

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

Financial Factors Influencing Diversification Strategy in Banking Industry in Kenya (A Case of I & M Bank Nyali Branch)

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Abstract:

This study sought to identify the factors affecting diversification strategy in banking industry in Kenya. This is a descriptive survey of Investment and Mortgages Bank Nyali branch. The populations of this study are the corporate clientele, who have been operating accounts at the branch for at least five years. From these clients, a population of 200 will be selected randomly. The general objective will be financial factors influencing diversification strategy in the banking industry in Kenya a case of I & M bank Nyali branch. The specific objectives are : to determine effects of capital adequacy in banking industry diversification strategies; to determine the effects of ICT in bank diversification strategy; to determine the role of human capital and expertise in banking industry diversification strategies and to determine the role of core competencies. Ansoff matrix model is used to explain how diversification strategy will be examined. The conceptual framework will relate with a diagram how dependent variable is related to the independent variable. The sample size will be 132 customers and staff of I & M bank Nyali branch. The research will be conducted using descriptive research design to explain the variables that influences diversification strategy in the Banking Industry. Stratified sampling was used to select relevant respondents from various departments of the organization. Data was processed using SPSS version 22 and information generated presented in forms of graphs, charts and tables. From the study 75.75% responded to the questionnaires administered. The validity test OD Cronbach alpha had 0.7.

1. Introduction

1.1. Background of Study

Banks exist to inter-mediate the transactions between demanders and suppliers of money at a given consideration. Earnings from these transactions form bank's traditional income generating activities. However, critical analysis of financial statements for commercial banks reveal a different trend, where over 40% of their net operating income comes from non-intermediation income generating activities. The growth of non-intermediation income activities suggests intermediation activities are becoming less important part of banking business strategies and strategically, banks have shifted their sales mix by diversifying in income sources.

Financial institutions generate increased portion of their income from non-intermediation activities (DeYoung and Rice, 2004) and this could be associated to financial liberalization policies. Deregulation and new technology have eroded banks' comparative advantages and made it easier for non-bank competitors to enter these markets, necessitating banks to shift their sales mix and diversify towards non-interest income sources (Montiel 1995, Angbazo L., 1997). Findings from USA studies show that in 1990's non-interest income grew rapidly to be a large part of banks operating profits. Noninterest income accounts for 43% of U.S.A commercial banks net operating income (Stiroh 2004).

Financial liberalization of early 1990s in Kenya opened the banking industry to a number of players leading to stiff competition and weakening of financial performance of a number of commercial banks leading to collapse of some. In response, commercial banks have changed their behavior of income sources by diversifying as a possible way of improving performance. Kenya's commercial banking sector comprises of 3 public, 28 local (private), 11 foreign (private) and 2 Islamic (private) as at 31st Dec.2009. The sector was not affected by the first round effects of recent financial global crisis (U.S.A credit crisis), as it had no exposure to the toxic assets at the heart of the crisis (CBK report, 2009). However, threats to the sector continued to be posed by the lag effects of the crisis as it spread from the centre, (CBK, Kenya Bankers Association and Reuters 2009).

Research findings from developed (USA and Europe) markets on impact of income source diversification on banks financial performance differs greatly. It worsens risk-return trade-off in.

USA while it increases risk-return trade-off in Europeans banks. Stiroh (2004), De Young and Rice (2004), Stiroh and Rumble (2006) indicate a worse risk-return trade-off for U.S.A commercial banks venturing into income source diversification. Chiarozza et al. (2008), Baele et al.,(2007), and Staikouras and Wood 2003 show that income source diversification increases risk-return trade-off for European banks. Further, Shawn, (2002) financial sectors in most developing countries are characterized by fragility, volatile interest rates, high-risk investment and inefficiencies in the intermediation process. The industry further differs in: ownership structure, financial liberalization level and accounting treatment of various sources of income.

Diversification improves (Moon,1996) cost efficiency through lower risk from diversification if it occurs, and lowers the required risk premiums on un-insured debt and other contingent claims, such as derivative contracts. Financial institutions may also have higher average revenues if the institutions use some of the gains from diversification to make higher risk investments (Hughes and Mester, 1998).

1.1.1. Profile of I&M Bank Limited

The bank traces its history to 1974 when Investments & Mortgages Limited was formed as a private company providing personalized financial services to business people in the Nairobi area. In 1980, I&M, as the company was known at that time, was registered as a Financial Institution under the Banking Act. Following changes in the regulations of the Central Bank of Kenya, the banking regulator in the country, I&M became a commercial bank in 1996.

In 2002, the present headquarters building, a 16-storey glass and steel skyscraper known as the I&M Bank Tower, was opened on Kenyatta Avenue, in Nairobi's central business district. The following year, I&M Bank acquired Biashara Bank of Kenya Limited, expanding I&M branch network, client base and assets under management. In 2007 DEG and PROPARGO, two International development financial institutions, invested approximately US\$4.5 million to acquire 11.96 percent shareholding in I&M Bank. That shareholding was later increased to 19.7 percent. In 2008, I&M Bank acquired a 50 percent ownership in First City Bank Limited (FCB) of Mauritius. FCB has since rebranded itself as Bank One Mauritius. In 2010, I&M Bank acquired a controlling shareholding in CF Union Bank of Tanzania. CF Union Bank has since rebranded into I&M Bank (Tanzania). In July 2012, I&M Bank Group took a controlling interest in Commercial Bank of Rwanda (BCR), the second-largest commercial bank in the country at the time, for an undisclosed sum of money. In August 2013, BCR rebranded to I&M Bank Rwanda.

I&M Bank Limited is a member of the I&M Bank Group, with an asset base in excess of US\$1.635 billion (KES: 141.36 billion), as of December 2013. Shares of the Group are listed on the Nairobi Stock Exchange, where they trade under the name I&M Holdings Limited, using the symbol IMHL. I & M bank has recently diversified its financial products offerings with agency banking, banc assurance and mobile banking. The strategy has been successful so far.

1.2. Statement of the Problem

Research findings from developed (USA & Europe) markets on financial factors influencing diversification of bank performance contradicts greatly. It degenerates risk-return trade-off in USA while it increases risk return trade-off in Europeans banks. Stiroh and Rumble (2006) show a worse risk return trade of for USA for commercial banks undertaking income source diversification. Chiarozza Milani and Savini (2008) demonstrate that income source diversification augment risk return trade- off for European banks. According to Stiroh (2004), diversification benefits banks from changing into non-interest revenue in USA banks increases bank income and reduces volatility of banks profit. Diversification worsens the risk return trade- off for USA bank (Rumble and Stiroh 2006) and earnings gained from diversification caused by growth in non-interest revenue is outweighed by the volatility increases resulting in a non-commensurate increase in stock returns. Non-interest revenue and interest revenue were increasingly growing highly correlated over time in USA banks (De Young & Rice, 2004) and exists along with, rather than replace each other.

Birya (2009) conducted a study to investigate the effects of privatization on financial performance of commercial banks listed at the NSE. The study established that the performance of these banks improved after privatization. Further, Auka (2006), conducted a study to determine factors influencing the practice of corporate social responsibility of financial institutions in Kenya. The study indicated that financial institutions sampled were influenced by the need to be market leaders to participate in corporate citizenship.

