INFLUENCE OF EXPANSION PROGRAMS ON THE PERFORMANCE OF COMMERCIAL BANKS: THE CASE OF BANKS IN NAIROBI COUNTY, KENYA

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DECLARATION

This Research Project Report is my original work and has not been submitted for any awarding any University.

Signed……………………… Date…………………..

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

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DEDICATION

I dedicate this Research Project report to my beloved wife Margaret and our son Ethan, my parents, Mr and Mrs. Kabutu.

ACKNOWLEDGEMENT

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ABBREVIATIONS AND ACRONYMS:

ATM:	Automated Teller Machine
CBK:	Central Bank of Kenya
CMA:	Capital Markets Authority
CRB:	Credit Reference Bureau
GDP:	Gross Domestic Product
IRA:	Insurance Regulatory Authority
MOU:	Memorandum of Understanding
NACOSTI:	National Commission for Science, Technology and Innovation
NSE:	Nairobi Securities Exchange
RBA:	Retirement Benefits Authority

ABSTRACT

This study sought to establish the influence of expansion programs on the financial performance of commercial banks in Nairobi County, in Kenya. The study aimed at establishing whether the financial performance of the commercial banks is influenced by the banks decision to invest in expansion programs. The study sought to answer the following research question, how does Opening of new branches influence the performance of Commercial banks in Nairobi County? How does Growth in Customer Base influence the performance of Commercial banks in Nairobi County? To what extent does Growth in Loan book influence the performance of Commercial banks in Nairobi County? To what extent does portfolio diversification influence the performance of Commercial banks in Nairobi County? Descriptive research design was employed to establish what influence the independent variables have on the dependent variable. The target population comprised of selected employees in specific job cadre from the eleven listed commercial banks. All the 55 senior commercial banks managers were interviewed. For a bank to qualify it needed to have been listed in the NSE and must have had been in operation during the entire period of the study. The selection of the respondents followed purposive sampling procedure; this is so as to ensure only employees conversant with expansion programs were interviewed. The sample size comprised of the entire populations of 50 respondents. This was so because the target population was less than 100. The 50 respondents were arrived at after dropping 5 respondents who took part in the pilot testing. In the study both primary and secondary data collection techniques were used. Questionnaires were administered to the sampled group. Document analysis was used to obtain variable information specifically from audited financial statements. Data collected was analyzed using SPSS and the findings presented using descriptive statistics. Frequency tables were used to analyze the background data on age, level of education, number of years of experience. In the study 47 out of 50 (96%) respondents responded thus satisfying the data collection criteria. The study found out that there is a positive relationship between expansion programs and the performance commercial banks in Nairobi County, in Kenya; however, some of the coefficients were not significant. Expansion in growth of loan book was found to have the highest influence on the performance of the commercial banks with a coefficient of 0.502 followed by growth in customer base at 0.487.Portfolio diversification and Opening of new branches have the least influence at 0.179 and 0.01 respectively. The coefficients on Opening of new branches and portfolio diversification were found not to be significant. The coefficients on both growth on customer base and Loan book are significant. The study recommends that the banking sector and central government ensure expansion programs be implemented and an optimal mix be established on a case by case basis.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Maxwell (1995) observed that Banking sector in all economies, be it developing or developed economy is the most important economic component. It is in right of this importance that the expansion or growth of commercial banks has been argued to be vital to the growth of the economy. This argument is true since it's the main role of the banks to provide capital. Capital is one of the main factors of production.

A look at the history of the commercial banks in various countries shows that the banking sector has undergone various stages. According to the Federal Reserve history, the U.S. financial systems have continuously been regulated throughout time. The National Bank Act was put in place in order to limit the type of services provided by the banks. The McFadden Act limited interstate branch banking, i.e. bank size and geographic diversification. The Glass-Steagall Act, differentiated between commercial and investment banks. The Act dictated that the Commercial banks could not take the business underwriting securities, while firms dealing with securities were not allowed to do commercial banking. The Bank Holding Company Act prohibited banks from affiliating with companies engaged in commercial activities.

Currently, the regulations have been lifted with the banking sector peaking up very well. This is despite the fact that in the recent years, banks have operated in unpredictable business environments. The business environmental unpredictability has forced the banks to come up with strategies in response to the needs of their clients. This has helped the banks to remain relevant.

Strategic strategies aligned to position the commercial banks appropriately to respond appropriately and efficiently to the banks clients' needs have been developed. Costa (2010) in his study of strategic planning and environmental scanning in the multi-unit Portuguese hotel sector observed that for the hotels to expand, they needed to address challenges, risks and limitations while responding to the opportunities, resulting from the

environment. This also applies to the banking sector, it is in right of this that the banks have adopted various expansion programs, well described as programs meant to improve the banks' ability to reach to the larger population. According to equity bank CEO (2007), in his annual report, the banks expansion program can be viewed in terms of additional in number of branches, ATMs and point of sale terminals, the growth in customer base, growth in loan book as well as portfolio diversification.

The commercial banks expansion programs presents potential benefits as well as drawbacks, most banks normally take the risk of expanding their businesses. The expansion programs adopted constitute major projects that involve huge capital investments consuming a lot of other resources such as human labor. The central problem for a commercial bank contemplating expansion of its business is what the influences the expansion programs have on the commercial banks financial performance. It is not clear whether increase in size automatically bring about corresponding better financial performance.

Profitability is the measure of commercial banks financial performance. Vieira (2010) describes profitability as the ability to generate income after incurring expenditure and other costs in a particular period of time. The importance of the banks' profitability is mainly because the commercial bank stakeholders are interested in dividends and the appreciation in the market price of their investment as well as the accessibility and efficiency of the banking services. This makes the stakeholders pay close attention to the banks financial performance. Managers on the other hand are interested in measuring the operating performance in terms of profitability. Lastly, the government is interested in ensuring that its citizens have better access to banking services in all regions to ensure equitable distribution of resources.

In Kenya the Central Bank of Kenya is the regulatory authority for all banks. It maintains data base for all banks. In Central banks 2014 financial report it was stated that as of 31st December 2014, the banking sector comprised of the Central Bank of Kenya, as the regulatory authority, 44 banking institutions, among which 43 are commercial banks and

1 is a mortgage finance company MFC. There are also 7 representative offices of foreign banks, 9 Microfinance Banks (MFBs), 2 Credit Reference Bureaus (CRBs), 13 Money Remittance Providers (MRPs), 87 Foreign Exchange (forex) Bureaus and 101 forex bureaus. Out of the 44 banking institutions, 30 locally owned banks comprise 3 with public shareholding and 27 privately owned while 14 are foreign owned. Further, 11 of the 44 banking institutions are listed on the NSE. This is in line with the Kenyan government vision 2030, in establishing a relationship with the banking sector in its efforts to establish banking facilities that are not only reliable but also accessible. In the Vision 2030 blue print, facilitation of the banking sector transformation to bring in fewer but stronger and larger banks has been identified as a flagship project. (Otieno and Ndung'u 2010).

Expansion programs are the projects/activities in which growth is obtained by increasing the number of stores or services to which customers can buy a company'sproducts and services. In the banking sector, Expansion programs are those projects aimed at increasing customers' ability to access the banks services. These includes opening additional branches, ATMS and point of sale terminals, market development geared towards growth in customer base, New product development expected to ensure growth in loan book as well as portfolio diversification this is according to Equity bank CEO Annual report (2007).

Expansion of commercial banks just like expansion of other industries results to economies of scale. James (1993) in his report to the US senate argued that Economies of Scale is when cost declines average as banks output or size increases. The realization of such gains could improve banks profitability and increase the banking industry's market share.

Wheelock and Paul (2009) argue that between 1984 and 2006, a number of commercial banks registered high returns to scale, without reference to ownership structure and regulation of banking, a fact supported by Hughes, Mester, and Choon (2001) as well as Feng and Serletis (2010).

1.1.1 Financial Performance

Financial Performance can be described as the degree to which a business performs at a defined period of time with regard to profits made at that time. This makes decision making easy since the strategies employed in doing business can be assessed in objectivemonetary terms.

Vieira (2010) describes profitability as the ability to generate income after incurring expenditure and other costs in a particular period of time.

Pimentel, Braga and Casanova (2005), states that the ultimate gauge of economic accomplishment is the ability to generate profit in a firm relative to the level of inputs. This financial performance is determined by the amount of the profit generated by the company in relation to the cash inflows.

Ramlall (2009) supports this argument when he discovered that there exists a positive relationship between the size of the bank and profitability. Ramlall concluded that the larger the bank is, the more profitable it is, thus demonstrating the positive effect of economy of scale.

Berger (1995) as quoted by Bikker (2004) argues that profitability grows along with the increase of the operational efficiency. He concluded that profitability is directly and positively related to operational efficiency.

Rasiah, Gammeltoft and Jiang (2010) in their research found that asset portfolio mix, loans and interest income, investments, non-interest income earning assets, total expenses, operating expenses, personnel expenses, market share, market growth, firm size are all factors that may influence banks' profitability.

1.1.2 Expansion Program-Profitability relationships for Commercial Banks

Koskela and Stenbacka (2000) argued that commercial banks are profit-seeking organizations and the ability of a bank to earn profit depends upon its portfolio management. It is in right with this that the banks undertake expansion programs with a sole aim of gaining control of the markets as well as delivering vital services to companies and other persons. Banks need to make profits through time, the choices of

locations in which to invest in new branches, customers, and portfolio diversification are based on expected returns.

Hunger and Wheelen, (2001) argued that progressive development results in more sales which in turn helps one in utilizing the experience gathered to lower production costs of service sold. Peter and Sylvia (2008) supported this view by arguing that the motives behind the rapid growth of bank financial services are the stakeholders' main expectations to increase their wealth, and that of the management expectations to gain higher salaries and employee benefits.

Harzing (2010) argued that companies strive to expand their share of the market because an established name comes with particular advantages that can be exploited to the benefit of the firm. It can be concluded that bank therefore uses its influence in an industry to increase its bargaining power. The larger market players have advantages in negotiations with stakeholders as opposed to the smaller market players in the industry. It is this power that enables a bank to be more competitive in the industry ultimately resulting to increased financial performance.

Khizer, Muhammad & Hafiz, (2011), in their study on what to use in order to measure the profit of banks in Pakistan in 2006-2009 discovered that profit is directly related to and positively influenced by the efficiency of operations, how assets are managed and the size of the firm using return on assets as profitability indicator . On the other hand Siddiqui and Shoaib (2011) in their study observed that the size of the bank is important in calculating the profits of the bank using Return on Equity as the indicator.

