INFLUENCE OF DIVERSIFICATION STRATEGIES ON PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVES SOCIETIES IN NAIROBI CITY COUNTY, KENYA

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LIST OF ACRONYMS AND ABBREVIATIONS

ANOVA:	Analysis of Variance
ATMs:	Automatic Teller Machines
DTS:	Deposit Taking Saccos
FOSA:	Front Office Service Activities
GDP:	Gross Domestic Product
H.B.G:	Horizontal Business Group
IBIS:	Indicator-Based Information System
KUSCCO:	Kenya Union of Savings and Credit Co-operatives
LOB:	Line of Business
OLS:	Ordinary Least Squares
RBV:	Resource Based View
SACCOs:	Savings and Credit Co-operatives
SASRA:	Sacco Societies Regulatory Authority
SPSS:	Statistical Package for Social Science
USA:	United States of America
VBG:	Vertical business group
WOCCU:	World Council of Credit Unions

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). Diversification has been used as one of the attributes towards achieving competitive advantage for firms through economies of scale and other synergies from using the firm's resources and capabilities across different product lines. Such synergies from diversification are more likely to be realized when firms expand into related and unrelated lines of business or industries and therefore related to firm's profitability.

According to Hofer (1983) performance is a contextual concept associated with the phenomenon being studied. Since the perception of these outcomes is contextual, the measures used to represent performance are selected based upon the circumstances of the organization(s) being observed. The measures selected represent the outcomes achieved, either good or bad. Each group of organizational stakeholders will have a different view of organizational performance making it incumbent upon a researcher to select a perspective of performance that conforms to the phenomenon of interest. In other words, a researcher should select a perspective of performance that coincides with the purpose of the research. The key is matching the appropriate model of organizational performance with the existing circumstances.

In Kenya, Saccos are major players in the financial Industry with about 30% of the GDP in members' deposits, Kuscco,(2015), prudent management is therefore important to ensure safety of member's deposit. This can only be achieved if proper strategies are adopted in the management of SACCOs. Strategies can only be effective if properly conceived and executed. Poorly executed strategies can lead to inefficiency and financial losses that can be detrimental to the long term survival of the SACCO. In the past, Co-operative societies were started by members to promote their welfare within certain geographical location; in line with this, they also adopted names that were synonymous with the place. In other cases professions or main activity were used to create a common bond and the name. However, in recent past SACCO's have chosen to diversify in order to open up the common bond to all Kenyans irrespective of locality or profession with the aim of increasing customer base, market share and ultimately enhance the performance of the Sacco.

The study will be anchored on two theories and one model: resource-based theory, transactional cost theory and Miles & Snow Typology. Resource based theory rest on the assumption that firms undertake deliberate managerial efforts steered towards attaining a sustainable competitive advantage.. Transactional cost theory is based on the assumption that every company will expand its activities as long as those activities can be performed cheaper within the company Ronald (1937), to enhance productivity of the firm. Miles & Snow typology link success in performance of organisation to adaptive strategies.

1.1.1 Concept of 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). One of the managerial contingencies that are assumed to be contributing positively to the economic performance of organizations is the degree of diversification Grinyer, McKiernam & Yassa – Ardekani (2008). According to Shin (2001), Diversification refers to the increase by a firm of the number of business lines it runs whether such lines are related or not Penrose, (1959). According to Olo (2009), the grand strategy involving diversification represents a distinctive departure from the firm's existing base of operations to a separate business line either through acquisition or expansion.

Kotler (2006) identifies three types of diversification strategies namely, concentric, horizontal and conglomerate. "Horizontal Diversification strategy'' occurs where a company seeks new products that could appeal to its current customers even though the new products are technologically unrelated. "Conglomerate Diversification Strategy" takes place where a company seeks new businesses that have no relationship with their present business or market operations (Thompson & Strickland, 2006). Collins and Montgomery (2005) divided diversification into two types related and unrelated diversification. The two are analysed in-depth, considering their merits and demerits whereas Emms and Kale (2006) describes the various ways and strategies adopted by diversifying companies as modes of diversification. Collins and Montgomery (2008) believe that related diversification involves building shareholder value by capturing cross business strategic fits.

The combining of resources creates new competitive strengths and capabilities (BCG, 2006). Related diversification may involve use of common sales force to call on customers, advertising related products together, use of same brand names and joint delivery. On the other hand, Thompson and Strickland (2006) believe that many companies decide to diversify into any industry or business that has good profit opportunities. Johnson et al. (2004) noted that in most cases companies that pursue unrelated diversification nearly always enter new businesses by acquiring an established company rather than by forming a start-up subsidiary. The basis for this strategy is that, growth by acquisition translates into enhanced shareholder value faster and the payback period is quicker.

1.1.2 Concept of Organizational 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. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. The concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose Barney, (2001) Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets.

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. Performance in this study will be measured by membership growth rate, growth in the asset base, growth in the loan book, customer satisfaction index and success as compared to industry averages.

1.1.3 Savings and Credit Cooperative Sector in Kenya

In Kenya, the first co-operative society was Lumbwa co-operative Society formed in 1908 by the European Farmers with the aim of supporting agricultural activities and products to take advantage of economies of scale Kenya Union of Savings and Credit Co-operatives KUSCCO, (2006). In 1946 there was inclusion of Africans in the movement when the colonial government felt that Africans needed to participate in the economy through co-operatives resulting in the enactment of a new Co-operative Societies'Ordinance.The Sacco industry is part of the cooperative sector in Kenya, which has impacted on lives of many disadvantaged Kenyans over the years. Saccos in Kenya may be categorized into financial and non-financial cooperatives. Non-financial cooperatives deal with the marketing of members' produce and services such as dairy, livestock coffee, tea, handicrafts and many more similar cooperatives. On the other hand financial co-operatives can be described as two-tiered given the range of financial services to members and regulatory regime.

The traditional Savings and Credit Cooperative Societies (Saccos), described in law as Non-Deposit taking Saccos provide a limited range of savings and credit products, are registered and supervised under the Cooperative Services Act, CAP 490. The Deposit Taking Saccos (DTS) besides the basic savings and credit products, also provide basic 'banking' services (demand deposits, payments services and channels such as quasi banking services commonly known as ATMs), FOSA and are licensed and supervised under the Sacco Societies Act of, 2008 and the SACCO Societies Regulations, 2010. The new law establishes an independent Authority Known as the SACCO Societies Regulatory Authority (SASRA), which has powers to license, regulate and supervise SACCOs, carry out regular inspections, control their ownership and governance practices and manage a Deposit Guarantee Fund among other responsibilities.