Many studies conducted in Kenya including:- Maithulia (1995) conducted a study on portfolio diversification: an empirical investigation of commercial banks in Kenya and found that the main internal determinants forcing banks to diversify such as risk, cost of production, regulatory cost and technological transformation; Wakwoma (2007) did a survey of product diversification strategies adopted by firms in banking industry in Kenya and found out that the banks had diversified by trading in stocks, bonds, real estate, private equity and commodities and Mulwa (2009) who studied diversification strategies in the banking industry in Kenya and established that the banking industry is steadily increasing its reliance on non-traditional business activities that generate fee revenue, trading revenue and other types of non-interest revenues. Yet scanty systematically documented information exists on the financial factors influencing diversification strategy in banking industry in Kenya. The study therefore seeks to exam the financial factors influencing diversification strategy in the banking industry in Kenya.1.3 Objectives of the study

1.3. Objective

This study was guided by general and specific objectives as follows: The general objective of the study is the financial factors influencing diversification strategy in the banking industry a case of I & M Bank, Nyali branch.

1.3.1. Specific Objectives

- i. To determine the extent to which capital adequacy influence the diversification strategies in the banking industry.
- ii. To establish the extent to which innovation and technology affects the diversification strategies in the banking industry.
- iii. To determine the extent to which human capital affects the diversification strategies in the banking industry in Kenya.
- iv. To determine the extent to which core competencies affects diversification strategies in the banking industry in Kenya.

1.4. Research Question

This study sought to find answers to the following questions.

- i. What are the effects of capital adequacy in diversification strategies?
- ii. What are the effects of innovation in diversification strategies?
- iii. What is the impact of human resources on the diversification strategies?
- iv. Does core competencies or niche serviceability have a role in diversification strategies of banking industry?

1.5. Significance of the Study

This study sought to help banks to adopt the best financial diversification strategies and apply them to make proper investment decisions by determining the returns from such projects and giving them an insight in decision making; such study of the core factors would help in replacement of long term assets and it will also help researchers and academicians who may have an interest in this research to conduct further studies. This study therefore sought to review relevant literature on factors affecting banks' diversification strategies and to identify various researchable issues.

1.6. Scope of the Study

The researcher intends to cover the understanding of factors that have effects on diversification strategies in banking industry, the research will be conducted in a sample of twenty clients in different categories as per I&M bank categorization tiers 2015, i.e. Corporate category, SME, large corporate, Multinationals.

1.7. Limitations of the Study

The researcher faced several limitations; clients are very confidential in their dealings and might not be willing to give the needed information, There will also be limitation in client reach through emails for follow up due to internet challenges in some parts of the area where such categories of clients operates.

2. Literature Review

2.1. Introduction

The study reviewed the theoretical and empirical literature of the financial factors influencing diversification strategy in banking industry in Kenya a case of I & M Bank, Nyali branch. Theoretical literature, highlighting the various theories that form the bedrock of the study while the empirical literature that is used looks at previous studies that were reviewed in order to fill the research gap. Conceptual framework critique of existing literature as well as summary as included in this chapter.

2.2. Theoretical Review

These changing roles that banks in general have adopted can broadly be described as an exploitation of growth strategies available to them in the market and effectively incorporating such strategies in enabling them to grow and expand in terms of market share while at the same time ensuring that their presence is felt in the industry.

2.2.1. Resource-based view

The Resource-based view (RBV) provides the earliest theoretical arguments in favor of diversification. Penrose (1959) points out that at any point in time a firm has certain productive resources, which can be used to exploit productive opportunities to allow the firm to grow successfully. Researchers identified a wide range of resources that create a unique advantage for a company by sharing them across businesses. For example, Goold and Campbell (2008) highlighted the benefits of sharing know-how and tangible resources, coordinated strategies, vertical integration, and pooling negotiating power. These resources allow a firm to generate economies of scale and scope by increasing the efficiency in the use of these resources (Contractor, Kundu & Hsu, 2009). Hence, from the Resourced-Based View a firm should try to maximize exploiting the valuable resources it has by sharing them across as many businesses as possible.

2.2.2. Transaction Cost Economies (TCE)

This theory inform when firms should organize new activities within the boundaries of the firm and how firms can benefit from sharing resources across different businesses within their own firm boundaries. This theoretical framework suggests that diversification allows firms to obtain greater market power by blocking out competitors and through vertical integration. More specifically, diversified companies are able to cross-subsidize their businesses, and reduce prices, which helps raising barriers for entry and/or squeezing competitors out of the market (Miller, 2009). Vertical integration allows companies to avoid market costs, control product quality and prevents its technology from spilling over to suppliers, and other intermediaries (Penrose, 1959). Hence,

from a transaction cost perspective firms should diversify whenever doing so increases their market power and/or they can organize the additional activities more efficiently than the market or their competitors.

2.2.3. Portfolio Theory

Finally, several scholars have tried to explain the benefits of diversification using portfolio theory. Modern portfolio theory (MPT) is a theory of investment which tries to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. These scholars argue that the allocation of assets across different markets with independent of cash flows reduces the impact of unsystemic risk resulting from external contingencies in each of the various markets (Lewellen, 2001). Hence, diversification reduces firms' exposure to risk. Leontiades (2009) also found that diversified companies enjoy higher leverage and debt capacity.

2.3. Growth Strategies

Ansoff (1965) has explored the various growth strategies in depth with the market grid, which has proven to be very useful in business unit strategy processes that determine business growth opportunities. It has two main dimensions: products and markets.

		Product	
		Existing	New
Market	Existing	Market Penetration	Product Development
	NEW	Market Development	Diversification

Table 1: ANSOFF MATRIX

Source: the four strategies are based on existing and new markets and products.

Kotler et al. (2006) elaborates four diversification strategies from these two dimensions.

2.3.1. Market Penetration

It involves selling more of the same products or services in current markets. The strategy adopted is often meant to achieve economies of scale through more efficient manufacturing, distribution, purchasing power and overhead sharing.

2.3.2. Market Development

This involves finding or developing new markets for its current products. The strategies applied often try to lure clients away from competitors or introduce existing products in foreign market or introducing new brand names in a market.

2.3.3. Product Development

It involves selling new products or services in current markets with an aim of selling other products to regular clients through accessories, completely new product, or add-ons.

2.3.4. Products Diversification

It entails selling of new products or services in new markets and is the most risky type of strategies. Often there is a credibility focus in the communication to explain why the company enters new markets with new products. In this study, we shall narrow down on the diversification strategies used in banking industry with specific sample of I & M Bank Nyali clients.

2.4. Diversification Strategies

In diversification strategies, a good opportunity can be found outside the present businesses (Kotler, 2003). He describes a good opportunity to be one in which the industry is highly attractive and the company has the mix of business strengths to be successful. Ansoff in his market grid notes that on the other hand diversification strategies can also decrease risk because a large corporation can spread certain risks if it operates on more than one market. Lepetit *et al.* (2006) in support of the relationship between risk and diversification did a study on diversification strategies in the European banking industry. It shows that banks expanding into non-interest income activities present higher risk than banks which mainly supply loans. Whereas previous studies (mainly on U.S. banks) focused on portfolio diversification effects, they explore risk implications of cross-selling determinants of loan pricing as an alternative explanation. Their results show that higher income from other activities is associated with lower lending rates which suggest that banks may actually use loans as a loss leader, altering default screening and monitoring activities and consequently risk pricing.

Another strand of the literature reports no diversification benefits or even an increase in risk when combining traditional and non-interest income activities. According to Boyd and Graham (2003), expansion by banks into non-bank activities during the seventies tended to increase the risk of failure of banks during the less stringent policy period. Gallo *et al.* (2006) propose that combining bank and mutual fund activities allows for some diversification benefits increasing profitability for moderated risk levels. Lepetit *et al.* (2006) conclude that banks, which have diversified into non-interest income activities, present a higher level of risk than banks, which mainly perform traditional intermediation activities. A closer investigation shows that risk is mainly positively correlated with the share of fee-based activities but not with trading activities. This result also holds when we consider the link between risk changes and higher diversification within our sample.