Orlow, Radecki and Wenninger, (1996) as quoted by Sangjeong and Paul (2008) argue that opening new branches in order to provide small scale business services is very costly. However, Spieker (2004) observed that branches, in comparison to other ways of providing retail services e.g internet and call centres, remain the cheaper choice.

Freeman, Woodwork, and Stephenson (2007) quoted the The McKinsey Quarterly in its worldwide assessment of business executives' report that 84 percent of executives regard the increasing consumer numbers in emerging markets as an important trend.

1.1.3 Commercial Banks in Kenya

This study seeks to establish the influence of expansion programs undertaken by the banks on their profitability, the case of commercial banks in Nairobi County, Kenya.

The Central Bank of Kenya (CBK) report (2014) further notes that the Kenyan banking sector remained stable and resilient in 2014 as evidenced by the enhanced performance recorded. The sector supported various economic sectors through provision of loans and advances. The gross loans increased from Ksh.1.53 trillion in December 2013 to Kshs 1.88 trillion in December 2014.

Total Net Assets grew by 18.5 per cent from Ksh. 2.70 trillion in December 2013 to Ksh.3.2 trillion in December 2014, with the growth being supported by the increase in loans and advances.

Customer deposits increased by 18.42 per cent from Ksh.1.93 trillion in December 2013 to Ksh.2.29 trillion in December 2014. The banks expanded their outreach and opened new branches to tap new customers in Nairobi the number of bank branches increased in 2014 by 40 branches. The increase in the number of bank branches indicates increasing demand.in December 2013 but remained way above the statutory minimum of 20.0 percent.

The pre-tax profit for the sector increased by 12.2 per cent from Ksh.125.8 billion in December 2013 to Ksh.141.1 billion in December 2014. The growth was largely supported by the growth in the credit portfolio, investment in securities among others.

Gross loans increased by 22.75 per cent from December 2013 in December 2014. This was as a result of rising credit demand by the varied sectors of the economy.

The liquidity ratio stood at 37.7 per cent as at December 2014 compared to 38.6 per cent registered in December 2013. The marginal decline in the liquidity ratio is attributable to the increased lending in 2014 as reflected in the increase in loans to deposits ratio from 81.6 per cent in 2013 to 83.1 per cent in 2014.

Finally, the gross non-performing loans to gross loans ratio increased by 0.4 per centto stand at 5.6 per cent in December 2014.

1.2 Statement of the problem

The expansion program adopted by commercial banks leads to increase in the respective banks size. The increase in size in turn leads to increase in the Economies of scale with regard to its total assets. This results from lower cost of production realized when a smaller firm increases in size thus maximizing its efficiency and higher output from the same fixed costs. A reduction in cost of production is expected to eventually lead to increased net profit hence greater profitability. However, this is not always true where some organizations fall due to expansion.

In the banking sector, expansion program just like in other sectors leads to greater economies of scale. However, it is not obvious that the growth lead to increased profitability. This is supported by Fadzlan and Muhamed, (2009) who argued that large banks may not always realize higher profits but rather the smaller ones since they have less expenses and are more efficient. According to Martin and Patrick (2014), Standard Chartered Bank, a successful global bank for a long time suspended its expansion in an effort to protect its capital after registering greatly reduced profits in more than a decade. In Kenya, the Imperial bank which in 2014 was ranked one of the highest lenders in Kenya but in 2015 it failed and was put under receivership. This indicates that rapid expansion also has negative impact on performance of the banks. Therefore, a balance between optimal expansion programs must be sort in relation to banks profitability.

Various studies have been done to establish the effects of branching on commercial banks profitability in other parts of the world. However, neither of these studies has been done in Kenya nor has any study sort to establish the influence of various other expansion programs. This study was not only carried out in Nairobi county in Kenya but also was to establish the influence of the expansion programs that include but not limited to Opening new branches, growth in customer base, growth in loan book, portfolio diversification to the financial performance of the banks. This study is designed to contribute significantly

to this body of knowledge by finding out how the expansion programs influence the financial performance of commercial banks.

1.3 Purpose of the study

The purpose of the study was to determine the influence of expansion programs on performance of commercial banks: The case of Banks Nairobi County, Kenya.

1.4 Objectives of the Study

The study was guided by the following objectives;

1. To determine how Opening new branches influences the performance of Commercial banks in Nairobi County.
2. To assess how Growth in Customer Base influences the performance of Commercial banks in Nairobi County.
3. To establish the extent to which Growth in Loan book influences the performance of Commercial banks in Nairobi County.
4. To determine the extent to which diversification influences the performance of Commercial banks in Nairobi County.

1.5 Research questions

The study answered the following research questions;

1. How does the Opening of new branches influence the performance of Commercial banks in Nairobi County?
2. How does Growth in Customer Base influence the performance of Commercial banks in Nairobi County?
3. To what extent does Growth in Loan book influence the performance of Commercial banks in Nairobi County?
4. To what extent does portfolio diversification influence the performance of Commercial banks in Nairobi County?

1.6 Significance of the study

This study is thought to be significant to commercial banks, government policy makers and investors in the financial sector. The findings of this study may be used by project

managers as a guide in making investment decisions that directly affects the stakeholders' interest with regard to expansion and profitability of their investment. Lending to other sectors in the economy relies heavily on the accessibility of the financial institutions. It is this role of lending performed by the commercial banks that the other sectors of the economy may positively be impacted. The research gap identified in this study concerns there not being an up to date study concerning the influences of most expansion programs on commercial banks financial performance. This study is assumed to add on to the existing knowledge and may fill the research gap identified thus enabling decision makers and other stakeholders enhance their arguments concerning commercial banks expansion programs and their influence on the profitability.

The government policy makers may use this study as an input into their policy designing. In order to realize greater growth the government needs to allow the commercial banks to operate optimally and be easily accessible to the entire country. Putting in place policies to improve the sector is a critical factor that directly touches the investors in all other sectors.

In conclusion this study is assumed to be of great assistance in policy formulation designed to assist in the expansion programs. It is also expected that the investors in the financial sectors could use the information obtained to invest wisely. Putting in place policies to improve the sector is a critical factor that directly touches the investors in all other sectors.

In that respect, this study is assumed to be of significant interest to investors, banks and the entire government.

1.7 Basic Assumptions

The researcher assumed that the respondents were available to give accurate and timely response. The researcher also assumed that the respondents would be cooperate and provide honest information of the study in spite of their tight schedules. Finally, it was assumed that the selected respondents were well versed with expansion programs in their banks.

1.8 Delimitation of the study

This study focused on determining the influences of expansion programs on the performance of commercial banks, the case of Commercial banks in Nairobi County. The study covered the period between 2009 and 2014; this period was identified as being a significant period to Kenya as 2008 marked the introduction of Vision 2030. The blueprint describes the banking sector as a major player in helping the country realize the Vision 2030 (Republic of Kenya, 2007).The period is also important to Kenya as this follows the period when Kenya experienced the worst economic shock and subsequent recovery. The period falls after the 2008 post-election violence when the economy came to a down turn followed by years of economic reconstruction and reorganization. The year 2008 also saw the introduction of CRB that came in July 2008.The same year is when the East African Central Banks of Kenya, Uganda, Tanzania, Rwanda and Burundi finalized a Memorandum of Understanding (MOU). The MOU was designed to facilitate information sharing and supervisory co-operation particularly for regional banking groups. On the domestic front, a similar arrangement was implemented in 2009 with the Insurance Regulatory Authority (IRA), Capital Markets Authority (CMA) and the Retirement Benefits Authority (RBA).

The purposively selected population of respondents from selected commercial banks was representative of the commercial banks population and therefore results obtained gave reliable results and findings. Note the study used purposive sampling techniques to select experts from each of the listed commercial bank.

The commercial banks are closely monitored by the national government through central banks. This close supervision among other factors has significant influence on the banks as compared to other sectors making it the best sector for the study. Nairobi was selected for being the headquarters of most commercial banks hence the source of all expansion decisions for the banks.

1.9 Limitations of the study

The study was carried out in the vast and unique county of Nairobi in Kenya, whereby there was need to travel to collect data; this was financially straining given the limited financial resources. To overcome this challenge, adequate resources were obtained from

personal savings, minimize travelling expenses by utilizing the available secondary information both online and audited reports.

This study was conducted in Nairobi County, Kenya. The results thereof may be limited to Commercial banks in Nairobi County, and may not be applicable to commercial banks in other counties if the unique operating environment of each county is anything to go by. The differences in operating environment may hinder application of these results in other counties. The study was carried out over a period of 6 years covering 2009 to 2014.Although this period is appropriate for this study, drawing conclusions may not be accurate as there are other economic, social or political factors that may influence the financial performance of the commercial banks and therefore wrong conclusions may be arrived at during this study.

1.10 Definition of significant terms used in the study

Diversification of portfolio– This means venturing into many markets or investing in a variety of products. In this study diversification is used to mean investment in different types of industries (securities, real estate, Insurance, etc.)

Expansion programs – These are activities that a firm employs in order to reach new markets, create new products and services thereby adding to the ongoing business.

Financial Performance of the Commercial Banks–Described as assessing the outcome of a commercial bank's policies and operations in terms of money. These results are reflected in the bank's returns on investment, return on assets.

Growth in customer base-This is the marginal increase in the customer deposits as compared with the prior period.

Growth in loan book-This is the marginal increase in the bank's total loan extended to clients as compared with the prior period.

Opening of new branches-This is the marginal increase in the number of branches as compared with the prior period.

1.11 Organization of the study

Chapter one handles the problem statement as well as the objectives, several assumptions, and limitations and ways utilized to overcome these limitations.

Chapter two first elaborates on the various expansion programs that influences the financial performance of commercial banks. This is adequately supported by a review of literature and relevant research associated with the problem being studied. The chapter focuses on the concept of expansion programs, the opening of new branches, the growth in customer base and Loan book, as well as portfolio diversification all in relation to the financial performance of the commercial banks, theoretical, conceptual framework and a summary of the literature presenting the knowledge gap that was addressed by this study.

Chapter three handles the research design and methodology, sampling design and population. The research instruments, data collection techniques and data analysis procedure have also been incorporated.

Chapter four elaborates on the results of the data collection, forming a discussion in support or otherwise of the expansion programs influence of the commercial banks financial performance as indicated by their profitability.