By December 2015 there were over 6,000 registered non-deposits taking Saccos in Kenya, 1,995 of which were active KUSCCO (2015). Active in this context means the Saccos that filed their audited financial statements with the Commissioner for Cooperative Development as a legal requirement. By close of 2015, there were 260 deposits taking Saccos out of which one hundred and thirty-five (170) were licensed by SASRA. The remaining 90 Saccos were still working to satisfy the licensing requirements. The 260 DTS account for 80% of the total assets and deposits of the entire Sacco sub-sector. Further, they command 85% of membership in the Sacco industry. Saccos in Kenya control over Kshs 300 billion. There are 2.5 million members with Sacco loans compared to 2 million people with bank loans KUSCCO (2014) .

Statistical report indicates higher growth, to a point where some Saccos are bigger than commercial banks e.g. Mwalimu National Sacco with a membership of 47,179 with assets totalling to Kshs.22 billion with a monthly cheque of Kshs. 600 million from employers and Harambee Sacco with a membership of 98,640 with an asset base totalling to 13 billion and a monthly cheque of Kshs.454 million (Kenya co-operatives directory, 2015). The first Savings and credit Cooperatives in Nairobi County was started in the sixties and they continue to grow every day. The Government annual economic survey shows that as at December 2015 there were more than 2,500 active SACCOs (financial and non-financial) with membership in excess of 1.2 million people in Nairobi, Kenya.

1.2 Research Problem

To achieve their target and objectives as set out in the strategic plan, SACCOs have adopted different business strategies to ensure survival in a highly dynamic and competitive industry. One such strategy is diversification of the products and entering new markets targeting new customer base, which is aimed at breaking the common bond and expanding national coverage Machoki, (2014). Diversification strategy might be attractive in solving company’s problems, but is not without risk. Diversification strategies have the potential to increase the membership of the Sacco, increase the products uptake, Market Share and ultimately profitability of the

Sacco. Furthermore, Diversification is equally an expensive, time consuming and risky activity that should be undertaken with a clear marking and financial case in its favour and a strong marketing plan in place to support its implementation.

In America, Rumelt, (1974) conducted a study on the relationship between firm's diversification strategy and its economic performance, the study revealed that firms which developed through related diversification outperformed both those that remained specialized than those which developed through unrelated diversification. These findings were later questioned by Montgomery, (1982); the findings may not necessarily apply for firms in Kenya due to the different levels of economic development between the two nations.

In Nigeria, Ayedipo, (2012) conducted a study on the effects of Product – Market Diversification Strategy on Corporate Financial Performance and growth, the research concluded that firms that pursue related or unrelated diversification strategies outperform and grow faster than those that attempt to pursue both. Using the triangulation analytical technique involving correlation, multiple regressions, ANOVA, independent sample test and Scheffe Ad Hoc test, it was found that there is a high and positive correlation between financial performance and related diversification strategy; this might not necessarily apply to Kenya firms, given the difference in economic, political and legal position between the two economic regions.

Locally, Mutuma (2013) researched on the influence of expansion strategies on performance of commercial banks in Kenya, the study revealed that market penetration strategies affects performance of tier one commercial banks in Kenya to a great extent, due to the difference in regulations of the commercial banks and the Saccos, the findings may not apply to the Saccos in Kenya. Another study by Mugo, (2014) on financial factors influencing performance of savings and credit co-operatives in Kenya was conducted and the findings revealed that the investment decisions made by Saccos influence their performance to a great extent. Wambua, (2011) researched on corporate governance on the financial performance of Saccos in Kenya, in his findings it was established that Sacco leadership affects the financial performance of the Saccos to a great extent. Based on this review, the researcher has not found a known study in Kenya that has investigated the influence of diversification strategy on performance of Saccos in Kenya,

This study therefore seeks to fill this gap by investigating the influence of diversification strategies on performance of SACCOS in Kenya by carrying out a survey on SACCOs in Nairobi City County. The study seeks to establish, what is the influence of diversification strategies on performance of SACCOs in Nairobi City County, Kenya?

1.3 Research Objective

The research objective of this study was to:-

i) To establish the effect of diversification strategy on Performance of SACCOs in Nairobi City County, Kenya.

1.4 Value of the Study

This study will be beneficial to several stakeholders including among others, SASRA, KUSCCO, Ministry of Co-operatives and other investors. It will be invaluable to regulators like SASRA in its mandate of regulating and supervising the Sacco sector. Additionally, Kuscco, Ministry of Co-operatives and other regulatory bodies will find the study useful for purposes of enacting policies and regulations that would enhance the value and contribution of Saccos to the economic pillar of the Kenya Vision 2030.

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

The findings of this study will contribute to the existing vast body of knowledge in validating diversification strategies 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.

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, costs and strategies, which are both an antecedent and a consequence of firm diversification and firm performance. Literature on diversification strategies and their effect on organisational performance are then reviewed to provide conceptual linkages.

2.2 Theoretical Orientation

There are several theories and models that explain various elements of this study. These theories and model include: resource based view theory, transaction cost theory and Miles & Snow Typology.

2.2.1 Resource Based View Theory

Resource based view theory, (Wernerfelt 1984; Barney 1991; Teece et al., 1997) is based on the assumption that firms undertake deliberate managerial efforts steered towards attaining a sustainable competitive advantage. The approach analyses firms as a collection and sets of resources which idea was began by Edith Penrose in her 1959 seminal work the theory of the growth of the firm" and further advanced by Rubin in his 1973 work on "Expansion of firms". Penrose's theory gave birth to RBV, which later became one of the most dominant approaches to the analysis of sustainable competitive advantage. RBV approach enlists the circumstances under which a firm's resources lead to high returns over longer periods of time using Porter's five competitive forces.

RBV explains the resource-benefits accruing to a firm by envisaging the existence of resource position barriers whereby the holders of a resource are able to maintain a sustainable competitive advantage in relation to other holders and third persons. This is because possession of a resource by one party affects the costs and / or revenues of later acquirers adversely. In such a case the holder can be said to enjoy the protection of a resource position barrier or a first mover advantage (Lieberman & Montgomery, 1988). Just like entry barriers envisaged in Porter's model, resource position barriers do indicate a potential for high returns since one competitor has an advantage over others occasioned by efficiency in the use of resources Montgomery, (1994).

Prahalad and Hamel, (1990) suggests the emergence of large firms because of the success in building distinctive capabilities based on resource capabilities as a source of sustainable competitive advantage. The RBV theory not only provides a prescription for improving a firm's financial performance but also recommends diversification by building on the resource capacities to enter new markets or what Wernerfelt calls the sequential entry strategy. A firms resource position is beneficial by not only creating entry barriers but also directly by supporting diversification in to related activities which provides cost benefits to the firm. Barney, (1991) argue that diversification based on resource capabilities can create economies scope by sharing activities and core competences transfer as a source of sustainable competitive advantage.