Tunbridge (2008) notes that there are key lessons to be learnt, especially for emerging markets, such as those in the Middle East and Africa including Kenya where the study will be of help. What these reviews show is that, although the road to maturity can be both challenging and quick the underlying problem is that without constant re-invention and great diversification strategies, the outlook can quickly become stale. This message can be easily transferred into the current strategy of bank diversification strategies, whereby a long-term strategy that allows for brand and product mix diversification will almost certainly witness increased market longevity than other less aware banks and financial institutions.

2.4.1. Dimensions of Diversification Strategies

Diversification strategies are broadly classified into related diversification (different lines are linked) or unrelated diversification (no links).

2.4.1.1 Related Diversification

Related diversification is diversifying into businesses that possess some kind of 'strategic fit'. Strategic fit exists when businesses have sufficiently related value chains that give rise to important opportunities for example, transferring skills and expertise from one activity to another. It involves developing beyond but still within the confines of the industry (Kotler and Keller, 2006). It is also defined as the diversification into a new business activity in a different industry that is related to a company's existing business activity(s) by commonalities between one or more components of each activity's value chain. These commonalities are mainly marketing, or technological. Gains arise from the transferring and leveraging of competencies and from the sharing of resources (Hill and Jones, 2004).

Geringer et al. (2000) suggest that diversification strategies may also achieve competitive advantage for banks through economies of scale and other synergies from using the banks resources and capabilities across different product lines. Luo (2002) propose that such synergies from diversification are more likely to be realized when firms expand into related lines of business or industries. Related diversification may take the form of vertical integration, horizontal integration, or concentric diversification.

2.4.1.2 Vertical Integration

McAfee (2001) states that banking is consolidating at a rapid pace, with integration of related financial services (insurance, credit card) along with input services (check clearing payments, electronic funds transfer) into the parent companies. Vertical integration can be either backward or forward integration. Backward integration involves the development into activities concerned with inputs into a company's current business, which is further back into the value chain. (Pearce & Robinson, 1997). Forward integration is the development into activities concerned with a firm's output, which is further forward into the value chain like distribution and marketing activities (Pearce & Robinson, 1997).

2.4.1.3 Horizontal Integration

When the long-term strategy of a firm is based on growth through the acquisition of one or more similar businesses operating at the same stage of the production-marketing chain, its grand strategy is called horizontal integration (Pearce & Robinson, 1997). Such acquisitions provide access to new markets for the acquiring firm and eliminate competitors. It is the process of acquiring (using capital resources to purchase another firm) or merging (agreeing with an equal to pool their operations to create a new entity) with industry competitors in an effort to achieve the competitive advantages that come with large scale and scope (Hill & Jones, 2004).

Scheveningen (2004) considers the issue of cross-border consolidation in the banking sector, pointing to a number of interesting data that suggest that cross-border acquisitions within the E.U. are less common in the financial sector than in other sectors of the economy. Extensive research on structural developments in the banking sector also shows that both the number and value of cross-border mergers and acquisitions in the banking sector are far lower than domestic merger and acquisitions activities.

2.4.1.4 Concentric Diversification

When diversification strategies involve the addition of a business related to the firm in terms of technology, markets, or products, it is concentric diversification. With this type of grand strategy, the new businesses selected possess a high degree of compatibility with the current businesses. The ideal concentric diversification occurs when the combined company profits increase strengths and opportunities, as well as decrease weaknesses and exposure to risk. Thus, the acquiring company searches for new businesses with products, markets, distribution channels, technologies and resource requirements that are familiar but not identical, synergistic but not wholly interdependent (Pearce & Robinson, 1997).

This diversification means seeking new technological or marketing synergies with existing product lines, even though the products themselves appeal to a different group of customers (Kotler & Keller, 2006). Carman & Langeard (2000) propose that concentric diversification, as a strategy, may be more logical for service firms than for product firms. The reason is that many offerings of new core services by a firm are not compatible with the existing line or existing market segments.

2.4.1.5 Unrelated Diversification

This strategy, also known as conglomerate diversification, is based on entry into industries that have no obvious connection to any of a company's value chain activities in the present industry. The chief focus is to increase profitability by exploiting general organization's competencies. However, it is difficult to transfer or leverage competencies and to realize economies of scope (Hill & Jones, 2004). Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising

investment opportunity available. The principal and often sole concern of the acquiring firm is the profit pattern of the venture. There is little concern given to creating product/ market synergy with existing businesses, unlike the approach taken in concentric diversification. For example, a company may seek a balance in their portfolios between current businesses with cyclical sales and acquired businesses with counter-cyclical sales, between high-cash/low-opportunity and low-cash/high-opportunity businesses, or between debt-free and highly leveraged businesses (Pearce & Robinson, 1997). Unrelated diversification means seeking new businesses that have no relationship to its current technology, products, or markets (Kotler & Keller, 2006)

2.5. Conceptual Framework

Mugenda (2008) defines conceptual framework as a concise description of phenomenon under study accompanied by a graphical or visual depiction of the major variables of the study. According to Young (2009), conceptual framework is a diagrammatical representation that shows the relationship between dependent variable and independent variables. A conceptual framework shows the relationship between independent and dependent variable. In this study, the dependent variable is financial factors influencing diversification strategy in the banking while the independent are capital adequacy, effects of innovation, human capital expertise and core competencies. (See Figure 1 below).

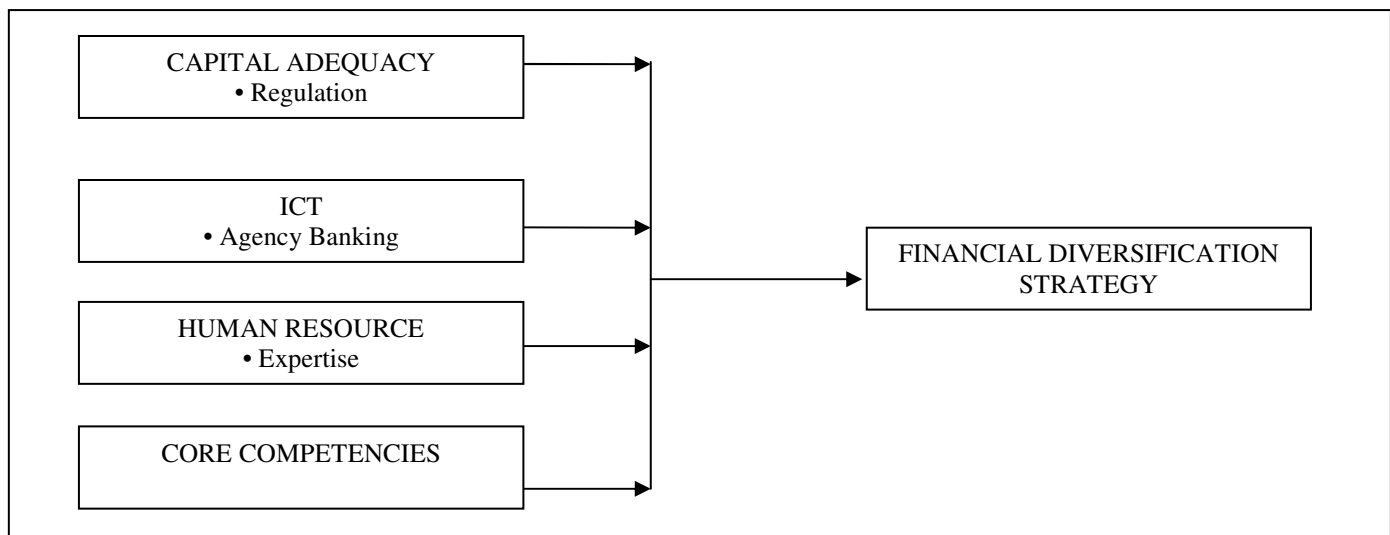


Figure 1: Conceptual Framework

2.5.1. Capital Adequacy

Some literature reports argue that diversification strategies of banks into non-banking activities have led to an increase in risk of bank failure. For example, diversifying into unrelated product areas in foreign marketplaces also frustrates subsidiaries due to the difficulty of applying existing product experience to unfamiliar market conditions. This may eventually lead to failure of such a bank since it may have invested heavily in the subsidiary. Demsetz and Strahan (1997) who studied the stock returns of selected banks between 1980 and 1993 find that although banks extended their product mixes, no risk reduction could be observed as banks tended to move to riskier activities and to lower their capital ratio.