Chapter five further builds on chapters three and four. Showing a summary of the findings, conclusion and further gives recommends on how to roll out expansion programs without negatively influencing the financial performance of commercial banks.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a summary of the information obtained from other relevant researches. It covered the concept of expansion programs that is the opening of new branches, the growth in customer base, the growth in Loan book and portfolio diversification, all these in relation to the performance of the commercial banks, and finally, the theoretical and conceptual framework.

2.2 Performance of Commercial Banks

The most commonly used indicators of bank performance have been return on assets (ROA) and return on equity (ROE). Other indicators of the financial performance are Dividends payout ratio and Gross profit margin. Bourke (1989), argues that the internal factors of bank performance that include net income measured against total assets, capital and reserves factors, influence greatly the level of profits a bank has. As a result, research in USA and Europe indicate that a large number of banks and other financial institutions always record higher than target profits.

As observed earlier bank expansion programs or the increase in a banks size leads to increase in economies of scale, James (1993), in his report to the United States of America senate argues that Economies of Scale occurs when cost declines as a bank's output or size increases. The realization of such gains could improve banks profitability and increase the banking industry's market share. The bank size is a main growth strategy which assumes that bank management is the one tasked to expanding their firm through creating more assets and liabilities. Redmond and Bohnsack, (2007) further supported this argument observing that the size of a bank greatly influences its economies of scale.

Boyd and Runkle (1993) in their study on how the bank size impacts economies of scale figured out that the size of a bank is largely associated with the concept of economies of scale. The Economic theory postulates that for an industry to enjoy economies of scale, the bigger it is, the more efficient it is, hence such an organization would provide services

at relatively lower costs as opposed to those that do not. In effect, this resulted in better financial performance as profits are inversely related to the operational expenses. Paula, 2002 as quoted by Carey (2006) in his study titled "Expansion of banks, does size matter?" studied a possible relationship between economies of scale and scope when banks expand their activities, they established that expanded product array and potential for cross-selling results from larger size and depth of product offering. They ascertained that mergers and acquisition would be good for banks if they increase profits without affecting the banks' operational efficiency. This concludes that the expansion can be geared towards increased profitability.

2.3 Opening of New branches and the Performance of Commercial Banks

Damar (2007) looks at 'the relationship between bank consolidations and subsequent changes in bank branches per population in markets in Turkey over the "post-crisis period" from 2001 to 2003' the researcher concluded by observing the importance on increasing the number of bank branches to the financial performance of the banks studied. Focusing on the branching decisions of individual banks, Kim and Vale (2001) employ a data set of Norwegian banks that covers the period 1988-1995. They observed that a bank strategizes its branching decisions in order to have a market lead hence showing the importance of increased branches.

Rice and Davis as quoted by Information Resources Management Association (2014), study focusing on the history of branching in Illinois observed that deregulation of branch restrictions that existed before, such as those in Illinois, could influence dramatic expansion branch networks. Also, they compared increase in the number of branches in the largest 15 cities between 1995 and 2005, they noted that market concentration meant slow branch growth. The research mainly focused on the reasons behind the number of branches as opposed to the profitability.

Dick(2002), Knittel and Victor (2004), and Adams and Brevoort (2005) argued that the utility of a consumer from choosing a particular bank depends on different proxies that are supposed to account for the geography of branches, for instance the number of branches per square mile in the market or the number of counties in which the bank has

presence. This is true in that a consumer will be happy with the services of a bank if he or she can easily access their affordable services. The research focused mainly on the utility the consumer derives and failing to recognize the underlying need for branching.

2.4 Growth in Customer Base and the Performance of Commercial Banks

Rajadhyaksha (2004) argues that banks are fragile institutions founded on clients' trust, brand effect and managing risk. If something does not happen as planned, banks can easily go under. When only one bank goes under, it affects the whole sector and affects the whole economy. Hence, the importance of good customer base in the banks. The research considered the effects of poor customer relationship and not the effect of better customer loyalty to the profitability.

Roger (1996) in his study 'The relationships of customer satisfaction, customer loyalty, and profitability', a study he performed on the influence of customer satisfaction on customer loyalty and customer loyalty to profitability, the study employed the use of multiple measures of satisfaction, loyalty, and profitability. From the estimate of the effects of increased customer satisfaction on profitability he concluded that attainable increases in customer satisfaction would dramatically improve profitability.

Mburu, Helena and Cullen (2013), studied the 'Determinants of Customer Satisfaction in the Kenyan Banking Industry.' The study intended to establish the factors that influence customer satisfaction from a customer's perspective, they researcher employed structured questionnaires administered to 2000 customers across 43 banks in Kenya. They discovered that bank-related factors greatly influence customer satisfaction in Kenyan banks. The researchers concluded that Customer satisfaction can lead to higher rates of retention of the Kenyan bank customers, which in turn will lead to increased profitability as evidenced by various studies that link satisfaction and variables such as profitability, and customer retention. The researchers further concluded that banks need to make sufficient and sustainable profits, which are provided by their clients, in order to remain in business.

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2.5 Growth in Loan Book and the Performance of Commercial Banks

Kargi (2011) argued that the credit function of banks encourages investors to take advantage of profitable ventures. Banks derive most of their income from credit creation.

Nasser and Edward (2002) studied the performance behavior of newly opened chartered banks. In their study, different variables of performance were deployed at the same time and their influence performance tested. They discovered that several endogenous factors were important determinants of bank success i.e. cost structure, size, and the composition of the loan portfolio.

Michelle (2012) empirically evaluated the change in the size of a bank's loan portfolio and discovered that the market reacted positively to loan portfolio growth while it reacted negatively to discounts in loan portfolio growth in low earnings banks. This agrees with the argument that banks with unhealthy financial status often conceal their losses by offering evergreen loans. The researcher concluded that loan portfolio growth, when integrated with information on earnings, can be used to predict which loans won't be performing in the future. In the same way, those, portfolios resulting from organizing the bank stocks by loan portfolio growth and earnings always bring about excessive returns.

Foos, Norden and Weber (2010) investigated how loan growth affects the riskiness of individual banks in sixteen major countries. Using bank scope data from more than sixteen thousand individual banks in the years between 1997 and 2007, they tested the relation between abnormal loan growth and asset risk, bank profitability, and bank solvency. From the study they found out that the growth of loan led to increased provision on loss during the forthcoming years, it decreased the bank's relative interest income, and ensured lower capital ratios. Also, loan growth was noted to negatively influence the risk-adjusted interest income.

2.6 Diversification of portfolio and Performance of Commercial Banks

Dibb (2007) suggests that diversification is achieved by widening the operations to a variety of new markets. Chandler (1977) as quoted by Ade Oyedijo (2012) in his research on Effects of Product – Market Diversification Strategy, is of the opinion that such a

strategy is employed where companies realize chances coupled with market structures and technology together with increase in the company's fundamental business. The banks may diversify their operations by investing in property, undertaking insurance and securities brokerage.

Pace (2012) argues that the ability of insurance and security firms to invade bank markets particularly harms the banks since they are not able to respond. For instance, insurance companies offer products similar to long-term deposits and security brokers offer products that are functionally interest bearing checking accounts. The banks have tried to respond to this by expanding into various forms of portfolio diversification with emphasis on insurance, securities and real estate.

Jyh-Horng, Jeng-Yan and Paichou (2012), examined the optimal bank interest margin effects of the Gramm–Leach–Bliley Act (GLBA), specifically permit commercial banks to carry out the business of insurance underwriting. The researcher concluded that commercial banks will benefit as long as the broader product mix resulting from the increased insurance underwriting opportunities is relatively low as compared to the core banking business.

Goddard, McKillop and Wilson (2008) investigated the influence of revenue diversification on financial performance for the period 1993–2004 across United States of America credit unions. They studied this by decomposing the influence of a strategic change that altered percentage of non-interest income into a direct exposure effect, indicating the variance between interest and non-interest bearing activities, and an indirect exposure effect which reflects the effect of the institution's own degree of diversification. They found out that a positive direct exposure effect had a more significant influence than a negative indirect exposure effect for the smaller unions.

2.7 Theoretical Framework
Theories have been advanced to support the expansion of the banks as well as the efficiency or profitability of the banking sector. These theories include;

2.7.1 Market Power Theory

Market power theory makes the assumption that how the structure of the market of a certain industry is will impact how a bank performs. This theory is approached from two angles; the Structure-Conduct-Performance and the Relative Market Power hypothesis. In the first approach, the degree of concentration in the banking market generates potential power of the market by banks, in an effort to increase their profits. This theory therefore takes higher market concentration as the greatest origin of market power. This approach however has been criticized by Shepherd (1986) who argues that the only origin of market power results when those individuals in a particular market dominate, without regard to where these individuals originate. This led to the emergence of the Market power hypothesis. Only the players with a large market share and who have diversified their products can use their market power to influence pricing and still realize profits. Nevertheless, it does not always apply that when you employ market structure in these equations will produce accurate results. This is because a bank with a large market share with a strong position in the market will confirm its domination or it may choose to increase its efficiency. Market power hypothesis cannot however confirm the effects of concentration without ambiguity, due to the combined effect of market power and efficient structure theory, Resource theory or Portfolio theory as this theory considers all the other theories.

A firm with market power can increase the prices of its products without losing its customers to competitors. In such a case they are referred to as 'price makers,' while those without market power are sometimes called 'price takers.' A firm with market power can individually affect either the total quantity or the prevailing price in the market hence deriving automatically better performance.

According to Fiona (2009), banks in more concentrated markets are more likely to make abnormal profits through lowering the rates of deposit and charging higher interest rates as result of creating cartels, than those doing business in less concentrated markets without considering their efficiency. In contrast to the Structure-Conduct-Performance, the Relative Market Power hypothesis concludes that the profits made by the banks is a

factor of the market share. It postulates that only banks which have differentiated their products can adjust prices upwards and still realize profits. They have the capacity to take advantage of market power and make non-competitive profits.

This Theory is further supported by the Efficient Structure theory that proposes that some banks are more profitable than others due to their efficiency. There are two distinct approaches within the Efficient Structure; the X-efficiency and Scale–efficiency hypothesis. In the first approach, the firms with better efficiency will realize more profits because their costs will be lower. They will therefore acquire a larger market share thus a larger market concentration, though with no causal effect on causal on profitability (Athanasoglou, Brissmisss, and Delis, 2008). The scale approach underscores economies of scale as opposed to contrasts in administration or creation innovation. Bigger firms can get bring down unit cost and higher profits through economies of scale. This empowers expansive firms to obtain segments of the overall industry, which may show in higher fixation and after that profitability.