The essence of RBV is an action strategy to position a business unit as a foundation for a multi-business firm and emphasizes the firm's ability to exploit the potential synergies between resources to produce higher performance. Therefore potential diversification based on RBV focuses on resource allocation and sharing competencies across different business lines to enhance performance by either cost reduction or by playing competitors out of the market as the absolute volume per period increases Porter, (1980). This exploitation of potential synergies expected from sharing functions, resources and competencies lead to generation of sustainable competitive advantages and thus profitability occasioned by cost reduction. Therefore, the RBV predicts a positive impact of diversification on a firm's financial performance.

2.2.2 Transaction Cost Theory

The theory investigates if a transaction can be undertaken at a lower cost via the market or within the hierarchy of the firm. It consist of the negotiating, monitoring, and enforcements cost which arise when a transaction between two or more parties takes place (Jones & Hill, 2008). The presence of transaction costs causes external motivations for companies to diversify. Six main factors can cause transaction difficulties: bounded rationality, opportunism, uncertainty, small numbers, information impactedness, and asset specificity (Jones & Hill, 2008). Theoretically, in environments where there are no transaction costs, diversification would be a non-value maximization strategy since the resources could be purchased via the market. However, the presence of inefficient markets causes transaction costs, which forces integration. Therefore, the presence of transaction costs is highly dependent on the general economic environment of a country.

An unrelated diversification strategy benefits when it improves the internal capital market of the acquired business. Related diversification focuses on advantages derived from economies of scope Markides, (2002). Besides the benefit differences between related and unrelated diversification strategies, there also exist transaction costs differences between the two strategies. Discrepancies in bureaucratic costs (monitoring, negotiating, and enforcing) to coordinate and control the separate divisions efficiently, are the main cause of the transaction cost differences. "The main determinant of differences in the bureaucratic costs associated with different strategies arises from organizational interdependencies" (Jones & Hill, 2008). When divisions become jointly specialized and share resources in order to realize economy of scope, it becomes more difficult to monitor and control the performance of each individual division.

Related diversification is the most expensive and difficult strategy to coordinate, since it is associated with reciprocal interdependence. More time, effort, and resources have to be allocated in performance monitoring and evaluation activities within the related diversification strategy. Thus, when interdependency increases, bureaucratic costs increase as well (Jones & Hill, 2008). Bureaucratic costs will be the lowest for unrelated diversification. The organizational structure of unrelated diversified firms is often simple and the different divisions function as self-contained units. As a result, this structure of pooled interdependence allows that performance control can take place based on financial criteria (Jones & Hill, 2008). Consequently, bureaucratic costs of monitoring and controlling the divisions are low

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2.2.3 Miles and Snow Typology

Business level strategy is related to how the organisation competes in a given business Hambrick, (1983).Miles and Snow proposed that firms in general develop relatively stable patterns of strategic behaviour in order to accomplish a good alignment with the perceived environmental conditions. Their typology involves four strategy types: defenders, prospectors, analyzers and reactors. The authors have described them as follows:

Defenders

Defenders are organizations which have narrow product –market domains. Top managers in this type of organisation are highly expert in their organisation's limited area operations but do not tend to search outside of their domains for new opportunities, As a result of this narrow focus, these organisations seldom need to make major adjustments in their technology, structure , or methods of operation. Instead they devote primary attention to improving the efficiency of their existing operations.

Prospectors

Prospectors are organizations that almost continually search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends. Thus, these organisations often are the creators of change and uncertainty to which their competitors must respond. However, because of their strong concern for product and market innovation, these organisations usually are not completely efficient.

Analyzers

Analysers are organisations that operate in two types of product-market domains, one relatively stable, the other changing. In their stable areas, these organisations operated routinely and efficiently through use of formalised structures and processes. In their more turbulent areas, top managers watch their competitors closely for new ideas, and then they rapidly adopt those that appear to be the most promising.

Reactors

Reactors are organisations in which top managers frequently perceive change and uncertainty occurring in their organisational environments but are unable to respond effectively. Because this type of organisation lacks a consistent strategy – structure relationship, it seldom makes adjustment of any sort until forced to do so by environmental pressures. (Miles & Snow, 1978)

Once an organisation understand where they fit, Miles and Snow typology offers insights into how to improve an organizations industry position by answering the questions: What functional strategies should the organisation pursue? What type of structure should the organization adopt? How should the Organization make strategic decisions? Miles and Snow Typology is therefore relevant and instrumental in guiding organizations in choosing the type of strategy(s) to pursue, to compete effectively and efficiently and to improve performance of the organisations. Saccos pursuing diversification strategies should classify themselves into; defenders, prospectors, reactors and analysers before making a decision on which strategy to employ.

2.3 Market Diversification Strategies

These are the main strategies that organizations adopt to enhance the performance of the organization. An organization can employ one of the strategy or combine two or the three strategies, they include; Concentric, Conglomerate and Horizontal diversification.

2.3.1 Concentric Diversification

Concentric diversification is diversifying into businesses that possess some kind of strategic fit. Strategic fit exists when businesses have sufficiently related value chains that give rise to important opportunities for example, transferring skills and expertise from one activity to another (Johnson & Whittington 2008). It involves developing beyond one's product but still within the confines of the industry (Kotler & 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 & 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. 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.Saccos are diversifying their portfolios by introduction of new products which are related to their current line of business, offering of quasi banking services, introduction of mortgage facilities to increase the strengths and opportunities that would increase the performance of the Saccos.

2.3.2 Horizontal Diversification

This strategy is employed when new and unrelated products are provided to existing customers and the products are distributed to the customers through the current distribution channels. Under this strategy, the company adds new products or services that are often technologically or commercially unrelated to current products but that they may appeal to current customers. This strategy tends to increase the firm’s dependence on certain market segments, Aicher, Tand Colletti, P (2013). Formation of Housing Co-operatives by Saccos to sell land and houses to its current customers is one example of Horizontal diversification employed by the Saccos in Kenya, to enhance performance of the institution.

2.3.3 Conglomerate Diversification

Conglomerate Diversification Strategy, takes place where a company seeks new businesses that have no relationship with their present business or market operations (Thompson & Strickland, 2006). The key 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 & 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. 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 Saccos venturing into real estate 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 firms 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 & Robinson, 2007)

2.4 Organizational Performance

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.