2.5.2. Information Communication and Technology

Jayawardhena & Foley, 2000 noted that deregulation and technological developments were the most important external drivers of increased competition and change in the financial services market. A part from relying on the physical distribution network Equity Bank has exploited ICT and e-commerce to create a virtual distribution network. This has been a strategic response to the competition in the industry, as all the banks in Kenya are today involved in E-commerce one way or the other. Bajaj and Nag (1999) notes that "Electronic Commerce (E-Commerce) has unleashed yet another revolution, which is changing the way businesses buy and sell products and services. It is associated with buying and selling of information, products, and services over computer communication networks." "An ICT strategy gives technological direction and purpose, organizes and deploys IT (information technology) resources in the most effective manner, and coordinates the stream of decisions being made by different members of the organization and IT function. Strategy is about aligning every activity to create an offering that cannot be easily emulated by competitors (Kitur 2006)".

The bank has utilized this ICT to have competitive advantage over other banks in serving the local market and the Kenyan Diaspora. ICT has also enabled the bank to develop innovative products with competitive advantage like cash-back services and efficiently handle its bulk custodial services business. ICT also provides a platform for the bank to compete on cost competencies. Further ICT has helped the development of agency banking.

2.5.3. Human Resource

Ammo (2003) emphasizes that "human resource is the most important factor for success in any organization. Lee and Miller, 1999, also notes that one of the key resources needed to execute an organization strategy is its human capital. Therefore, a dedicated and

talented workforce may serve as a valuable, scarce, non-imitable resource that can help firms execute an appropriate positioning strategy. In their study of Korean businesses how an organization's commitment to its employees' well-being (OCE) can aid in the profitable execution of its positioning strategies Lee and Miller (1999) found that OCE, by itself, sometimes has a weakly positive association with return on assets (ROA). But far more important, we found that ROA is strongly and positively influenced by the interaction between OCE and the dedicated pursuit of Porter's (1980) strategies for achieving competitive advantage: these are cost leadership, marketing differentiation and innovative differentiation. Yet the astonishing reality is that most of the firms are as unprepared for the challenge of finding, motivating, and retaining capable workers as they were a decade ago. Business leaders are deeply concerned, judging by two McKinsey Quarterly global surveys. The first, in 2006, indicated that the respondents regarded finding talented people as likely to be the single most important managerial preoccupation for the rest of this decade. The second, conducted in November 2007, revealed that nearly half of the respondents expect intensifying competition for talent - and the increasingly global nature of that competition - to have a major effect on their companies over the next five years (Guthridge, Komm & Lawson 2008)".

I & M Bank SWOT analysis reveals that, one of its weaknesses as lack of an "experienced" workforce compared to its competition being a relatively young bank. The management of Equity Bank has addressed these gaps by "poaching" from other banks and making heavy investment in training. However, according to the year 2007 financial report this relatively young bank has strategically accumulated wealth of experience through strategic recruitment of staff and directors. The bank has managed to attract experienced staff from other banks and reputable world class companies. The bank has also addressed its talent gap by enrolling in capacity building programs. They have trained their staff in leadership and management development programs offered by leading world business schools like Harvard Business School.

2.5.4. Core Competencies

I & M bank has adopted several marketing strategies to respond to the competition in the banking industry. I & M bank has embarked on several tactics to build an effective marketing strategy to tackle its competition in the banking industry. These tactics include customer acquisition, distribution, pricing, advertising, branding, relationship management, innovation customer satisfaction, and social marketing strategies. I & bank has also strategically grown its customer base by simplifying the process of opening and making itself the most convenient bank to bank with. While other banks were demanding a minimum amount to open a bank account Equity Bank allowed customers to open accounts with nil balances. While other banks were demanding "unreasonable documentation" from their customers in pretext of KYC (know your customer) rules I & M bank used a more friendly approach. It appreciated that some of its customers were lay people that were currently living as tenants who had no utility bills and resorted to other references from farmers' societies and employers. Such sensitivity to customers has also generated goodwill for the bank through word of mouth advertising. However in the post Helios deal the game plan seems to be changing. The bank now has a fully-fledged corporate banking department so it is very likely to adopt a very different strategy in its next development phase. This aggressive drive for customers has also increased the bank market share.

2.6. Benefits of Diversification Strategies in Banking Industry.

2.6.1. Risk Reduction

Diversification strategies leads to risk reduction as the bank enters into different markets thus risk of depending on a single market or product is diminished. Boyd *et al.* (1980), who simulated portfolios of banking and non-bank subsidiaries during the 1970s, suggest that there is potential for risk reduction at relatively low levels of non-bank activities. The results obtained by Kwast (1989) to determine an optimal risk minimizing combination of banking and non-banking activities for the period 1976-1985 show only a slight potential for risk reduction. Gallo *et al.* (1996) find, over the 1987-1994 period, that combining bank and mutual fund activities allows for some diversification benefits increasing profitability for moderated risk levels.

2.6.2. Improved Performance

Many studies have been conducted on the relationship between different diversification strategies and performance. However, the results have been inconclusive. Some studies have concluded that diversification has lead to improved performance in those institutions. For instance, Rumelt's early study found that performance differences existed across seven out of nine diversification strategies. Some subsequent strategic literature supported his finding that firms which diversified into related strategic areas performed better than those that diversified into unrelated areas (Rumelt,1974, Bettis 1981, Christensen/Montgomery 1981, Hoskisson 1987, Wernerfelt/Montgomery 1988). Hitt and Ireland (1985) and Johnson and Thomas (1987), on the other hand, find no performance variations across strategic types.

2.6.3. Competitive Advantage

A study conducted by (Barney 2001,.) shows that firms that have diversified into products that use the existing internal resources or capabilities of the firm will benefit from economies of scale thus earn higher returns. (Buckley/Casson 2006, Beamish/Banks 2007), find that the payoff created by diversification may be magnified when Multi-national corporations capitalize on economic rents derived not only from product and market diversity but also from the various advantages embodied in foreign activities such as knowledge acquisition, capability development, risk reduction, and complementary synergies.

2.7. Research Gaps

Kotler et al, (2006) suggest that conglomerate diversification involves seeking new businesses that have no relationship to its current technology, products or markets. This gives an impression that banks can be involved in businesses that are in a different industry for example business clubs, hotels, among others. However, in its quest to diversify its strategies into unrelated industries, the banks may encounter significant challenges. For example, a bank which diversifies by starting up a college will need to spend a lot of time and money in planning and even launching. It would have to seek registration, source for qualified management of the college, acquire suitable premises and facilities, hire lecturers, and advertise, among other tasks. Due to the nature and demand of the work at hand, a separate team would have to be set up to take up these responsibilities, some of whom may hold other positions in the bank. Therefore, this will directly or indirectly affect the operations and core business of the bank.

A question therefore arises: "To what extent can banking institutions diversify into non-bank industries?" That is, are there businesses that banks should not engage in, possibly because of conflict of interest, lack of adequate expertise, among other constraints that may arise? Competitive advantage has been identified as one of the benefits that accrue to a bank due to its diversification strategies (Barney, 1991, Prahalad and Hamel, 1990). Such advantages could come in the form of superior profits and market leadership. The central idea is that over time, banks may develop key areas of expertise, which are distinctive to that bank and critical to its long-term growth (Mead, 1998). These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the bank where most value is added to its products. This eventually results in an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justify higher prices.