According to Demsetz (1973) as quoted by Sami and & Zouari, (2010), Demsetz formulated a different explanation on market structure-performance and put forward the Efficiency Hypothesis. The hypothesis stipulated that a more efficient bank will realize better gains due to the reduced costs of operation. It will also have a significant market share. As a result, different efficiency levels bring about an uneven distribution in the market and an immense concentration. Market power is mainly as a result of the banks increase in size and efficiency. This increase in size is not only attributed to increased branches but also includes the increase in customers the bank accesses and controls. In this study the Market power theory was used since all the other theories of expansion aims at achieving market power.

2.7.2 The Theory of the Growth of the Firm

Penrose puts forward two distinct arguments. Firstly, she presented the resources push theory of endogenously driven growth as well as the organizational capabilities. She presented an argument that dealt with the managerial limits to growth. She defined management as a corporate endeavor where people use their refined functional

competencies tempered with team skills which helps them all bring together all the events coherently. Such knowledge will be acquired through experience or from instructions by experienced staff. Therefore, the firm must progressively hire new managers as it also redeploys the existing ones to different departments so it does not keep on increasing their numbers. In times such as these, companies may consider to forego present profits in order to save on costs associated with growth, which would have been incurred at some point as a result of such growth.

Its common argument that the firm size largely influences future margins, growth depends on changes made to the current expectations. Specifically, if companies expect better performance in future, they will make changes although the results may not be defined therefore the rate of growth cannot also be predicted.

Further, Margaret (2005) argues that for a company to benefit from competitive advantage there are certain conditions that the company must fulfil. Firstly, she argues that heterogeneity condition must be met, that implies the firm must progressively hire new managers as it also redeploys the existing ones to different departments so it does not keep on increasing their numbers. In times such as these, companies may consider to forego present profits in order to save on costs associated with growth, which would have been incurred at some point as a result of such growth. This means that they cannot expand output rapidly. Thirdly, there must exist ex ante limits to competition, which states that for a firm to accumulate a lot of resources competition must be almost non-existent. Lastly, ex-post limits to competition so that economic rents can prevail.

This theory applies to the commercial banks as they only expand if they have untapped resources. The untapped resources may include but not limited to availability of new markets mostly achieved through the opening of new branches.

2.7.3   Modern Portfolio Theory

Modern Portfolio theory was propounded by Harry Markowitz in his paper "Portfolio Selection," published in 1952 by the Journal of Finance. It is based on the idea that investors who fear risk can invest in portfolios that can optimize or maximize their

returns against a certain level of market risk. It also holds that risk goes together with higher returns. Harry observed that diversification, an expansion feature, minimizes risk only where asset prices shift inversely or during different with one another.

Caumnitz (1970) stated that investment portfolios should be appraised based on their market price of risk, which combines risk and return into one measure, rather than on risk or return alone. The rank of the performance of the mutual funds under consideration was done using the Treynor Index, Sharpe Index and the Jensen Index. Since the three risk-adjusted performance measures are derived from the Capital Market Line and Capital Asset Pricing model, they are consistent with the capital market theory as developed in a mean-variance context.   Some scholars indicate that the performance ranking as a result of using the three indexes is not consistent. Treynor and Jensen indices may differ in their ranking of portfolios because of the manner in which they incorporate risk. The Jensen measure is not well suited to ranking portfolios of different risk because it measures only deviations from the Capital Asset Pricing model in the return dimension; thus portfolios that differ widely in risk may conflict in their Jensen and Treynor indices. Low risk portfolios tend to have positive Jensen index and higher risk portfolios have negative Jensen index. Therefore, the level of risk is a major determinant of the financial performance of the mutual fund.

2.8 Conceptual Framework

This is a diagrammatic representation between the independent variables and dependent variable as presented below. This conceptual framework shows how the expansion programs influence the financial performance of commercial banks in Nairobi County in

Independent variables   *Moderating variable*
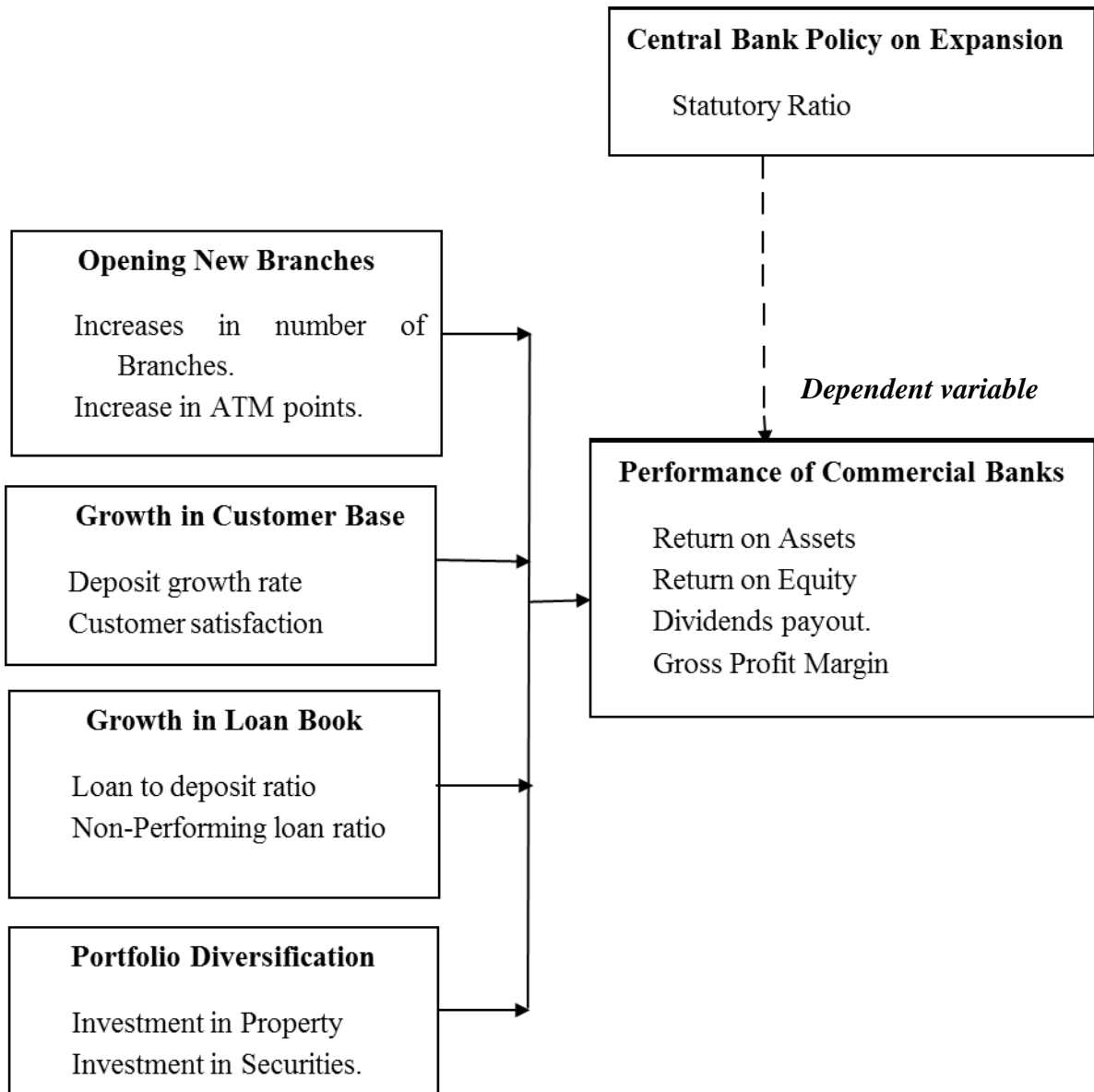
Figure 1:Conceptual Framework

2.9 Knowledge Gap

In this study, a combination of different expansion programs was used in the analysis of their influences on the commercial banks financial performance.

Table 2 1: Knowledge Gap Matrix

Variables	Indicators	Author(Year)	Title of Publication	Findings	Knowledge gap
Opening of new branches	1) Increase in no. of Branches 2) Increase in no. of ATM Points	Damar (2007)	Does Post-Crisis Restructuring Decrease the Availability of Banking Services? The Case of Turkey	Opening new branches is dependent on the performance of the banks with those performing well opening new branches.	The study showed that opening of new Branches influenced performance. This study seeks to incorporate the other programs.
		Kim and Vale (2001)	Non-price Strategic Behavior: The Case of Bank Branches	Deciding on whether to consider opening of new branches is critical decisions made in order to help the bank remain relevant.	The study showed that opening of new Branches influenced performance. This study seeks to incorporate the other programs.
Growth in Customer base	Deposit Growth rate	Roger(1996)	The relationships of customer satisfaction, customer loyalty, and profitability	Attainable increases in customer satisfaction would dramatically improve profitability.	The study showed that growth in customer base was a factor of customer satisfaction however it did not show proportion influence of the customer base on the performance. This study showed this influence.

		Mburu, Helena, Cullen (2013)	Determinants of Customer Satisfaction in the Kenyan Banking Industry	Customer satisfaction can lead to higher rates of retention bank customers, which in turn will lead to increased profitability.	In the study, Other factors of increased performance were not considered. This study incorporated other expansion programs.
Growth in Loan Book	1) Loan to deposit ratio 2) Non performing ratio	Michelle (2015)	The Information Content of Loan Growth in Banks	Stock market reaction to loan portfolio growth in high earning banks was positive, while the market discounts loan portfolio growth in low earnings banks was	The study considers singly the stock market earnings. The volatility of stock market is influenced by other factors and not necessary the banks performance alone. This is a gap that this study explained.
		Nasser and Edward (2002)	An empirical investigation of new bank performance	The bank's cost structure, size, and the composition of the loan portfolio were considered Critical for new banks performance	The study considered the new banks only. The study assumed the effect of regularization did not have a major impact on the banks performance. This study considers old banks as well
		Foos, Norden, and Weber(2010)	Loan growth and riskiness of banks	Loan growth leads to decrease in relative interest income, and to lower capital ratios. Loan growth has a negative impact on the risk-adjusted interest income. Loan growth represents an important driver of the riskiness of banks.	The study concentrated mainly on the riskiness on loan book growth. Researcher did not find out the implication of increased loan book on the financial performance of the banks. This study determined the influence expansion programs on performance.