2.4.1 Diversification and Organizational Performance

The effect of diversification on firm performance has been widely studied .Some studies have shown that diversification improves profitability over time citing a positive relationship (Yan et al., 2010; Hoskisson & Peng, 2005; Wan, 2011), whereas others have demonstrated negative relationship and that diversification decreases performance (Ozbas & Scharsfstein, 2010; Maksmovic & Phillip, 2007). Still others have shown that diversification and performance linkage depends on business cycle. Santalo and Becerra , (2004) explain conceptually and provide empirical evidence that no relationship exists (positive, negative or even quadratic) between diversification and firm performance.

In the words of Daud, Salamudin and Ahmad, (2009), studies in the areas have tended to provide inconclusive results due to inconsistent data, different time frames, different performance measures and moderate variables. Mackey, (2006) argues that the contradictory results are related to; different timeframes, various measures of profitability and different measures of diversification. Andreou and Louca, (2010) assert that the confusion is partly methodological and partly theoretical. However, the diversification- performance puzzle was summarized in the theoretical models outlined above as the theoretical framework is reviewed. In the Sacco industry concentic diversification has taken the form of product diversification, Sacco introduce products related to its current business operations, Saccos are now offering banking services through FOSA (front office service activities) infact, FOSA are seen as the cash cows since the loans offered are not limited to members deposit contribution in the Sacco and that the loan advanced through the FOSA are highly priced in terms of the Interest rate.

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 return. Thus Saccos that have conducted related diversification are expected to gain economies of scale that could create a competitive advantage that would improve the performance of Saccos. Having diversified products / markets can act as a tool to attract and retain new customers; existing customers will have a one stop shop and hence create loyalty and a favourable customer experience. New categories of customers will be attracted due the new products and new markets the Customer satisfaction and loyalty and financial performance is in line with Reichheld and Sasser (1990) findings that increase in customer retention contributes to increase in profitability. Taken together, most researchers have established a link between the length of time the customer stays in relationship with a business and the profitability of the firm.

2.5 Empirical Studies and Extended Research Gaps

Lang and Stulz (1994), in their empirical work on market value and diversification for US firms over 1978 to 1990, find that diversified firms have lower market values than focused firms. This, they suggest, is consistent with the hypothesis that low performing firms tend to diversify to try and improve on performance. However, the result is based on cross sectional associations. When they analyse changes in a firm's market value and changes in its level of diversification they find no association. Recent Australian empirical work has used the IBIS data base Bosworth et al (1997) use data for 1989 to 1994 and a Herfindahl measure of diversification. Using a fixed effects panel estimator, they find that more focused firms have higher profitability. This result uses a sample that excludes loss-making firms. Feeny and Rogers (1999), using simple OLS, again find that more focused firms have higher profitability if the sample excludes loss-making firms.

In the research paper "International expansion strategy of Japanese firms; Capability building through sequential entry” Kumar, (2008), has shown that firms with more line of business (LOB), horizontal business group (H.B.G), Vertical business group (VBG) have greater advantage. A study by Sajid, (2009) investigating Pakistani firms which had undertaken diversification strategy and those which had not diversified which was carried out by collecting data from Pakistani firms in a sample of 8 diversified and 8 undiversified listed firms of KSE-100 index from year 2004 to 2009, the results of the diversified and undiversified firms in regression analysis showed that there is no multi collinearity between the variables. Diversified firm are more risky than the undiversified firms, however, the diversified firms have higher leverage than undiversified strategic firms.

A study in Nigeria by Oyedijo on Nigerian companies in the year (2012) in relation to specialization, related, unrelated and mixed product-market strategies was conducted. The findings indicated that firms that pursue related or unrelated diversification strategies outperform and grow faster than those that attempt to pursue both. Using the triangulation analytical technique involving correlation, multiple regressions, ANOVA, independent sample test and Scheffe Ad Hoc test, it was found that there is a high and positive correlation between financial performance and related diversification strategy. Related diversifiers had a relatively higher level of financial performance than unrelated and mixed diversifiers. A marginal correlation was found between unrelated and mixed modes of diversification and financial performance and sales growth. The findings also showed that related diversification has a significant impact on performance, while unrelated diversification has a negative but non-significant impact on performance and growth. Locally, Mutuma (2013) researched on the influence of expansion strategies on performance of commercial banks in Kenya, the study revealed that market penetration strategies affects performance of tier one commercial banks in Kenya to a great extent.

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 framework 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). In this study the researcher employed descriptive study. Descriptive survey design was appropriate for this research, because the researcher was able to get a detailed and highly accurate picture of the way things are. The technique gave a vivid descriptive account of the strategies identified and how they relate to the Sacco performance.

3.3 Study Population

The study comprised the specific items about which information is desired. According to Ngechu, (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. The study used census study methodology on 35 Saccos offering financial services in Nairobi City County for the period ending December 2015.

3.4 Data Collection

Primary data was collected by use of semi-structured questionnaires containing both closed and open-ended questions covering various diversification and performance related issues employed by Saccos to gain competitive advantage over their rivals and subsequently improve on their performance. The questionnaires was close ended because it help in the collection of large volumes of data within a short period of time and was easy to administer Robson, (2002). The respondents were the managers heading Sacco departments and directors of business development committees in the Saccos, who are actively involved in firm's strategy formulation. Face to face interviews and drop and pick and emailing methods was used to administer the questionnaires. Follow up was made through personal visits, telephone calls and e-mail to enhance response rate.

3.5 Validity of the Research Instruments

Validity has to do with whether the research instrument is measuring what it is intended to measure. The researcher use content validity to examine whether the instruments answered the research questions (Borg & Gall, 1996). Further, validity of the research instrument were tested for internal consistency by use of Cronbach's Alpha (α) with a 60% acceptance level. The Cronbach (α) indicates the extent to which a set of test item were treated to measures a single variable Cronbach, (1951). A cut – off value of 0.76 is recommended for validity.

3.6 Reliability of the Research Instruments

Reliability is the degree to which an assessment tool produces stable and consistent results Wiersma, (1996). In this study, reliability will be achieved by test-pretesting interview questions, using fixed-choice responses, and systematically collecting data for others to review where necessary. The research questionnaire will be reviewed by professional colleagues and contains questions that will be test-retested.

3.7 Data Analysis

The data was coded and checked for any errors and omissions Kothari, (2004); tabulation and analysis will be done using Statistical Package for Social Science (SPSS) software and Excel. Descriptive statistics such as frequency distribution, measures of central tendencies that is mean, standard deviation and percentages will be used to analyse the demographic data. Research questions were analysed using descriptive statistics. Tables, charts and graphs will be used to present the responses for each item used. The number of persons among the total group giving responses will be converted to percentage value.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data sought, the analysis done and the results obtained. The data was analyzed based on the specific objective to be met and the variables selected for the study. The analysis was based on the study objective which was to establish the effect of diversification strategy on Performance of SACCOs in Nairobi City County, Kenya.