However, a bank's competitive strategies could easily be copied by other banks hence diluting the competitive advantage. As soon as fellow players in the industry realize that they could stretch their resources and diversify into other areas, they quickly do so. How, then, have banks strategized to maintain their leading competitive advantage or deal with the effects of dilution of the advantage? How uniquely do they make their new products and services to avoid copying by fellow banks? Diversification strategies note that diversification strategies can decrease risk because a large corporation can spread certain risks if it operates in more than one market. However, the issue arises if diversification in itself reduces risk considering that the new ventures the bank goes into are very risky and therefore they do present the bank with many issues to deal with.

For example the main idea behind diversifying into investment banking, is to increase profits by increasing client base through providing services that are proverbially "under one roof". However, market forces of demand determine security prices and supply, which can drastically change especially in harsh economic times as, is. If the bank is not well prepared for this eventuality, it may actually miss its earlier intention of diversifying risk. The bank is evidently at a cross road on which decision to make, that is diversify and face the risks associated head on or be more cautious in its diversification. This in effect begs the question; will the banks actually survive the risks they encounter in these new businesses? Are they prepared to deal with the difficulty of applying existing product experience to unfamiliar market conditions? What would be the effect on the core business of the bank and therefore is the risk worth it despite the fact that profits could actually increase? At the end of the day, the risk perception of management dictates how big a risk the bank is willing to take. This issue is well worth a research to identify what risks might banks encounter. What are the ways the risks could be mitigated? What factors dictate the risk taken? What solutions could be available to the banks?

2.8. Summary

The study reviewed literature from various sources including theories that support diversification of commercial banks. The review also looked at the conceptual framework and all the independent variables were discussed in length.

3. Research Methodology

3.1. Introduction

This chapter comprises of research design, target population, sampling frame, sampling and sampling techniques, data collection instrument, data collection procedures, pilot test and data processing analysis and presentation.

3.2. Research Design

The researcher will use descriptive research design. Descriptive study is concerned with finding out who, what, where, and how much a phenomenon, which is the concern of the study. Sekaram (2006) observes that the goal of descriptive research is to offer the researcher a profile or describe relevant aspects of the phenomena of interest from the individual, organization, industry or other perspective. In addition the design best fit in the ascertainment and description of characteristics of variables in this research study, and allow for use of questionnaires, interviews and descriptive design is appropriate since it will enable the research to collect enough information necessary for generalization.

3.3. Target Population

The target population in this study consists of 200 random bank clients currently operating accounts at I&M bank Nyali.

3.4. Sample Size

According to Krejcie and Morgan (1970) asserts that the representative sample size can be obtained from Krejcie and Morgan table found on appendix v. From the target population size of 200, Krejcie and Morgan table gives us a sample size of 132 respondents.

3.5. Sampling

Sampling is the process of selecting a number of individuals or objects from a population such that the selected group contains elements representative of the characteristics found in the entire population. Sample is a small group of objects or individuals selected or drawn from a population in such a manner that its characteristics represent population characteristics (Orodho, 2009).

3.6. Sampling Technique

Stratified random sampling method will be used to select relevant respondents from various departments of I & M bank Nyali branch. Mugenda and Mugenda (2003) argue that stratified random sampling is where a given number of cases are randomly selected from each population sub-group. It thus ensures inclusion in the sample of subgroup which otherwise could be omitted entirely by other sampling methods. In this case stratification will be based on department from which employees come from.

Stratified sampling enables the populations to be divided into peers are large, medium, and small called strata. These peers are established depending on the type of account and level of operation a client has. Simple random sample is then drawn from each stratum, and then those sub-samples joined to form complete stratified samples. In addition proportional allocation is done, where each stratum contributed to the sample a number that is proportional to its size in the population.

3.7. Data Collection Procedure

The researcher will use structured questionnaires to collect data from KRA respondents. A questionnaire with high reliability would receive similar answers if it is done again and again or by other researchers (Bryman & Bell, 2007; Saunders et al., 2007). In addition the questionnaires are convenient for the task in that they can be easily and conveniently administered with the study sample. The use of questionnaire is cost effective, less time consuming as compared to the use of interview. Data collected through the use of well-structured questionnaire is easy to analyze.

3.8. Pilot Testing

The questionnaires will be pilot tested before the actual data collection. This will involve a few respondents from I & M bank to ascertain its effectiveness. The researcher will be interested in testing the reliability of the research instruments, the questionnaire hence validity of data collected. Validity is the accuracy and meaningfulness of inferences which are based on the research results (Mugenda & Mugenda, 2003) asserts that reliability is done using Cronbach's Alpha Model on SPSS. Mugenda and Mugenda (2003) assert that reliability is the measure of the degree to which research instrument yields consistent results or data after repeated trials. The researcher will do a pilot with 10 respondents before distributing the questionnaire. The purpose is to ensure that those items in the questionnaire are clearly stated and have the same meaning to all respondents. At the same time I will help to determine how much time is required to administer the questionnaire. Respondents for pre-testing will not form part of the sample.

3.9. Data Processing, Analysis and Presentation

Kothari (2009) argues that data collected has to be processed, analyzed and presented in accordance with the outlines laid down for the purpose at the time of developing the research plan. Data analysis involves the transformation of data into meaningful information for decision making. It will involve editing, error correction, rectification of omission and finally putting together or consolidating information gathered. The collected data will be analysed quantitatively and qualitatively. The quality and consistency of the study will further be assessed using Cronbach's alpha. Data analysis will be performed on a PC using Statistical Package for Social Science (SPSS Version 22) for Windows. Analysis will be done using frequency counts, percentages, means and standard deviation, regression, correlation and the information generated will be presented in form of graphs, charts and tables. Set of data will be described using percentage, mean standard deviation and coefficient of variation and presented using tables, charts and graphs.

Fraenkel and Wallen (2000) argue that regression is the working out of a statistical relationship between one or more variables. The researcher will use a multiple regression analysis to show the effect and influence of the independent variables on the dependent variable.

The relationship is as follows;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Y = Represents the dependent variable, Factors affecting diversification in banking industry

α = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = Partial regression coefficient

X_1 = Capital adequacy

X_2 = ICT

X_3 = Human resources

X_4 = Core competencies

ε = error term or stochastic term

4. Data Analysis, Results and Discussion

4.1. Introduction

This chapter presents analysis of the data on the financial factors influencing diversification strategy in banking industry in Kenya. The chapter also provides the major findings and results of the study and discusses those findings and results against the literature reviewed and study objectives. The data is mainly presented in frequency tables, means, standard deviation and coefficient of variation.

4.1.1. Response Rate

The study targeted 132 employees and customers of I & M bank, Kenya. From the study, 100 out of the 132 sample respondents filled-in and returned the questionnaires making a response rate of 75.75% as per Table 2 below.

	Frequency	Percentage
Respondent	100	75.75
Non-respondent	32	24.25
Total	132	100

Table 2: Questionnaire Return Rate

According to Mugenda and Mugenda (1999) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate was adequate for analysis and reporting.

4.1.2. Data Validity

The researcher asked experts, three academicians, to assess the scales' content validity. Accordingly, the researcher made changes on the first draft in terms of eliminating, adding or rewording some of the items included in that draft.

4.1.3. Reliability Analysis

Prior to the actual study, the researcher carried out a pilot study to pre-test the validity and reliability of data collected using the questionnaire. The pilot study allowed for pre-testing of the research instrument. The results on reliability of the research instruments are presented in Table 3 below.

