
17. The banks product diversification strategies have resulted to improved product holding index per customer.					

18. The Bank's appetite to diversify its products range leads to increased customer base.					
19. There is a relationship between high customer satisfaction and a wider range of products on the shelf.					
20. The bank's modernized operating system has an effect to its overall performance.					
21. The bank's product diversification strategies lead to improved customer perceptions of the bank as a superior brand.					
22. There is a relationship between the bank reaching to all types of customers in various income bands with improved performance.					

In the table below indicate the extent to which each of the variables has benefited from the Bank's product diversification strategies in a scale of 1 to 5 (NE-VGE)

Qualitative variable	NE(1)	LE(2)	SE(3)	GE(4)	VGE(5)
Improved customer satisfaction and retention.					
Increased product holding index per customer.					
Reduced Transactional Costs due to enhanced bank operating systems.					
Increase in bank revenues.					
Increased customer base/market share.					

Thank you for your resourcefulness and time, God bless you.

Appendix 3: Secondary Data Capture Form

COMMERCIAL BANKS' PERFORMANCE FOR THE YEARS 2010 – 2013 (Ksh in Millions)

	YEAR 2010			YEAR 2011			YEAR 2012			YEAR 2013		
BANK	PROFITS (PBT	ASSETS VALUE	LIAIBITY VALUE	PROFITS (PBT)	ASSETS VALUE	LIAIBITY VALUE	PROFITS (PBT)	ASSETS VALUE	LIAIBITY VALUE	PROFITS (PBT)	ASSETS VALUE	LIAIBITY VALUE

Appendix 4: List of Licensed Commercial Banks in Kenya

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank (Kenya)
6. CFC Stanbic Bank
7. Chase Bank (Kenya)
8. Citibank
9. Commercial Bank of Africa
10. Consolidated Bank of Kenya
11. Cooperative Bank of Kenya
12. Credit Bank
13. Development Bank of Kenya
14. Diamond Trust Bank
15. Dubai Bank Kenya
16. Ecobank
17. Equatorial Commercial Bank
18. Equity Bank
19. Family Bank
20. Fidelity Commercial Bank Limited
21. First Community Bank
22. Giro Commercial Bank
23. Guaranty Trust Bank
24. Guardian Bank
25. Gulf African Bank
26. Habib Bank
27. Habib Bank AG Zurich
28. Housing Finance Company of Kenya
29. I&M Bank
30. Imperial Bank Kenya
31. Jamii Bora Bank
32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle East Bank Kenya
35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank (Kenya)
40. Standard Chartered Kenya
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank

(Source: Central Bank of Kenya, 2014)