Diversification of Portfolio	1)Investment in Property 2)Investment in Securities	Jyh-Horng, Jeng-Yan and Paichou (2012)	The Gramm–Leach–Bliley Act: optimal interest margin effects of commercial bank expansion into insurance underwriting	Commercial banks may not appear to benefit from broader product mix when the expansion of insurance underwriting is relatively large scale or insurance asset quality is relatively low.	The study considers the effect of interest rates on the performance. Otherfactors that influencefinancial performance determinants were excluded. This study established the influence of Diversification among other expansion programs adopted
		Goddard, McKillop, Wilson(2008)	The diversification and financial performance of US credit unions	Positive direct exposure effect was found to be outweighed by a negative indirect exposure effect for small unions. This was concluded that diversification strategies are not similar across the unions	This study did not focus of all commercial banks but only Credit unions. Other factors may influence the exposure such as politics that in turn will influence the performance of the banks this was not considered.

2.10   Summary of Literature

This research is designed to help determine the relationship between expansion programs individual influence on the financial performance of commercial banks, the case of Commercial banks in Nairobi County, in the short and long term. Kenya has 44 Commercial banks which are regulated by the Central Bank of Kenya.

The empirical review discussed above indicates that expansion programs are critical factors that determined the financial performance of commercial banks hence the importance to be studied.

From the literature review, it is evident that there is a positive relationship, though with varying degrees, between expansion programs and financial performance on the short term to long term. The review revealed that there are various influences of the expansion programs on the financial performance of the commercial banks with the variables being positively correlated, some variables are negatively correlated after a certain extent beyond which there is an inverse relationship, for instance abnormal loan growth will lead to high risk that has adverse influence on the financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers research design and methodology used in the study, research design, research variables, sample size and population. Also the research instruments their Validity and reliability, data collection techniques, data analysis procedure, ethical consideration and operationalization of the variables was also discussed.

3.2 Research Design

Descriptive research design was used. A research design is the framework that is created to seek answers to research questions. Zikmund, Babin, Carr and Griffin (2010) describes a descriptive research as the characteristics of objects, people, groups, organizations, or environments, and tries to "paint a picture" of a given situation. According to Key (1997) Descriptive research method ranges from survey to correlation study, it investigates the relationship between variables, this is the reason why descriptive research was used for this study. In this study, the influence of expansion programs and financial performance of commercial banks in Nairobi County, in Kenya was investigated. The dependent variable was the performance of the commercial banks as measured through return on asset while the independent variables are the expansion programs, specifically, the Opening new branches, Customer base growth, growth in loan book, portfolio diversification as well as the influence the regulatory body has on the commercial banks.

3.3 Target Population

Mugenda and Mugenda (2003) argue that target population is that population which the researcher wants to generalize results. The unit of analysis in this study comprised of the 11 NSE listed banks. The target population comprised of respondents drawn from the 11 Banks in the cadre of Chief Executive Officer, Finance manager, Credit Manager, Operations manager as well as the marketing manager from the listed commercial banks

in Nairobi County, in Kenya. For the commercial banks to be included in the target population it must have been in operation in the years between 2009 and 2014, must have engaged in expansion programs and were listed in Nairobi Stock exchange during the period. In this case eleven commercial banks qualify hence the target population is 55 respondents. However, 10% that is one bank were eliminated as it was used for pilot testing.

3.4 Sample Size and Sampling Procedure

This section describes sample size and sampling procedures used in the study.

3.4.1 Sample Size

A sample is said to be the best representative subset of the entire population from which generalizations are made about that population. Sampling is the means of selecting a portion of a group from the target population to generate a sample. According to Mugenda and Mugenda (2003), if the target population is less than 100 then the entire population should be sampled. In this study all the 50 respondents were sampled. Johnson and Christen (2008), argue that whole population should be studied when they number less than 100

3.4.2 Sampling procedure

The study employed the use of purposive sampling procedure. The reason for purposive sampling procedure was arrived at since not all stakeholders have expert information regarding banks expansion programs. The sample population was arrived at by identifying five respondents from the listed banks. A census was conducted on the target population of senior employees who are actively involved in decision making and specifically expansion programs.

3.5 Research Instruments

This study employed both primary and secondly data collection. The Questionnaire developed by the researcher with consultation to the expert in this case the supervisor was used for collecting primary data. The questionnaire contained two major sections; Section A contained questions on the respondents demographic characteristics; Section B

contained questions based on the study objectives namely: Opening of new branches, Growth in Customer base, Growth in Loan book, Diversification of the portfolio and lastly the financial performance. The questionnaires facilitated an evaluation of influences of expansion programs on the performance of commercial banks. Finally, secondary data was used to obtain specifically from the audited financial reports specifically seeking data on the financial performance of the banks.

3.5.1 Pilot Testing

Piloting is used to ensure that the questionnaire is free from ambiguity and the data generated can meaningfully be analyzed in relation to the stated research questions. It is the same reason that in this study the piloting was done. According to Monette, Sullivan and DeJong (2002), pilot testing should be done on a small part of the sample. In this study pilot testing was done by administering 10 %(respondents) of the sample size similar category as the actual respondents. In this study, pilot testing was done on one bank that has similar characteristics as the target population. This implies that 5 employees were used for the pilot testing. Piloting results helped in determining the relevancy of questions, adjustments were made accordingly to address areas of concern. After the corrections re piloting was done and re done until all the questions were answered reliably. Orodho (2004) argues that piloting is used to establish whether the tool measures what it is supposed to measure clear and also to eliminate potential research bias.

3.5.2 Validity of Instruments

Kothari (2004) argues that validity of instruments is the measure/degree to which an instrument accurately measures an objective. In this study both content validity and construct validity of the instrument were carefully be assessed to ensure the instruments are accurate. In the study content validity was used to measure the degree to which the items represented specific areas covered by the study. The content validity dealt with whether the questions achieved the objectives of the study hence answers the research questions. Construct validity helped in checking how the questions are constructed or phrased within the questions that is the clarity of the questions. Validity was ascertained by ensuring the indicators were precisely measured. For this to happen, the clarity of the

wording was found to be paramount to ensure that the respondent interpreted all questions as intended thereof eliminating ambiguity and confusion. To ensure the content and construct validity the researcher subjected the instruments to experts in this case the supervisor who ascertained that questions achieved the objectives of the study.

In the field, the respondents being senior staff in the sampled commercial banks there was minimal chances of getting invalid responses.

3.5.3 Reliability of Instruments

Reliability is the degree to which an assessment tool produces stable and consistent results. Orodho (2004) posits that reliability is the extent to which the measuring procedure produces similar results when repeatedly administered. To establish the reliability of the instrument, the researcher used the split-half reliability method. The test was first divided into halves and administered to the total respondents in the pilot study and scored separately. The scores of one half of test were then compared to the scores of the remaining half to test the reliability (Kaplan and Saccuzzo, 2001). The reliability testing by test retest technique was achieved at the pilot testing stage whereby the Questionnaires were administered to respondents who have the same characteristics as the actual respondents. The responses were analyzed with special emphasis on constituency of answers provided. The observed and proposed changes at each test schedule were incorporated. Correlation coefficient was calculated using the responses obtained per respondent per item following any two consecutive sessions. The following formulae was used   to calculate correlation coefficient,

$$r = \frac{\sum XY - \frac{(\sum X)(\sum Y)}{n}}{\sqrt{\left(\sum X^2 - \frac{(\sum X)^2}{n}\right)\left(\sum Y^2 - \frac{(\sum Y)^2}{n}\right)}}$$

Where: r is the Pearson product-moment correlation coefficient; x is values for the first set of variables; y is values for the second set of variables; n is selected number of respondents.

When the calculated Pearson's correlation coefficient was found to be0.8, which was in line with Mugenda and Mugenda (2003) threshold level of 0.70 for an acceptable

reliability coefficient. It was concluded that the instruments had passed the reliability test hence the start of administrating the Questionnaires.

3.6 Data Collection Procedure

The researcher sought approval for this study from the University of Nairobi and National Council for Science and Technology and Innovation (NACOSTI). As soon as permission was granted and an introduction letter obtained by the researcher, the study proceeded in the following chronology: recruitment of one research assistant; conducting briefing for the assistant on the study objectives, data collection process and study instrument administration; pilot testing; revising of the data collection instruments after the pilot study; reproduction of required copies for data collection; administering instruments via interview; assessment of filled questionnaires through serialization and coding for analysis; data analysis and discussion; preparation of the conclusion and recommendations

3.7 Data Analysis techniques

The data obtained from the sampled banks both from the Questionnaires and that that was extracted from the audited financial reports of the commercial banks were coded. SPSS version 19.0 was used to analyze the data and results were presented using descriptive statistics such as frequency distributions, percentages, averages, means and standard deviations. Frequency tables, bar graphs and pie charts were used to analyze the background data on age, highest level of education, and number of years of experience. Ratios and correlations were calculated for the various independent variables. Chi-square statistic was calculated for the specified cross-tabulations, where appropriate with significance declared at a P –value =0.05.

3.8 Ethical Consideration

The researcher obtained a research permit from the National Commission for Science, Technology and Innovation to carry out this research, this made the research authentic. Letter of introduction was given to the respondents seeking to explain what the study was all about and assuring the respondents that the study is purely for academic purposes-

Appendix I. The researcher made arrangements with the commercial banks management to allow for the conduct of the research. Consent was sought before the exercise began and the study observed high level confidentiality on the information shared by the respondents. Finally, the information gathered was only used for the purposes of the study. A person's right to participate in this study was ensured by informing the respondents of their voluntary participation and withdrawal from the study any time they wish. The findings were shared with all the respondents to enlighten them on the outcome of the research.

3.9 Operationalization of the variables

Table 3.1 below indicates how the variables were operationalized with respect to study objectives.