Scale	Cronbach's Alpha	Number of Items
Capital adequacy	0.764	4
Innovation and Technology	0.809	4
Human capital effect	0.723	4
Core competencies	0.791	4

Table 3: Reliability Coefficients

The overall Cronbach's alpha for the four categories which is 0.752. The findings of the pilot study shows that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda and Mugenda, 2003).

4.2. Background Information

The background information was gathered based on the age, gender and work experience of respondents.

4.2.1. Gender of Respondents

The study sought to know the gender of the respondents. The results showed that majority of respondents were male which was represented by 66% of the total response rate while 34% of the respondents were female with a mean of 1.34 and a standard deviation of 0.476. This showed that more male than females participated in the study shown in the Figure 2 below.

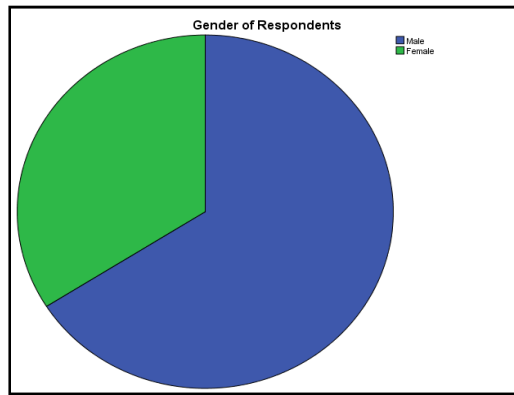


Figure 2: Gender of respondents

4.2.2. Age of Respondents

The study sought to find out the ages of the respondents. The results showed that respondents below 25 years were 8.8%; between 25 and 30 years were 14.7%; between 31 and 35 years were 39.2% between 36 and 40 years were 24.5%; between 41 and 45 years were 7.8% and above 46 years were 4.9%. A mean score of 2.23 with a standard deviation of 1.210, this showed that majority of respondents were between 31 and 35 years as shown in Figure 3 below.

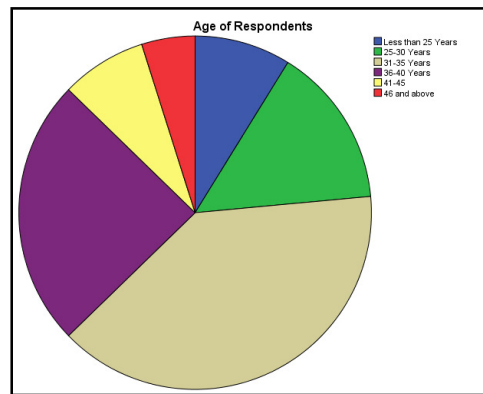


Figure 3: Respondents Age

4.2.3. Respondents Work Experience

The study revealed that respondents who have less than 3 years of working experience were 12.7%; between 3 and 5 years were 29.4%; between 6 and 10 years were 50% and over 10 years were 5.9% as shown in Figure 4 below

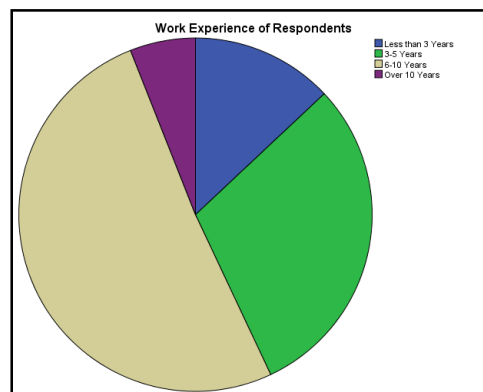


Figure 4: below-Work experience

4.3. Financial Factors Influencing Diversification Strategy in the Banking Industry in Kenya

In the research analysis the researcher used a tool rating scale of 1 to 5; where 5 was the lowest and 1 the highest. Opinions given by the respondents were rated as follows, 5 = Strongly Agree, 4 = Moderately Agree, 3 = Neutral, 2 = Moderately Disagree and 1= Strongly Disagree. The analysis for mean, standard deviation and coefficient of variation were based on this rating scale.

4.3.1. Capital Adequacy

Capital Adequacy				
	Statements	Mean	Standard Deviation	Coefficient of Variation
B1	Capital adequacy determines which diversification strategy to use	4.1722	0.6941	0.1664
B2	Capital adequacy widens scope of diversification strategy	4.5000	0.6969	0.1549
B3	Capital adequacy determines which areas to diversify in	4.3056	0.7077	0.1644
B4	Capital adequacy determines the success of diversification	4.0566	0.7538	0.1858

Table 4: Capital adequacy level of agreement

The first objective of the study was to establish the effects of capital adequacy on financial factors influencing diversification strategy in banking industry in Kenya. Respondents were required to respond to set questions related to capital adequacy and give their opinions. The opinion in agreement that capital adequacy determines which diversification strategy to use had a mean of 4.1722, standard deviation of 0.6941 and a low dispersion of 16.64% signifying a high level of agreement. The finding also indicates capital adequacy widens scope of diversification with a mean of 4.5, standard deviation of 0.6969 and a dispersion of 15.49% signifying a high level of agreement. Opinion whether capital adequacy determines which areas to diversify in was positive with a mean of 4.3056, standard deviation of 0.7077 and a dispersion of 16.444% signifying a high level of agreement.

The opinion whether capital adequacy determines the success of diversification had a mean of 4.0566, standard deviation of 0.7538 and a dispersion of 18.58% signifying a high level of agreement.

4.3.2. Innovation and Technology

Innovation and Technology				
	Statements	Mean	Standard Deviation	Coefficient of Variation
C1	Banks use innovation and technology to Diversify products and services	3.8611	1.0731	0.2779
C2	Banks use innovation and technology to To cross sell products and services	4.2778	1.0032	0.2345
C3	Innovation and technology has helped reduce fraud in the banking industry	4.4722	0.9706	0.2170
C4	Innovation and technology allows banks to diversify	3.6389	1.3555	0.3725

Table 5: Innovation and Technology level of agreement

The second objective was to establish the effect of innovation and technology on financial factors influencing diversification strategy in banking industry. Respondents were required to respond to set questions related to innovation and technology and give their opinions. The opinion that banks use innovation and technology to diversify products and services had a mean score of 3.8611 a standard deviation of 1.0731 and a low dispersion rate of 27.79%. The opinion that banks use innovation and technology to cross sell products had a mean of 4.2778 a standard deviation of 1.0032 and a dispersion of 23.45%. The opinion that innovation and technology has helped banks to reduce fraud had a mean score of 4.4722 a standard deviation of 0.9706 and a dispersion rate of 21.7%. Last but not least the opinion that innovation and technology allows banks to diversify had a mean score of 3.6389 a standard deviation of 1.3555 with a dispersion rate of 37.25%.

4.3.3. Human Capital

Human capital				
	Statements	Mean	Standard Deviation	Coefficient of Variation
D1	Staff and customers are involved in Diversification	4.2444	0.7149	0.1812
D2	There is sufficient manpower to help in Diversification strategy	4.3722	0.5829	0.1333
D3	Diversification strategy is for all to contribute	4.5833	1.0522	0.2936
D4	Talent in diversification strategy	4.5278	0.5623	0.1241

Table 6: Level of agreement on human Capital

The third objective was to establish the effect of human capital on financial factors influencing diversification strategy in banking industry. Respondents were required to respond to set questions related to human capital and give their opinions. The opinion that staff and customers are involved in diversification had a mean score of 4.2444 with a standard deviation of 18.12%. There is sufficient manpower to help in diversification strategy had a mean of 4.3722 with a standard deviation of 0.5829 and dispersion rate of 13.33%. The opinion that diversification is for all had a mean of 4.5833 with a standard deviation of 1.0522 and dispersion rate of 29.36%. Opinion that, there is talent in banks to carry out diversification had a mean score of 4.5278 with a standard deviation of 0.5623 and dispersion rate of 12.41%.