4.2 Response Rate

Of the 35 questionnaires that were distributed to the Saccos, 29 useable questionnaires were returned in good time, giving a response rate of 82.9%. This response rates were sufficient and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. The chapter covered the demographic information, and the findings are based on the objective.

4.3 General Characteristics

The general information considered in the study was respondents' highest level of education attained, length of service in Sacco industry, duration of Sacco in Kenya and number of Sacco branches.

4.3.1 Length of Continuous Service

This is the duration of continuous service that the respondents had worked at the Sacco industry. The result is represented in Table 4.1.

Table 4.1 Length of Continuous Service

Years	Frequency	Percent	Cumulative Percer

4.3.2 Highest Level of Education

The level of education attained by the respondents was important as it is an indicator of their capacity to understand the strategic level decisions made by the Saccos and therefore be in a position to answer the questions appropriately on the diversification strategies and its effect on the performance of Sacco. The results are presented in Figure 4.2.

Table 4.2: Highest Level of Education

Level of Education	Frequency	Percent	Cumulative Percent
Degree	13	55.2	55.2
Postgraduate	11	24.1	79.3
Others	5	20.7	100.0
Total	29	100.0	

The findings shows that 55.2% of the respondents were degree holders while 24.1% of indicated that they have postgraduate qualification while only 20.7% indicated that they had other lower grade qualification. This findings implies that over 79% of the respondents had university education and therefore knowledgeable enough to understand and answer the questions in the questionnaires appropriately as well have give their personal opinions on the open-ended questions.

4.3.3 Number of Branches Operated by the Sacco

The respondents were requested to indicate the number of branches the Sacco operates in Kenya. This was important for the study as the number of branches the Sacco operates gives an indication on the size of the Sacco and customer base it has and therefore provides a measure on the market, as form a form of performance that the Sacco commands. The results are presented in Table 4.3 below.

Table 4.3 Number of Branches

Number of Branches	Frequency	Percent	Cumulative Percent
1 – 3	13	44.8	44.8
4 – 6	11	37.9	82.7
Over 10	5	17.3	100.0
Total	29	100.0	

The results show that majority of the Saccos (44.8%) had between 1 and 3 while 37.9% of the respondents indicated that its number of branches as being between 4 to 6 outlets. This results show that majority of the organization fall under small category as defined by SASRA (2012) since they have less than 5 operational branches. Only 17.3% of the Saccos had more than 10 branches and this are considered as large Saccos. This findings on the smaller number of branches that the Saccos operate can be attributed to the fact that majority of the Saccos target particular specific members from a particular firm and have their operations centered at the headquarters and also because of the small number of staff in these organizations that make opening of more branches uneconomical.

4.3.4 Duration of Sacco Operation

The duration in which the Sacco had operated in Kenya was important for the study as it showed the age of the organization and therefore capacity to understand the market dynamics of the firms which can be attributed to the adoption of appropriate marketing strategies that enabled it to survive in the competitive market environment.

Table 4.4: Duration of Sacco Operation

Years	Frequency	Percent	Cumulative Percent
Under 5	4	13.8	13.8
6 – 10	14	48.3	62.1
Over 10	11	37.9	100.0
Total	29	100.0	

The results show that 48.3% of the Saccos had been in operation for a period of between 6 and 10 years while 37.9% of the respondents said that their Saccos had been in operation for a period of more than 10 years. Only 14% of the firms had been in operations for less than 5 years. The findings indicate that majority of the Saccos have been in operation in Nairobi for more than 6 years and therefore understand the local market trends and the need for diversification in order to improve its performance.

The findings also showered that majority of the Saccos had over Ksh 150 M as their asset base though those organizations that had more than 5 branches had an asset base of more than Ksh 500m. This means that there exist a correlation between the branch network performance and the Sacco asset base. This position was also found to exist with the Sacco membership whereby it was found that the higher the membership base, the higher the asset base as well as the branch network. This is meant to improve faster customer service and increased customer attention by the Sacco staff.

4.4 Diversification strategy

The business environmental under which the Saccos in Nairobi operate keep on changing as new entrants join in to offer the same products and also as the Saccos open its membership to include persons outside it's sector. On the question of whether the Saccos had diversified its business operations, majority (86.2%) of the Saccos answered in the affirmative. Using diversification strategy, the Saccos are able to utilize all its capabilities or resources, and be able to venture into new business market segments not catered for earlier. The Saccos were found to have diversified into unrelated ventures such as home refurbishing, house construction, land purchasing, taxi services, parcel delivery, products range and diversity of system modules to enhance efficiency and operations monitoring. These diversification was aimed at enhancing their revenue base and also cater for the different needs of the customer base.

4.4.1 Factors Influencing Adoption of Diversification Strategies

The respondents were requested to indicate the factors that influence the adoption of diversification strategies in a five point Likert scale. The range was 'not at all (1)' to 'very great extent' (5). The scores of not at all have been taken to represent a variable which had mean score of 0 to 2.5 on the continuous Likert scale; (0≤ S.E <2.4). The scores of 'moderate' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤ M.E. <3.4) and the score of both great extent and very great extent have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤ L.E. <5.0). A standard deviation of >0.9 implies a significant difference on the impact of the variable among respondents. The results are presented in Table 4.5.

Table 4.5: Factors Influencing Adoption of Diversification Strategies

Reasons for diversification	Mean	Std. Deviation
Increasing profitability by exploiting general organization competencies	4.385	.768
The Sacco possesses the required resources, such that corporate diversification is economically feasible	3.769	.927
Building share-holder value	3.692	.751
Diversification into whatever industries and businesses that hold the promise for attractive financial gain	3.615	1.557
In order for the Sacco to reduce risks	3.508	1.251

The Sacco is facing profit erosion in its current operations	3.154	1.519
The business environment lacks the necessary institutions and factors to compete successfully	3.077	1.382

The results show that the common reason for diversification among the Saccos was the need to increase profitability by exploiting general organization competencies (M=4.385) followed by the realization of the Sacco possessing the requisite resources such that corporate diversification is economically feasible (M = 3.769) and also to the need to build the share-holder value (M = 3.692). The low standard deviation among the respondents on the major reasons for undertaking diversification shows that there was concurrence among them to the reason for adopting the diversification strategies. However, the results found that the Sacco facing profit erosion from competition (M = 3.514) and a lack of necessary institutions and factors to compete successfully (M = 3.077) was found to be the least of the reasons why the Saccos were engaging on diversification strategies. From the results, the main reason for diversification by the Saccos was to effectively utilize resources, financial resources, and in the process generate improved income to its members.