Table 3.1 Operationalization of Variables

Objectives	Variables	Indicators	Measurement	Scale	Data collection method	Data Analysis
Determine how Opening new branches influences the performance of Commercial banks	1.Opening new branches *Independent variable* 2. Performance of commercial banks. *Dependent Variable*	No. of Branches No. of ATM points	Actual No of Branches No of ATM Points	Ratio	Questionnaire	Frequencies, percentage/ra and Standard Deviation
Assess how Growth in Customer Base influences the performance of Commercial bank	1.Growth in customer Base *Independent variable* 2. Performance of commercial banks. *Dependent Variable*	Deposit Growth rate Customer satisfaction	Actual deposits. Percentage of returning customers	Ratio	Questionnaire	Frequencies, percentage/ra and Standard Deviation
Establish the extent to which Growth in Loan book influences the performance of Commercial banks	1. Growth in Loan book. *Independent variable* 2. Performance of commercial banks. *Dependent Variable*	Loan to deposit ratio Non-Performing loan ratio. Low interest rates.	Actual loan disbursed.	Ratio	Questionnaire	Frequencies, percentage/ra and Standard Deviation
Determine the extent to which portfolio diversification influences the performance of Commercial banks	1.Portfolio Diversification *Independent variable* 2. Performance of commercial banks. *Dependent Variable*	Investment in Property Investment in Security	Investments in other portfolios	Ratio	Questionnaire	Frequencies, percentage/ra and Standard Deviation
Performance of Commercial banks	1.Expansion Programs *Independent variable* 2. Performance of commercial banks. *Dependent Variable*	Return on Assets Return on Equity Dividends Gross Profit Margin	Actual ROA, ROE and Dividends payout. Gross Profit	Ratio	Questionnaire/ Document Analysis	Frequencies, percentage/ra and Standard Deviation

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter consists of data analysis, presentation and interpretation of the findings. The chapter discuses analysis of the data obtained regarding the influence of expansion programs on the performance of commercial banks: the case of selected banks in Nairobi County, Kenya. The chapter concludes with the major findings and results of the selected commercial banks discussing the findings and results against the literature review.

4.1.2 Questionnaire Return Rate

The researcher distributed 50 questionnaires to the respondents. One type of questionnaire was used for all the respondents. The return rate was as follows: out of the 50 questionnaires distributed 47 of the same were returned duly completed. This is represents 94% of the total distribution which is sufficient to draw conclusions. According to Mugenda &Mugenda (2003) a return rate of 50% is adequate,60% is good and above 70% is very good.

Table 4.1: Questionnaire Return Rate

Category	Frequency	Percent	Cumulative Percent
Returned	47	94	94
Unreturned	3	6	100
Total	**50**	**100**	

Table 4.1 show that 47 out of the 50 sampled respondents returned the Questionnaires, 3 did not return. Three respondents did not return Questionnaires as they were all out of the country for the entire research period.

4.2 General Information

The study of the influence of expansion programs on the performance of commercial banks looked at the respondent's characteristics of Gender, age group, level education, and number of years worked at the organization to assess whether the composition of the top management was in line with the Kenya constitution on gender parity, secondly, assess whether the respondents had the knowledge of expansion programs adopted by their banks. The results are presented in table 4.2

Table 4.2: General Information

Variables	Category	Frequency	Percent	Cumulative Percent
Gender	Male	27	57	57
	Female	20	43	100
	Total	**47**	**100**	
Age	Below 30	3	6	6
	31-35	10	21	28
	36-40	16	34	62
	41-45	7	15	77
	46-50	6	13	89
	Over 51 years	5	11	100
	Total	**47**	**100**	
Level of Education	Certificate/Diploma	0	0	0
	Degree	15	32	32
	Post Graduate	32	68	100
	Others	0	0	100
	Total	**47**	**100**	
Years Worked	Less than 5 years	7	15	15
	6-10 years	22	47	62
	11-15 years	12	26	87
	Over 16 years	6	13	100
	Total	**47**	**100**	

On Gender, the study established that the majority of respondents were male at 27(57%) as while females were 20(43%) of the respondents. This shows that there was gender equality in the job cadre selected for the Commercial banks; this is in line with the Kenyan constitution that requires that no gender shall form more than 66%.

On Age, the study established that most respondents belonged to the age group 36-40 at 16(34%), followed by 31-35 years with 10(21%), 7(15%) belongs to age groups 41-45 years, 46-50 years represented 6(13%) while those over 50 and below 30 years was 5(11%) and 3(6%) respectively. This concludes that majority of employees are in the middle age. It can be concluded that most commercial banks employ young people in the decision making since they are vibrant and always come with new ideas on ways to improve the performance of the commercial banks

On Level of Education, the study established that most employees had attained high level of education with 32(68%) having post graduate degrees and 15(32%)had first degree education. This shows how education is valued and that for one to make great decisions on performance of the commercial banks education is paramount.

On the years worked, the study established that 22(47%) of the respondents had worked in their current positions for 6-10 years, 12(26%) had worked for 11-15 years followed by less than 5years and above 16years at 7(15%) and 6(13%)respectively. Number of years worked indicates that the respondents are conversant with all expansion programs being undertaken by their commercial banks.

4.3 Expansion Programs and the performance Commercial banks.

The study of the influence of expansion programs on the performance of commercial banks sort to answer various study questions on the influence of Opening new branches, Growth in customer base, Growth in the level of deposits as well as portfolio diversification. These themes are critical in the decision making as it is the managers and shareholders interest to maximize their profitability and return on investments. The Kenyan government also identified accessibility to bank institutions as one of the pillars in Vision 2030.

4.3.1 Opening of New Branches and ATMs.

The study of the influence of expansion programs on the performance of commercial banks looked at the influence of opening new branches and ATMs on the performance of commercial banks. The table below indicates that all respondents are aware that their banks undertook expansion programs, with majority strongly agreeing that these expansion programs positively influenced the performance of the commercial banks. The findings are presented in table 4.3

Table 4.3Opening of new Branches and ATMs

Table 4.3 represents the results obtained from the respondents showing the scores against each indicator for opening of new branches.

Variables	Category	Frequency	Percent	Cumulative Percent
Number of New Branches and ATMs	Increasing	47	100	100
	No Change	0	0	100
	Declining	0	0	100
	Total	**47**	**100**	
Extent that Branches and ATMs affect Banks performance	Strongly Agree	36	77	77
	Agree	5	11	87
	Uncertain	6	13	100
	Disagree	0	0	100
	Strongly Disagree	0	0	100
	Total	**47**	**100**	

On the number of New Branches and ATMs the Table 4.3 shows that all the banks have undertaken opening of new branches as well as ATM points. This has been supported by 47 (100%) respondents indicating their banks have been involved in opening of new branches and ATMs. On the Extent to which Opening New branches influences performance of the commercial banks Table 4.3shows that 41 (88%) of the sampled respondents agree that opening of branches and ATM points positively influences the performance of the commercial banks. Out of the 47 respondents 36 (77%) strongly agree, 11% agree where as 13% are uncertain about the effect of the new branches on the performance of the commercial banks. None of the respondents believe the performance is not affected by the number of branches and ATMs. From, the results of this study, it was deduced that the opening of additional branches and ATMs improve the performance of the commercial banks. This is in line with other research that observed that a bank strategizes its branching decisions in order to have a market lead hence showing the importance of increased branches.

4.3.2 Growth in Customer base.

The study of the influence of expansion programs on the performance of commercial banks looked at the influence of growth in customer base. The table indicates that all the commercial banks only had two choices on the marketing strategies to use. Majority of the respondents indicated that expansion programs positively influenced performance of the commercial banks. The findings are presented in table 4.4

Table 4.4: Growth in Customer Base.

Table 4.4 represents the results obtained from the respondents showing the scores against each indicator for Growth in customer Base.

Variables	Category	Frequency	Percent	Cumulative Percent
Marketing Strategies	Advertising	25	53	53
	Competitive rates	22	47	100
	Others	0	0	100
	Total	**47**	**100**	
Trend on the level of customer Deposits	Increasing	45	96	96
	No Change	2	4	100
	Declining	0	0	100
	Total	**47**	**100**	
Percentage of Old/Loyal Customers	Increasing	45	96	96
	No Change	2	4	100
	Declining	0	0	100
	Total	**47**	**100**	
Growth in customer base positively influences Banks performance	Strongly Agree	34	72	72
	Agree	9	19	91
	Uncertain	4	9	100
	Disagree	0	0	100
	Strongly Disagree	0	0	100
	Total	**47**	**100**	

On the marketing strategies used by the commercial banks Table 4.4 shows that Advertising is the main marketing strategy used by commercial banks to attract new customers with 53% indicating the main strategy used was Advertising, while only 47% believe that the competitive lending rates helps the banks attack new customers.

On the trend on the level of customer deposits Table 4.4 indicates that there has been an increase in customer deposits with 45(96%) of the respondents indicating this.

Only 2(4%) believes there has been no change in customer deposits. This shows that there has been increased awareness and access to banking services. None of the respondents believe that the trend has been declining.

On the percentage of Old/loyal customers Table 4.4 indicates that 45 (96%) of the respondents believe that the percentage of the loyal customers has been going up, only 2(4%) believed that there was no change whereas none of the respondents thought it was declining. This shows that customers who deposits with a certain bank will more often go back for the banks services.

On the growth in customer base influence on performance of commercial banks Table 4.4 indicates that majority of the respondents reported that growth in customer base had a very high positive influence on the financial performance with 34(72%)strongly agreeing, 9(19%) agreed while only 4(9%)were uncertain, none of the respondents thought otherwise. From the results of this study, it can be deduced that the level of growth in customer base has a high positive influence on the performance of the commercial banks. This means that an increase in customer base will result to an increase in the profitability of the commercial bank. This is in line with other researchers who concluded that banks need to make sufficient and sustainable profits, which are provided by their clients, in order to remain in business.

4.3.3 Growth in loan Book.

The study of the influence of expansion programs on the performance of commercial banks looked at the influence of Growth in Loan Book. Table 4.5 indicates that all the commercial banks increased their loan dissemination. Majority of the respondents indicated that expansion programs positively influenced performance of the commercial banks. The findings are presented in table 4.5

Table 4.5Growth in Loan Book,

Table 4.5 represents the results obtained from the respondents showing the scores against each indicator for Growth in Loan Book.

Variables	Category	Frequency	Percent	Cumulative Percent
Increase in Loan Dissemination	Yes	47	100	100
	No	0	0	100
	Total	**47**	**100**	
Trend on the level of Loan to deposit Ratio	Increasing	32	68	68
	Declining	0	0	68
	No Change	15	32	100
	Total	**47**	**100**	
Trend on the Non-Performing loan Ratio	Increasing	0	0	0
	Declining	32	68	68
	No Change	15	32	100
	Total	**47**	**100**	
Trend on the Percentage of loan customers who come back for top up	Declining	2	4	4
	Increasing	30	64	68
	No Change	15	32	100
	Total	**47**	**100**	
Growth in loan positively influences Banks performance	Strongly Agree	31	66	66
	Agree	10	21	87
	Uncertain	6	13	100
	Disagree	0	0	100
	Strongly Disagree	0	0	100
	Total	**47**	**100**	

On the increase on loan dissemination, Table 4.5shows that there has been increase in loan dissemination across all the sampled banks, with 47(100%) respondents indicating the increase in loan dissemination. This clearly indicates that the expansion in the banking sector in terms of loan book growth was evident and that all the banks were keen in ensuring increased loan book.