4.3.4. Core Competencies

Core competencies				
	Statements	Mean	Standard Deviation	Coefficient of Variation
E	Banks need to improve performance on Core competencies	4.2500	0.7319	0.1743
E	Banks needs to diversify core competencies	4.3611	0.8669	0.1988
E	High cost of diversification	4.1389	0.9607	0.2321
E	Change business focus	4.1222	0.6431	0.1560

Table 7: Level of agreement on core competencies

The fourth objective was to establish the effect of core competencies on financial factors influencing diversification strategy in banking industry. Respondents were required to respond to set questions related to core competencies and give their opinions. Banks need to improve performance on core competencies had a mean score of 4.2500 standard deviation of 0.7319 and dispersion rate of 17.43%. Banks needs to diversify core competencies had a mean of 4.3611 standard deviation of 0.8669 and dispersion rate of 19.88%. Opinion that high cost of diversification had a mean of 4.1389 standard deviation of 0.9607 and dispersion rate of 23.21% and opinion that banks should change business focus had a mean score of 4.1222 standard deviation of 0.6431 and dispersion rate of 15.60%

4.4. Multiple Regressions Analysis

The correlation analysis Table 7 shows the relationship between the independent variables, capital adequacy, innovation and technology, human capital and core competencies the dependent financial factors influencing diversification strategy. The analysis indicates the coefficient of correlation, r equal to 0.768, 0.646, 0.776 and 0.773 for capital adequacy, innovation and technology, human capital and core competencies. This indicates a very strong positive relationship between the independent variables,

Model	Coefficients ²								
	Coefficients			Unstandardized Coefficient			Standardized Correlations		
	B	Error	Beta	t	Sig.	Zero-order	Partial	Part	
(Constant)	.658	.136		5.511	.000				
Capital adequacy	.483	.137	.282	3.194	0.01	.768	.110	.015	
			Innovation and						
technology	.357	.015	.159	2.950	0.04	.646	.089	.025	
Human capital	.496	.121	.485	4.111	.000	.776	.594	.121	
Core competencies	.451	.145	.391	3.109	0.04	.773	.488	0.92	

a. Dependent Variable: Financial factors influencing diversification strategy of banks in Kenya

Table 8: Multiple Regression Analysis Coefficients

- Hypothesis 1

H₀: There is no effect of capital adequacy on effect on diversification strategy of banks in Kenya

$$\beta_1=0,$$

H₁: There is an effect of capital adequacy on diversification strategy of banks in Kenya

$$\beta_1 \neq 0,$$

In relation to the variable capital adequacy, the results in Table 10 above indicate that capital adequacy has a significant influence on diversification strategy. This is supported by regression analysis t-value of 3.194 which is greater than the critical value 2.0 and a p-value of 0.01 at 95% level of significance which is less than 0.05. After testing the hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values was, 3.194 for capital adequacy, which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected the null hypothesis that there is no effect of capital adequacy on diversification strategy in Kenya.

Therefore the study accepted the alternative hypothesis that there is an effect of capital adequacy on Diversification strategy in banks in Kenya.

- Hypothesis 2

H₀: There is no effect of innovation and technology on diversification strategy in banks in Kenya

$$\beta_1=0,$$

H₁: There is an effect of innovation and technology on diversification strategy in banks in Kenya

$$\beta_1 \neq 0,$$

In relation to the variable innovation and technology, the results in Table 10 above indicate that innovation and technology has a significant influence on diversification strategy in Banking industry in Kenya. This is supported by regression analysis t-value of 2.95 which is greater than the critical value 2.0 and a p-value of 0.04 at 95% level of significance which is less than 0.05.

After testing the hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values was, 2.95 for innovation and technology, which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected the null hypothesis that there is no effect of technology on diversification strategy in banks in Kenya.

Therefore the study accepted the alternative hypothesis that there is an effect of innovation and technology on diversification in banks in Kenya.

- Hypothesis 3

H₀: There is no effect of human capital on diversification strategy in banks in Kenya

$$\beta_1=0,$$

H₁: There is an effect of human capital on diversification strategy in banks in Kenya

$$\beta_1 \neq 0,$$

In relation to the variable human capital, the results in Table 10 above indicate that human capital has a significant influence on diversification strategy in banks in Kenya. This is supported by regression analysis t-value of 4.111 which is greater than the critical value 2.0 and a p-value of 0.00 at 95% level of significance which is less than 0.05.

After testing the hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values was, 4.111 for human capital, which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected the null hypothesis that there is no effect of human capital on diversification strategy on banks in Kenya.

Therefore the study accepted the alternative hypothesis that there is an effect of human capital on diversification strategy on banks in Kenya.

- Hypothesis 4

H₀: There is no effect of core competencies on diversification strategies in banks in Kenya

$$\beta_1=0,$$

H₁: There is an effect of core competencies on diversification strategies in banks in Kenya

$$\beta_1 \neq 0,$$

In relation to the variable core competencies, the results in Table 10 above indicate that core competencies has a significant influence on diversification strategy in banks in Kenya. This is supported by regression analysis t-value of 3.109 which is greater than the critical value 2.0 and a p-value of 0.004 at 95% level of significance which is less than 0.005.

After testing the hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values was, 3.109 for core competencies, which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected the null hypothesis that there is no effect of core competencies on diversification strategy in Kenya.

Therefore the study accepted the alternative hypothesis that there is an effect of core competencies on financial factors influencing diversification strategy in banks in Kenya.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.786 ^a	.773	.770	.15625	.773	179.329	4	32	.000

a. Predictors: (Constant), capital adequacy, innovation and technology, human capital, core competencies

Table 9 Regression Analysis Summary

Table 9 above indicates an overall P-value of 0.000 which is less than 0.05 (5%). This shows that the overall regression model is significant at the calculated 95% level of significance. It further implies that the studied independent variables namely capital adequacy, innovation and technology, human capital and core competencies have significant effect on financial factors influencing diversification strategy in banking industry.

Table 9 shows the regression model summary indicating the coefficient of determination R Square as 0.770. This means that 77.0% of the relationship is explained by the identified four factors namely capital adequacy, innovation and technology, human capital and core competencies. The rest 23.0% is explained by other factors in banks not studied in this research.

In summary the four factors studied namely, capital adequacy, innovation and technology, human capital and core competencies or determine 77.0% of the relationship while the rest 23.0% is explained or determined by other factors.

4.6. Anova

The study used ANOVA to establish the significance of the regression model. In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model is as per Table 10 below with P-value of 0.00 which is less than 0.05.

Basing the confidence level at 95% the analysis indicates high reliability of the results obtained. The overall Anova results indicates that the model was significant at $F = 259.329$, $p = 0.000$.

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	94.909	4	8.477	259.329	.000 ^b
	Residual	.763	96	.032		
	Total	95.672	100			
a. Dependent Variable: Financial diversification strategy						
b. Predictors: (Constant), capital adequacy, innovation and technology, human capital, core competencies						

Table 10: Anova

5. Summary of the Findings, Conclusions and Recommendations

5.1. Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The chapter finally presents the limitations of the study and suggestions for further studies and research.

5.2. Summary

There was a 75.75% response rate on the questionnaires that were administered. Majority of the respondents ages were between 31 and 35 years. The study revealed that majority of the respondents has been working for between 6 and 10 years.

5.2.1. Capital adequacy

From the study it was established that capital adequacy determines the diversification strategy to be employed by the banks. The study further established that capital adequacy in banks determines which areas of the economy to diversify in so as to minimize risks and obtain maximum returns for shareholders (Stiroh, 2004).

5.2.2. Innovation and Technology

The study established that, banks need to embrace new innovations and technology in order to widen revenue streams. The study also established that banks that embraced innovation and technology could easily diversify their product and services offerings on other platform at relatively low costs yet reaping a fortune out of it (Schmidt, 2009).