4.4.2 Types of diversification

Diversification strategies are one of the few strategies consistently used by corporate management to respond to environmental changes. Companies employ different diversification strategies to expand firms' operations by adding markets, products, services, or stages of production to the existing business for better results.

The researcher also sought to find out the different types of diversification strategies pursued by the Saccos and the results are presented in Table 4.6.

Table 4.6: Types of Diversification Strategies

Types of diversification	Mean	Std. Deviation
Horizontal diversification (firm enters a new business, either related or unrelated)	3.723	.862
Conglomerate diversification/Lateral diversification (company targets a new segment of customers, instead of catering to its existing loyal customers)	3.169	1.092
Concentric diversification (the technology used in the industry remains the same, while the marketing plan changes to a significant extent)	3.062	1.050

The results in Table 4.6 show that majority of the Saccos adopt horizontal diversification strategy (M = 3.723) where upon they enter new business lines but still pursuing the existing core service line. The respondents were however in agreement to a moderate extent that conglomerate diversification (M = 3.169) and concentric diversification (M = 3.062) the less adopted diversification strategies among the Saccos, though common. The results show that the Saccos pursue different diversification strategies and this can be attributed to the product/service in which the Sacco has diversified to.

4.4.3 Benefits of Diversification to the Saccos operations

Different organizations pursue diversification strategies with an aim of improving their operational capacity. The researcher sought to find out how the Saccos had benefited from the diversification that they had pursued. The findings are presented in Table 4.7 below.

Table 4.7: Impact of diversification on Sacco operations

Impact of diversification	Mean	Std. Deviation
Increase in Sacco revenues.	4.539	.660
Increased customer base/market share.	4.385	.768
Increased product holding index per customer.	4.231	.927
Reduced Transactional Costs due to enhanced bank operating systems.	4.154	.689
Improved customer satisfaction and retention.	3.692	1.182

The findings show that the common benefit to the Saccos, as a result of diversification is the increased revenues to the firms (M = 4.539) and also the increase in the customer base (M = 4.385). However, the least benefit to the firms was increase in customer satisfaction and retention level. Other benefits derived by the Saccos, to a moderate extent, from the diversification strategies include reduced transactional costs as well as increased product holding index per customer

4.5 Influence of Diversification Strategies on Performance

The researcher sought to establish from the respondents, what influence diversification strategies that had been employed by the Saccos had had in the organizational performance. The results are presented in Table 4.8.

Table 4.8: Influence of diversification on operational Performance

Performance	Mean	Std. Deviation
Our product/service quality has improved for the last 5 years	4.539	.660
The Saccos profit has been improving over the past 3 years	4.385	.768
Diversification strategies have increased the firm's asset base	4.308	.751
Customer satisfaction has improved greatly	4.308	.630
The Saccos Market share has been improving over the years	4.077	.954
The firm's capabilities and knowledge have improved due to the firm's expansion strategies	3.923	1.188
The firm's profitability ratios have improved significantly over the past 3-5 years	3.923	1.116
The Sacco has introduced new products in the last three years	3.846	1.144
The Sacco has opened branch(es) in the last 3 years	3.692	1.316

Costs associated with running the business have disproportionately increased in the past 3-5 years	3.615	.870

The results from the study show that indeed, the Saccos have benefited from different aspects of their operations as a result of diversification. The study found that there has been an increased product and service range offered by the Saccos (M = 4.39) and this has led to improved profitability (M = 4.385) and because of the increase in customer base, the asset base of the Saccos was also found to have improved over the last five years (M = 4.308). To a large extent, the study also found that the Saccos customer satisfaction level had improved as well as the market share (M = 4.077). However, the least effect that diversification had had in the operations of the Saccos was found to be disproportionate increase in the costs associated with running the business in the past 3-5 years (M = 3.615) and also that diversification had led to the Sacco opening new branches.

4.5 Discussion of the Findings

The objective of the study was to establish the influence of diversification strategies on performance of savings and credit co-operatives societies in Nairobi City County, Kenya. The study findings have reinforced the importance of diversification of an organizations products and services in order to remain competitive and adapt to the changing business environment. As Johnson and Whittington (2008) point out, in the present day business environment that is characterized by new entrants joining the already existing diminishing market, there is need for business entities to come up with appropriate strategies that will preserve its market share as well as grow its income streams. One of these strategies is diversification that involves venturing into a different business line. Most firms enter into any industry where top management spot a good profit opportunity. The basic premise of diversification is that any business line can be acquired on good financial terms represents a good business to diversify into. Consequently, much time and effort goes into finding and screening acquisition candidates.

In the case of the Saccos, the new business lines that were found to have been entered into include home refurbishing, house construction, land purchasing, taxi services, parcel delivery, products range and diversity of system modules to enhance efficiency and operations monitoring. These new ventures represent unrelated diversification strategy and as Datta *et al., (*2011) opine, these strategy is adopted mostly by organizations that are experiencing profit erosion from their traditional product range. This position is in line with the current Sacco operating environment.

The reasons why Saccos adopt diversification strategies are varied. The study found that the need to need to increase profitability by exploiting general organization competencies as well as the realization of the Sacco possessing the requisite resources that need to be harnessed for improved performance came out as a dominant reason among the firms. All these were aimed at increasing the shareholder value. Indeed as Westerfelt (1984) and further by Barney (1991) opined in the Resource Based Theory (RBV), the source of a firm's competitive advantage lies in their internal resources and capabilities as opposed to their positioning in the external environment. It is therefore much feasible to exploit external opportunities using existing resources in a new way rather than trying to acquire new skills for each different opportunity. This therefore makes adoption of appropriate diversification strategies a good move for a business entity.

The benefits of diversification to the Sacco are varied and include improved customer satisfaction and retention, improved revenue streams and therefore reduction of risk, reduced transactional costs due to enhanced bank operating systems as well as increased customer base. Moreover, the need to minimize risks from fluctuating profit, the need to harness Sacco characteristics and general economic environment influence the Saccos to pursue diversification strategies. As Lang and Stulz (2004), in their empirical work on market value and diversification for US firms over 1998 to 2002 found, diversified firms have lower market values than focused firms and this research findings is consistent with the hypothesis that low performing firms tend to diversify to try and improve on performance and therefore with increased competition in the Micro Finance Institutions and the Capping of the interest rates by the Kenyan government, which will have a ripple effect on the Sacco sector, the organizations will have to come up with appropriate strategies to shore up their operations. However, the study findings are inconsistent with that of Oyedijo (2012) while researching on Nigerian companies and found that firms undertaking specialization, related, unrelated and mixed product-market strategies firms were found to outperform and grow faster than those that attempt to pursue both. This is because, in the case of Saccos in Nairobi, those that had mixed strategies were found to perform better than those that specialized on only a single product line. This can be explained by the untapped opportunities that still exist in the country such that the ventures undertaken by the Saccos resulted in better returns.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Findings

In summary, the study shows that the respondents were knowledgeable on the diversification strategies adopted by the Saccos and this could be attributed to their level of education and the length of continuous service that the respondents had worked with the organizations and coupled with the fact that most of them held middle and top level management position in their respective Saccos, there were found to be resourceful in the attainment of the research objectives. All the Saccos sampled were found to have adopted one form of diversification, whether related or unrelated in their operations.