On the trend on loan to deposit, Table 4.5 shows that there has been an increasing trend in loan portfolio to deposit ratio. This means that most customers have been taking loan on a higher rate as compared to their deposits. The results indicate that 32(68%) respondents feel that the trend on the loan to deposit ratio has been increasing while 15(32%) believe that there has been no change in the ratio. This ratio helps the banks to determine the demand for their loans helping the banks to understand and control its liquidity.

On the trend on the level of Non-Performing loan ratio, The table 4.13 shows that 32 (68%)of the respondents were for the opinion that the Non-performing loan has been declining with only 15(32%)respondents indicating that there has been no change in the trend of the Non-performing ratio. This shows that the banks have a lot of confidence in lending hence they are able to increase lending.

On the growth in loan book influence on the performance of commercial banks, the Table shows that 31(66%) of the respondents strongly agree that the growth in loan book influences the performance of the commercial banks, 10 (21%) of the respondents agree while 6(13%) were uncertain. This shows that for a bank wishing to improve its performance it should consider expanding its loan book. From the results of this study, it can be deduced that the level of growth in loan book has a high positive influence on the performance of the commercial banks. This means that an increase in loan book will result to an increase in the profitability of the commercial bank.

4.3.4 Portfolio Diversification.

The study of the influence of expansion programs on the performance of commercial banks looked at the influence of Portfolio Diversification.

The table indicates that all the commercial banks had undertaken portfolio diversification. Majority of the respondents indicated that expansion programs specifically portfolio diversification positively influenced performance of the commercial banks. The findings are presented in table 4.6

Table 4.6: Portfolios Diversification.

Table 4.6 represents the results obtained from the respondents showing the scores against each indicator for Portfolio Diversification.

Variables	Category	Frequency	Percent	Cumulative Percent
Investments in other portfolio	Yes	47	100	100
	No	0	0	100
	Total	**47**	**100**	
Extent that portfolio diversification affect Banks performance	Insurance	15	32	32
	Properties	20	43	75
	Others	5	10	85
	Securities	7	15	100
	Total	**47**	**100**	

On the investments in other portfolio Table 4.6shows that all the 47 (100%) respondents agreed that their banks had invested in other portfolios.

On the ranking of the various portfolios the commercial banks invested in, Table 4.6shows that all 47(100%) respondents indicated that, 20 (43%) of them argue that their banks invested more on properties while 15 (32%) invested more on insurance, 7(15%) on securities and only 5(11%) argued that their banks diversified on other portfolios. From the study findings, investment in property was the highest rated form of portfolio diversification.

On the influence of portfolio diversification positive influence on the performance of the commercial banks, Table 4.6 indicate that 25(53%) of the respondents strongly agree that portfolio diversification influences the performance of the banks, 15(32%) agree with the statement while 7(15%)were uncertain. These results shows that diversification in other portfolios will influence the performance of the commercial banks.

4.3.5 Financial Performance

The study of the influence of expansion programs on the performance of commercial banks looked at the trends on the measures of commercial banks financial

performance. This was considered important in order to ascertain how the expansion programs were influencing the financial performance over the period. The findings are presented in table 4.7

Table 4.7: Financial Performance

Variables	Category	Frequency	Percent	Cumulative Percent
Trend on Return on Assets	Increasing	40	85	85
	No Change	7	15	100
	Declining	0	0	100
	Total	**47**	**100**	
Trend on Gross Profit margin	Declining	0	0	0
	Increasing	40	85	85
	No Change	7	15	100
	Total	**47**	**100**	
Trend on Dividends Pay out	Declining	0	0	0
	Increasing	40	85	85
	No Change	7	15	100
	Total	**47**	**100**	

On the trend on the return on Assets, Table 4.7 indicate that 40 (85%) of the respondents indicated that the return on assets has been increasing, showing that their banks have been doing well year after year, its only 7(15%) who felt that the return on assets have been constant.

On the trend on return on equity Table 4.7shows that 40 (85%) of the respondents indicated that the return on equity has been increasing, showing that their banks have been doing well year after year, its only 7(15%) who felt that the return on equity has been the same.

On the trend on gross profit, Table 4.7 indicate that 40 (85%) of the respondents indicated that the trend on gross profit has been increasing, showing that their banks have been doing well year after year, its only 7(15%) who felt that the trend on gross profit has been the same.

On the trend on the dividends payout ratio, Table 4.7 indicate that 40 (85%) of the respondents indicated that the trend on dividends payout ratio has been increasing, showing that their banks have been doing well year after year, this is important to the shareholders as their main interest is to gain good dividends and also attracts new investors, its only 7(15%) who felt that the trend on dividends payout ratio has been the same. None of the respondents indicated a decline in the payout ratio.

Table 4.8 Bivariate analysis of expansion programs that influences the performance of commercial banks

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	0.044	2.724		0.016	0.987	-5.453	5.54
New Branches	0.010	0.621	0.002	0.016	0.987	-1.242	1.263
Customer base	0.487	0.173	0.382	2.808	0.008	0.137	0.837
Loan Book	0.502	0.232	0.296	2.163	0.036	0.034	0.971
Portfolio	0.179	0.213	0.115	0.837	0.407	-0.252	0.609

a. Dependent Variable: Financial Performance

Table 4.8shows that all the coefficients for the various expansion programs are positive. The constant coefficient being positive implies that despite the action taken by the commercial banks they will still make some profits. However, for the commercial banks to leap maximum profitability they need to engage in expansion programs. Expansion in growth of loan book has highest influence on the profitability with the coefficient being 0.502 followed by growth in customer base at 0.487.Portfolio diversification and Opening of new branches have the least influence at 0.179 and 0.01 respectively. This is in line with the fact that if a commercial bank opens new branches there is heavy capital outlay that may hinder abnormal growth in the profitability. Consequently, portfolio diversification involves huge capital outlay which means that the choice of the expansion programs must be chosen carefully.

The table also shows that at 95% confidence level the opening of New branches and portfolio diversification are both significant with (P Value=0.987>0.05) and (P Value=0.407>0.05) respectively. Growth in customer base and growth in loan book are not significant with (P value=0.008<0.05) and (P value=0.036<0.05) respectively hence depicting a strong relationship.

The results of this study clearly indicate that the higher the investment in expansion program, the more likely the bank will improve its profitability.

CHAPTER FIVE

SUMMARY OF FINDINGS, DISCUSSION, CONCLUSSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter handles summary of findings, conclusions and recommendations from the study. The objectives of this study were to determine the influence of expansion programs on the performance of commercial banks in Nairobi, County in Kenya.

5.2 Summary of Findings

From the study it was found out that expansion programs influence the performance of commercial banks in Nairobi County in Kenya.

On the opening of new branches as an expansion program, all respondents indicated that their banks hand opened branches and ATM points.77% of the respondents believe that opening new braches influences the performance of the commercial banks this is significant compared to who were unsure about the effect of opening new branches and the performance of the commercial banks.

The growth in loan book was found to have the highest influence on the performance of the commercial banks. When asked the trend on level of Loan to deposit Ratio by the respondents' respective banks, the 32 respondents (68%) indicated there has been an increase in the amount of loan advanced to their customers. On the trend of the non-performing loan 32 of the respondents feel this has been declining, this could be the reason why the banks have gained confidence in advancing loans. Of the 47 respondents 31 respondents strongly agreed that growth in loan book influences the performance of the commercial banks.

On the Growth in customer base has a strong influence on the performance of the commercial banks, the findings reveals that of the 47 respondents 53% believe that advertising as means of marketing strategy has been mainly used while 47% uses competitive interest rates to attract new customers. Another significant finding is that 96% of the respondents believe that the level of customer deposits has been

increasing. Finally, 72% of the responds believe that growth in customer base influences the performance of commercial banks.

On Portfolio diversification, 43% ranked investment in property as the priority number one portfolio diversification, while 32% indicated insurance as the most preferred 15% were for securities while 11% were for other forms of portfolio diversification. A significant observation was that 53% of the respondents strongly agreed that portfolio diversification will influence the performance of commercial banks while as and 32% agree that portfolio diversification has a positive influence on the performance of the commercial banks.

5.3 Discussion of the study.

From the bivariate analysis of the influences associated with expansion programs on the performance of the commercial banks, it was found out that growth in loan book strongly influences the performance of the commercial banks. It was found out that growth in customer base strongly influences the performance of the commercial banks. On the opening of new branches and portfolio diversification there was strong positive relationship though not as significant as the other two expansion programs.

5.3.1 Opening of New branches and the Performance of Commercial Banks

The study sought to determine how Opening new branches influence the performance of Commercial banks in Nairobi County. Of the 47 respondents 36(77%) strongly agree that opening of new branches influences the performance of the commercial banks, 6(13%) were uncertain about the influence. These findings show that there is a positive relationship between the opening of new branches and the performance of the commercial banks. This is in line with other researchers who studied similar influences such as; Kim and Vale (2001) employ a data set of Norwegian banks that covers the period 1988-1995. They observed that a bank strategizes its branching decisions in order to have a market lead they concluded that it's these strategic positioning that a bank will increase its profitability.

5.3.2 Growth in Customer base and the Performance of Commercial Banks

The study sought to assess how Growth in Customer Base influences the performance of Commercial banks in Nairobi County. The research result shows that there is a strong positive influence of growth on customer base to the performance of

commercial banks in Nairobi County. Of the 47 respondents 34(72%) strongly agreed that growth in customer base influences the performance of the commercial banks, 9(19%) also agree to a lesser extent while only 9% were unsure about the influence of the customer base. None of the respondents felt otherwise. This finding is in line with other results from other researcher who conducted a research in the same line. For instance, Mburu, Helena and Cullen (2013), studying 'Determinants of Customer Satisfaction in the Kenyan Banking Industry.' The researchers concluded researchers further concluded that banks need to make sufficient and sustainable profits, which are provided by their clients, in order to remain in business.

5.3.3 Growth in Loan Book and the Performance of Commercial Banks

The study sought to establish the extent to which Growth in Loan book influences the performance of Commercial banks in Nairobi County; it was found that there was a strong positive influence of the growth in loan book 31(66%) of the sampled respondents strongly agree that growth in loan book has a positive influence of the performance of the commercial banks, 10(21%) agree with the statement with only 6(13%) being unsure, none of the respondents was in disagreement. This is supported by other researchers' findings who concluded that the growth in loan book positively influences the performance of the commercial banks, for instance, Michelle (2012) by empirically evaluating information content of a change in the size of a bank's loan portfolio. The researcher concluded that loan portfolio growth, when integrated with information on earnings, can be used to predict which loans won't be performing in the future. In the same way, those, portfolios resulting from organizing the bank stocks by loan portfolio growth and earnings always bring about excessive returns.