5.2.3. Human Capital

The study established that human capital is significant in diversification strategy by allowing staff and customers to contribute on how to better their banking experience and yet reducing risks that banks may be exposed to due to diversification.

5.2.4 .Core competencies

The study revealed that a bank that is keen on its core competencies is more to diversify than a bank that does not.

After testing the four hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values were above 2.0 for all the independent variables studied , which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected all four the null hypothesis accepted all the four alternative hypothesis.

This implies that the studied independent variables namely capital adequacy, innovation and technology, human capital and core competencies have significant effect on financial factors influencing diversification strategy in banking industry in Kenya.

5.3. Conclusion

From the research findings, the study concluded all the independent variables studied have significant effect on financial factors influencing diversification strategy in banking industry in Kenya as indicated by the strong coefficient of correlation and a p-value which is less than 0.05. The overall effect of the analyzed factors was very high as indicated by the coefficient of determination. The overall P-value of 0.00 which is less than 0.05 (5%) is an indication of relevance of the studied variables, significant at the calculated 95% level of significance. This implies that the studied independent variables namely capital adequacy, innovation and technology, human capital and core competencies have significant effect on financial factors influencing diversification strategy in banking industry in Kenya.

5.4. Recommendation

From the study, the following were recommended;

- i. That bank should increase their capitalization to enable diversification strategies to work effectively.
- ii. That bank should come up with innovative ways to diversify their product and services offerings on different platforms at relatively lower costs yet getting maximum returns on it.
- iii. That bank should continuously diversify in new ventures to diversify their revenue stream.
- iv. Human capital should be developed as part of diversification strategy
- v. That bank improves core competencies and diversify the same in the long run

6. Suggestion for Further Studies

The study indicates capital adequacy, innovation and technology; human capital and core competencies have significant effect on financial factors influencing diversification strategy in banking industry in Kenya. The researcher further recommends research in related areas in the banks that are listed on the Nairobi Securities Exchange.

7. Acknowledgement

I would like to acknowledge the following persons whose contributions facilitated the completion of this proposal.

My special thank you goes to Mr. Boaz Ingari for shaping the proposal idea into a meaningful form, and for his consistent and insightful reviews. Without his encouragement and patience, it would have been difficult to complete this proposal.

Finally, I am heavily indebted to the Jomo Kenyatta University of Agriculture And Technology for the institutional support and to all those who helped me achieve this dream in one way or another, especially my classmates and my friends, for their invaluable assistance in proofreading and critic of the proposal throughout the stages.

8. Acronyms and Abbreviation

→ CBK	Central Bank of Kenya
→ ICT	Information Communication and Technology
→ KYC	Know Your Customer
→ MPT	Modern Portfolio Theory
→ ROI	Return on Investment
→ SWOT	Strength Weakness Opportunities & Threats
→ TCE	Transaction Cost Economies

9. Definition of Terms

Agency Banking: This refers to the point of service where clients from a bank can conduct their transactions receive their payments and access their bank accounts.

Diversification: This is a risk management technique that mixes a wide variety of investments within a portfolio of different kinds of investments will average, yield higher returns and pose a lower risk than any individual investment found within the portfolio

Financial Institution: This is an institution that provides financial services for its clients or members. It is an establishment that focuses on dealing with financial transactions such as investments, loans and deposits. Conventionally, financial institutions are composed of organizations such as banks, trust companies, insurance companies and investment dealers.

Government Securities: These are treasury bonds and bills issued by the government through the Central Bank of Kenya.

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APPENDICES**Appendix 1: Letter of Introduction to Respondents**

To Whom It May Concern,

Dear Sir/Madam,

RE: POSTGRADUATE RESEARCH ON FINANCIAL FACTORS INFLUENCING DIVERSIFICATION STRATEGY IN BANKING INDUSTRY IN KENYA.

I am planning to carry out an independent research on factors affecting diversification strategies as part of my postgraduate study of Jomo Kenyatta University of Agriculture & Technology. The Research objectives include establishing the factors determining and identifying the types of bank diversification strategies in Kenya and determine the impact of diversification on the commercial performance in Kenya. The representative sample is I&M Bank Nyali Branch.

This will be done through a simple questionnaire attached.

All information collected will remain confidential.

Thank you for your cooperation.

Kind Regards,

James Maingi Ng'ang'a

MBA, Jomo Kenyatta University of Agriculture & Technology. .

Appendix II: Questionnaire
Section A: General Information

1. What is your age?

Below 25 years	()
25-30 years	()
31-35 years	()
36-40 years	()
41-45 years	()
46 and above	()
2. What is your gender?

Male	()
Female	()
3. How long have you been banking with this bank?

Less than 3 years	()
3-5 years	()
6-10 years	()
Over 10 years	()
4. Why do you bank with I&M bank and not any other bank?

.....
Section B: Types of Diversification Strategies

5. To what extent do you agree or disagree with the following statements regarding types of diversification strategy employed by the bank.
 - a) The bank has diversification strategies in its delivery of products and services.

Strongly disagree	()
Moderately disagree	()
Neutral	()
Moderately agree	()
Strongly agree	()
 - b) The bank is offering new platforms of delivery.

Strongly disagree	()
Moderately disagree	()
Neutral	()
Moderately agree	()
Strongly agree	()
 - c) The bank has opened up new options to my satisfaction and has given me variety of choice.

Strongly disagree	()
Moderately disagree	()
Neutral	()
Moderately agree	()
Strongly agree	()

6. In what way has the bank diversified its services?

Section C: Benefits of Diversification

7. To what extent do you agree or disagree with the following as the reasons for employing diversification strategy?

a) There is a grater growth potential from diversification strategies adopted for me and my bank. .

- Strongly disagree ()
- Moderately disagree ()
- Neutral ()
- Moderately agree ()
- Strongly agree ()

b) There is need to improve the performance of distribution and delivery channels.

- Strongly disagree ()
- Moderately disagree ()
- Neutral ()
- Moderately agree ()
- Strongly agree ()

c) The reason for diversification is to control risks,

- Strongly disagree ()
- Moderately disagree ()
- Neutral ()
- Moderately agree ()
- Strongly agree ()

d) The bank needs to improve performance of core capabilities

- Strongly disagree ()
- Moderately disagree ()
- Neutral ()
- Moderately agree ()
- Strongly agree ()

e) The bank need to acquire new technology

- Strongly disagree ()
- Moderately disagree ()
- Neutral ()
- Moderately agree ()
- Strongly agree ()

f) There is changing business focus

- Strongly disagree ()
- Moderately disagree ()
- Neutral ()
- Moderately agree ()
- Strongly agree ()

8. What other benefits have you derived from diversification as a client?

9. What do you are the costs associated with bank diversification strategies?

10. What challenges do you face due to diversification and after?

End of Questionnaire

Appendix III: WORK PLAN**TIME SCHEDULE; 2015**

ACTIVITY	MAY 2015	AUGUST 2015	SEPTEMBER 2015	OCTOBER 2015
Assigning supervisor & Topic selection				
Proposal development				
Proposal submission				
Proposal correction & Supervisor approval				
Data Collection				
Data Analysis				
Report writing				
Project Presentation				

Appendix IV: BUDGET

The items are based on retail market survey of May 2015.

	Item	Amount approximate
1	Laptop Purchase	54,000
2	Flash disc	1,000
3	Modem	4,000
4	Airtime	4,000
5	Miscellaneous	7,000
	Total	70,000

Appendix V: KREJCIE AND MORGAN TABLE

<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>	<i>N</i>	<i>S</i>
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

Note.—*N* is population size. *S* is sample size.
Source: Krejcie & Morgan, 1970