The study established that the reasons advanced by the Saccos for adopting diversification strategies were varied and include attractive financial gain, availability of internal resources which makes diversification economically feasible, the need to gain from superior skills of top management people, build shareholder value, profit erosion in maturing markets, in order for the company to reduce risks, in order to increase profitability by exploiting general organization competencies, and the business environment lacking the necessary institutions and factors to compete successfully. Further, it was found that industry profitability, firm characteristics and general economic environment influence the Saccos to pursue diversification. The study also found that most of the Saccos had adopted unrelated diversification strategies, through investment in business ventures outside their core function of mobilizing members' savings and advancement of loans to the clients. This move could be driven by earlier studies that find a direct relationship between diversification and firm performance as evidenced by improved customer service level

The study established that the diversification strategies adopted by the Saccos over the last five years had positively affected the performance of the Saccos. As Kaplan and Norton postulated in their balance score card, the performance of an organization should be determined using both financial and non-financial measures. The findings were that diversification strategies adopted by Saccos were found to have increased service quality due to the increased customer base that brings in enlighten group that will demand better services, the profitability of the Saccos was also found to have improved over the five years as a result of diversification as well as the organization asset base. Further has a result of diversification, it was found that the Sacco branch network had increased to meet the increased customer base as well as better utilization of the firms' capabilities and knowledge asset.

The results indicate that the pursuant of d diversification strategy by the Saccos was in harmony with both resource based view and the transaction cost theory. According to the resource-based view, a company should leverage its strategic assets and core competences among its businesses in order to realize economies of scope. Furthermore, the resource-based theory demonstrates that the company needs to possess essential resources in order to make diversification economically feasible. Therefore, the direction of corporate diversification is dependent on the type of resource availability. The transaction cost theory explains the rationale for a firm to execute a transaction internally or via the market. However, transaction costs are very dependent on the general economic environment in which the company is located.

5.2 Conclusion

Based on the objectives and the research questions it was possible to conclude that the Saccos operating in Nairobi have employed different diversification strategies in their operations by venturing into different business lines outside their core function. This was found to emanate from the different internal resources that the firms have. This leads to the conclusion that the internal resources that a firm has determines the diversification strategy that the Sacco adopts and one strategy adopted by one Sacco cannot be applied the same way in another Sacco.

The study also established that different Saccos enjoy different benefits from the diversification strategies adopted and this could be as a result of the customer base and the size of the Saccos. This means that the degree of the benefits out of the diversification process is dependent upon the growth stage of the Sacco as well as the industry that the Sacco operates in. industry profitability, co-insurance effect, firm characteristics and general economic environment influenced the insurance companies to pursue unrelated diversification. This means that the level of growth stage determines the firm's strategy and consequently the resultant outcome from the benefit.

The findings of the study further showered that the non-financial performance measures such as improved customer satisfaction, improved knowledge base, product quality and introduction of new product range came out dominantly as the performance measures that to a large extent improved over the last five years. This means that the present day firms cannot only be pre-occupied with financial performance but also non-financial performance. Indeed such non-financial organization measures are assuming a greater role in determining a firm level of competitiveness.

5.3 Recommendations

Saccos and other organizations should pursue diversification strategies as a strategic goal which businesswise is health as business risks are spread over different business lines. Capital resources are effectively allocated bringing back stable profits and even enhanced shareholder value. Emerging attractive business opportunities can only be utilized through the application of diversification strategies which increases shareholders' financial gains.

5.4 Suggestions for Further Research

Since the researcher focused in general on diversification strategies and its effect on Saccos performance, it is recommended that a narrow investigation of diversification, specifically related or unrelated diversification should undertake focused diversification might have more benefits that unguided strategy.

5.5 Limitation of the Study

The results drawn from this study should be interpreted with the limitations in mind. The most challenging limitation was the sample-size of the study. In order to gain more exact results, the sample-size should have been larger; perhaps more Saccos that are not registered with SASRA or even that operate outside Nairobi.

The study used key informants who are managers in the respective Saccos and work in Nairobi. This put constraints on the generazability of the results to other Saccos in other parts of the country. The sample selection may also limit the generalization of results to the overall population. The narrow and specific focus of this study means the results are limited to Saccos only which may not translate to other industry and national contexts. Another limitation is that as with other research that uses questionnaire as the instrument to collect data, there may be a problem of social desirability. Some respondents may have the tendency to exaggerate or provide responses deemed to be desirable by others, instead of giving honest responses. Similarly, given the sensitive nature of the data collected, there may have been likelihood of answering questions in a certain way so as to avoid giving away crucial and confidential strategic secrets that could be used by the competitors to gain competitive advantage. Failure to get 100% response rate could mean that some information vital in determining the factors leading to choice of diversification strategies were not given.

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APPENDIX 1: QUESTIONNAIRE

Introduction

The statements below are intended to gather information on diversification strategies and performance of Saccos in Nairobi City County. 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 A (i): GENERAL INFORMATION

1. What is the name of your Sacco...?

2. What Position do you hold in the Sacco ……………………………………...

3. Length of continuous service with the Sacco industry

a) Less than five years ( )

b) 5-10 years ( )

c) Over 10 years ( )

4. Highest Level of education

a) Diploma ( )

b) Degree ( )

c) Postgraduate ( )

d) Others ( )

SECTION A (ii) SACCO GENERAL INFORMATION

6. How many branches does your Sacco have?

a) 1- 3 Outlets ( )

b) 4 – 6 Outlets ( )

c) 7 – 10 Outlets ( )

d) Over 10 Outlets ( )

7. For how long has your Sacco been in existence?

a) Under 5 years ( )

b) 6 – 10 years ( )

c) Over 25 years ( )

8. What is the asset base of your Sacco? ....

9. What is the total membership of your Sacco? ....

SECTION B: DIVERSIFICATION STRATEGIES AND PERFORMANCE OF SACCOS.

9. Has your Sacco adopted any diversification strategy?

Yes ( )

No ( )

10. If yes above, highlight the type of diversification(s) strategy that your Sacco has employed…………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………..