5.3.4 Portfolio Diversification and the Performance of Commercial Banks

The study reports findings on positive influence of portfolio diversification on the performance of the commercial banks. Portfolio diversification was one of the expansion programs adopted by commercial banks in Nairobi County, 20(43%) of the respondents indicated that investments in properties was the main form of portfolio diversification, 15(32%) argued it is insurance while 7(15%) percent were for securities, this shows that all the respondents were aware that their banks were involved in at least one form of portfolio diversification. From the study the respondents agree that the performance of the commercial banks is influenced by

diversification on the portfolio. This is in line with other researcher who studied a similar field in other countries. Jyh-Horng, Jeng-Yan and Paichou (2012), concluded that commercial banks will benefit as long as the broader product mix resulting from the expansion of insurance underwriting is relatively low as compared to the core banking business, this shows that diversification was a major factor influencing the performance of the commercial banks.

5.4 Conclusions of the study

Making the banking sector accessible to the entire population has been a major concern not only to the government but also to development partners. For instance the government in the vison 2030 identified the banking sector as very important towards the realization of its goals. Development partners and NGO has supported banks by providing resources for instance the donor institutions supports the dissemination of loans by giving guarantor ship to the banks.

Various expansion programs accounts to the financial performance of the commercial banks.

It has been demonstrated from this study that for commercial banks in Nairobi County have expansion in their branch and ATMs network, this is demonstrated by the various new branches and ATMs opened. The influence of opening new branches and ATMs has had positive influence on the performance of commercial banks.

Commercial banks have spent a lot of their resources in growth of their customer base. From the data analysis in chapter four it is clear that the banks are carrying a lot of advertisements and marketing to win customers. The greater a commercial banks customer deposits are the better its performance this is so because the commercial bank can easily give out loans from the deposits hence the multiplier effect that will result in greater performance.

On the growth in loan book, the growth in loan book is the primary responsibility of a bank that is eager to make more profits. From Chapter four, it is clear that all the banks have continued to disseminate loans and are using their resources to increase their loan portfolio and reduce the non-performing loans that have always been hindering the bank's profitability.

On the portfolio diversification, commercial banks have vigorously started to diversify by engaging in various other portfolios that were originally not being ventured into by the banks. From Chapter four results, banks have engaged in underwriting business, investment in properties, securities among other sectors of the economy. Portfolio diversification has a positive co efficient just as the other expansion programs hence its increase will lead to better performance.

The data analysis results in chapter four indicate that expansion programs influences the performance of the commercial banks. The influences impacted by the opening of new branches, growth in customer base, growth in loan book and portfolio diversification is a positive one such that an increase in any of these variables will lead to better performance of the commercial banks though with different percentages. The proportion that will be determined by the opening of new branches is the lowest followed by proportion influenced by portfolio diversification, growth in customer base and growth in loan book in that order. Finally, the research results show that growth in loan book has the strongest significance though it is not the only determinant of the performance of the commercial banks.

5.5 Recommendations of the study

The study suggests that there is need for;

1. The study has shown the important influence of opening branches and ATM points. Therefore, the study suggest that the banking sector to work with the central government to ensure branching projects are well implemented as this have an influence on the performance of commercial banks and therefore the long and short term stability of the entire systems, not forgetting the achievement of the vision 2030.

2. The banks policy makers to pay attention to ensuring customer base growth that strongly influences the performance of the commercial banks positively helping them to compete.

3. The study showed that growth in loan book will result in the highest performance. Therefore the commercial banks and government must enhance expansion of the bank's loan book by more advertisements and incentives to borrow.

4. The study showed that portfolio diversification will make banks perform better. It is therefore suggested that the stakeholders must ensure optimum mix of portfolios.

5.6 Suggestions for Further Research

This study suggests the following research be conducted to equip the stakeholders with reliable information;

1. A study to understand each commercial bank barriers to undertake opening of new branches.
2. A study to investigate the hindrances to banks' ability to increase their customer base is conducted in order to give information to stakeholders on how to market the bank.

3. There is need to conduct a study to assess the best loan levels for the banks that would ensure optimal returns and also ensure risk is minimized.

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APPENDICIES

Appendix I: Letter Of Transmittal

Kabutu Peter Chomba,

P.O Box 6731-00300

Nairobi, Kenya.

10/11/2015.

Dear Respondent,

RE: REQUEST TO PARTICIPATE IN STUDY

I am a postgraduate student undertaking a Master of Arts degree in Project Planning and Management from the University of Nairobi. It is a requirement by the University that all students undertaking this course carry out a research project. In my case I will carry out a research on: ***TheInfluence of Expansion Programs on the Performance of Commercial Banks: The Case of Commercial Banks in Nairobi County, Kenya.***

By this letter, I humbly nominate you to participate. I will be grateful if you could spare some time out of your busy schedule to give the most genuine response to the attached questionnaire.

Note, all information obtained will be used strictly for academic purposes and your identity will be treated with paramount confidentiality.

Thank you in advance for your most important responses.

Yours faithfully,

Kabutu, Peter.

Appendix II:Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

You are requested to fill out your personal information in the spaces below. Please tick only one response.

1. Kindly state your Gender

    Male: ☐   Female: ☐

2. Which Age group do you belong to?

    Below 30 Years ☐   31 - 35 years ☐

    36 - 40 years ☐   41 - 45 years ☐

    46 - 50 years ☐   Over- 51 years ☐

3. What is your highest Level of education?

    Certificate/Diploma ☐   Degree ☐

    Postgraduate ☐   Others ☐

4. What is your current position?........................
   For how many years have you worked in this organization at this level?

    Less than 5 years ☐   6 - 10years ☐

    11-15 years ☐   Over 16 years ☐

SECTION B: EXPANSION PROGRAMS ON THE PERFORMANCE OF COMMERCIAL BANKS.

a) Opening of New Branches;

   i.   What is been the trend on the numbers of the Branches and ATMs?

      ☐ Increasing   ☐ No Change ☐ Declining

   ii.   Do you think that the number of bank branches and ATMs affect the bank's performance?

      ☐ Strongly agree ☐ Agree ☐ Uncertain ☐Disagree☐Strongly Disagree

b) Growth in Customer Base;

   iii.   Which among the following marketing strategies is your bank using to attract new customers?

      ☐Advertising   ☐Competitive Interest Rates☐Others(*specify*)………….

   iv.   What would you say is the trend in level of the customer deposits in your Bank?

      ☐ Increasing   ☐ No Change ☐ Declining

   v.   What has been the trend on the percentage of your loyal to new customers

      ☐ Increasing   ☐ No Change ☐ Declining

   vi.   Do you think that growth in customer Base has positive influence the performance of the Bank?

      ☐ Strongly agree ☐ Agree☐ Uncertain☐Disagree☐Strongly Disagree

c) Growth in Loan Book;

   vii.   Have your bank increased investment in loan dissemination? Yes ☐ No ☐

   viii.   What has been the trend on the loan to deposit ratio …………………………

      ☐ Increasing   ☐ No Change ☐ Declining

   ix.   What has been the trend on the Non-Performing loan Ratio

☐ Increasing   ☐ No Change   ☐ Declining

x. What is the trend on the percentage of yourloan customers who come back for loan

top up? ☐ Increasing   ☐ No Change   ☐ Declining

xi. Do you think that growth in Loan book has positive influence the performance of the
Bank?

☐ Strongly agree ☐ Agree ☐ Uncertain ☐Disagree☐Strongly Disagree

d) Diversification of Portfolio;

xii. Has your bank investedin any other Portfolios such as Insurance, Securities, and

Property etc.?Yes   ☐   No   ☐

If yes, how would you rank investments in the various portfolios from the list below, 1

being the least? ☐ Insurance ☐ Securities☐ Property☐ Others…………

xiii. Do you think that Diversification has positive influence the performance of the Bank?

☐ Strongly agree ☐ Agree ☐ Uncertain ☐Disagree☐Strongly Disagree

f) Financial Performance

Kindly indicate what has been the trend of the following in your bank?

xiv. Return on Assets (ROA)?☐ Increasing   ☐ No Change ☐ Declining

xv. Return on Equity (ROE)?☐ Increasing   ☐ No Change   ☐ Declining

xvi. Gross Profit margin?☐ Increasing   ☐ No Change   ☐ Declining

xvii. Dividends pay out?☐ Increasing   ☐ No Change   ☐ Declining   **THE**

END ,
Thank You and God bless.

Appendix III: Introductory Letter

UNIVERSITY OF NAIROBI
COLLEGE OF EDUCATION AND EXTERNAL STUDIES
SCHOOL OF CONTINUING AND DISTANCE EDUCATION
DEPARTMENT OF EXTRA-MURAL STUDIES
NAIROBI EXTRA-MURAL CENTRE

Your Ref:

Our Ref:

Telephone: 318262 Ext. 120

Main Campus
Gandhi Wing, Ground Floor
P.O. Box 30197
N A I R O B I

20th November 2015

REF: UON/CEES//NEMC/22/480

TO WHOM IT MAY CONCERN

RE: PETER CHOMBA KABUTU – L50/69027/2013

This is to confirm that the above named is a student at the University of Nairobi, College of Education and External Studies, School of Continuing and Distance Education, Department of Extra- Mural Studies pursuing Master of Arts in Project Planning and Management.

He is proceeding for research entitled "influence of expansion programs on the performance of commercial banks". The case of Banks in Nairobi County, Kenya.

Any assistance given to him will be appreciated.

CAREN AWILLY
CENTRE ORGANIZER
NAIROBI EXTRA MURAL CENTRE

Appendix IV: Research Permit

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Appendix V: NSE listed Commercial Banks in Kenya

	BANKS
1	Kenya Commercial Bank Ltd
2	Standard Chartered Bank Ltd
3	Barclays Bank of Kenya Ltd
4	Co-operative Bank of Kenya Ltd
5	CFC Stanbic Bank Ltd
6	Equity Bank Ltd
7	National Bank of Kenya Ltd
8	NIC Bank Ltd
9	I&M Bank Ltd
10	Diamond Trust Bank Kenya Ltd
11	Housing Finance Co. of Kenya Ltd