11. To what extent did the following factors influenced your Sacco to adopt diversification strategies? Use 1-Not at all, 2-Small extent, 3-Moderate extent, 4-Great extent and 5-Very great extent.

Reasons for diversification	**1**	**2**	**3**	**4**	**5**
Diversification into whatever industries and businesses that hold the promise for attractive financial gain					
The business environment lacks the necessary institutions and factors to compete successfully					
The Sacco is facing profit erosion in its current operations					
Increasing Profitability by exploiting general organization competencies					
In order for the Sacco to reduce risks					
The Sacco possesses the required resources, such that corporate diversification is economically feasible.					
Building share-holder value					

12. To what extent do the following strategies affect the performance of the Sacco?

Types of diversification	Very great	Moderate extent	Small extent	No extent

	extent			
Concentric Diversification (the technology used in the industry remains the same, while the marketing plan changes to a significant extent)				
Horizontal Diversification (firm enters a new business (either related or unrelated)				
Conglomerate Diversification /Lateral Diversification (company targets a new segment of customers, instead of catering to its existing loyal customers)				

13. In the table below indicate the extent to which each of the variables has benefited from the Saccos diversification strategies in a scale of 1 to 5

Impact of diversification	**1**	**2**	**3**	**4**	**5**
Improved customer satisfaction and retention.					
Increased product holding index per customer.					
Reduced Transactional Costs due to enhanced bank operating systems.					
Increase in Sacco revenues.					
Increased customer base/market share.					

Section C: Performance

14. 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**
Diversification strategies have increased the firm's asset base					
Costs associated with running the business have disproportionately increased in the past 3-5 years					
The Saccos profit has been improving over the past 3 years					
The Sacco has introduced new products in the last three years					
The Sacco has opened branch(es) in the last 3 years					
The firm's capabilities and knowledge have improved due to the firm's expansion strategies					
The Saccos 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					

15. Comment on your Saccos performance in last 3-5 years……................................

……………………………………………………………………………………………
…………………………………………………………………………………………...

16. Do you feel that Diversification strategies played a key role in the performance of the Sacco?...

……………………………………………………………………………………………
……………………………………………………………………………………………

APPENDIX II: LIST OF SACCOS IN NAIROBI COUNTY

No.	Name of the Sacco	E-mail Address	Physical Location
1	Afya Sacco Society Ltd	info@afyasacco.com	Afya Centre tomboya street
2	Ardhi Sacco Society Ltd	info@ardhisacco.com	Off Thika Road, Survey of Kenya Field Hqs Building
3	Asili Sacco Society Ltd	info@afyasacco.com	Afya Centre tomboya street
4	Chai Sacco Society Ltd	info@chai -sacco.co.ke	KTDA Plaza Junction, Moi Avenue/Ronald Ngala
5	Chuna Sacco Society Ltd	chunasacco@yahoo.com	Harry Thuku Road
6	Fundilima Sacco Society Ltd	fundimiliasacco@yahoo.com	JKAT Bldg, Thika Rd
7	Harambee Sacco Society Ltd	info@harambeesacco.com	Harambee Co-op Plaza, Harambee Avenu
8	Hazina Sacco Society Ltd	info@hazinasacco.com	Kibera Rd.Off Ngong Rd
9	Jamii Sacco Society Ltd	info@jamiisacco.com	Jamii Sacco Court,Mukenia Rd
10	Kenpipe Sacco Society Ltd	Kenpipesacco.com	Kenya Pipeline Premises,Lunga Lunga Rd

11	Kenya Bankers Sacco Society Ltd	kenyabanker@kbsacco.co.ke	Kenya Bankers Sacco,3rd Ngong Avenue
12	Kenya Police Sacco Society Ltd	info@police Sacco.com	Kenya Police Sacco Plaza, Ngara
13	Kenversity Sacco Society Ltd	info@kenversitySacco.coop	Mizpah House, Kahawa Sukari
14	Kingdom Sacco Society Ltd	info@kingdomsacco.com	Githurai 45 shopping Center, Off Thika Rd
15	Miliki Sacco Society Ltd	Orthodoxsacco@gmail.com	Odesac Bldg, Kawangware Rd
16	Mwalimu National Sacco Society Ltd	mwalimu@mwalimusacco.com	Mwalimu Co-op House, Tom Mboya St
17	Mwito Sacco Society Ltd	mwito@iconnect.co.ke	Mwito House, Desai Rd
18	Nacico Sacco Society Ltd	info@nacico-coop@gmail.com	Nacico Plaza, Landhies Rd
19	Nafaka Sacco Society Ltd	Nafakasaccosociety@yahoo.com	Nyumba ya Nafaka, Enterprise Road
20	Nassefu Sacco Society Ltd	info@nassefusacco.com	NSSF Bldg, Bishops Rd
21	Nation Sacco Society Ltd	nationsacco@ke.nationmedia.com	Cambrian, Moi Avenue
22	Naku Sacco Society Ltd	info@nakusacco.com	Liberty Plaza, Mombasa Rd

23	Safaricom Sacco Society Ltd	sacco@safaricom.co.ke	Safaricom House, Waiyaki Way
24	Sheria Sacco Society Ltd	sheriasacco@yahoo.com	Sheria Sacco House, off Matumbato st.
25	Shirika Sacco Society Ltd	info@shirikasacco.co.ke	Shirika Co-op Hse, Kipande/Ngara Rd, Nairobi City
26	Stima Sacco Society Ltd	generalmanager@stimasacco.com	Stima Sacco Plaza, Mushembi Rd
27	Tembo Sacco Society Ltd	info@tembosacco.co.ke	Tembo Complex ,Mukima Drive
28	Ufanisi Sacco Society Ltd	ufanisi@agrifinance.org	Development House, Moi Avenue
29	Ukristo Na Ufanisi Wa Angalicana Sacco Society Ltd	ukristonaufanisi@yahoo.com	ACK Emmanuel Church, Gitanga Road
30	Ukulima Saco Society Ltd	ukulimasacco@yahoo.com	Ukulima Hse,Haille Selassie Rd
31	Unaitas Sacco Society Ltd	info@muramatisacco.co.ke	Muramati Building, Hospital Road
32	United Nations Sacco Society Ltd	unsacco@unon.org	Un Sacco Building, Un Avenue

33	Wanaanga Sacco Society Ltd	wanaanga@yahoo.com	Metrological Headquaters, Ngong Road
34	Wanandege Sacco Society Ltd	info@wanandegesacco.com	Wanandege Plaza, Embakasi
35	Waumini Sacco Society Ltd	info@wauminisacco.com	Waumini House, Chiromo Road

Source: Kenya Co-operative Directories