DIVERSIFICATION AND COMPETITION AMONG COMMERCIAL BANKS IN KENYA

BY

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D61/77732/2015

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

September, 2016

DECLARATION

I declare that this research project is my original work and has never been submitted for award of a degree in any other University.

Signed: .... Date: ....

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

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ACKNOWLEDGEMENTS

I would like to express my deepest gratitude to the almighty God for gracing me with good health and opportunity to pursue my studies. I am greatly indebted to my supervisor Prof. Martin Ogutu for his input, counsel, constructive criticisms, encouragement and intellectually stimulating comments to this work from start. Special thanks to my family members who have always been very supportive and encouraging to me. May the almighty God bless you.

DEDICATION

I dedicate this work to my family for their encouragement and support in my studies.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK **-** Central Bank of Kenya

SPSS - Statistical Package for Social Sciences

UK - United Kingdom

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ABSTRACT

Kenya's banking industry has experienced drastic changes in the last few decades. This has led to stiff competition, as the fight for customers seems to be never-ending war. Commercial banks as a result use diversification to gain competitive advantage. With the liberalization of the economy, players in the banking industry have been facing fierce competition. The objective of this study was establish the relationship between Diversification and Competition among commercial banks in Kenya. This study used cross sectional descriptive research survey. The target population was commercial banks in Kenya. The study used primary data collected using questionnaires administered through drop and pick later method. Quantitative data collected was analyzed using descriptive statistics. Statistical Package for Social Sciences (SPSS V. 21.0) was used for data analysis. The study findings established that diversification have a strong correlation with competition among commercial banks in Kenya as indicated by Pearson correlation of 0.921. Among the key areas that diversification had focused on include; mobile and internet banking, provision of treasury and trade finance, investment portfolio, provision of forex exchange, custody services, agency banking, provision of selection lending services and investment banking. The consequences of such diversification was increased competition amongst commercial banks. The study revealed that as result of diversification, competition among commercial banks has been heightened to a very great extent especially on customer deposits, profit margins and customer value. The researcher recommends to the policy makers to enact policies that regulate diversification being undertaken in the banking industry. Further, strategic planning managers should enhance diversification in areas that have less diversification such as insurance services. For further studies, the researcher recommends for investigation into how diversification into different area at different times affects competition among commercial banks in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Diversification involves the entry of a company into new lines of activity by either engaging the process of internal development or business acquisition. This may entail entails changing its administrative structure, system or its management procedures (Johnson & Scholes, 2008). They further add that diversification is a form of growth strategy that is generally defined as a process which the organization executes in order to move away from its traditional market. Competition refers to the process by which firms strive to outdo each other or achieve something. This is normally sophisticated and complex (Githira, 2008).

This study reviews two theories that support diversification and competition namely resource-based theory as well as the transaction cost theory. The former provides a rationale for corporate diversification. However, the type of diversification strategy strongly depends entirely on the resource specificity of the company (Chatterjee & Wernerfelt, 2001). A resource that can only be used in one product is not suitable for diversification into unrelated businesses. In the resource-based approach, resources or capabilities like specialized human capital, technological knowledge, or managerial expertise have the potential to create value when shared across businesses (Miller, 2006).

The transaction cost theory investigates if a transaction can be undertaken at a lower cost via the market or within the hierarchy of the firm. It consist of the negotiating, monitoring, and enforcements cost which arise when a transaction between two or more parties takes place (Jones & Hill, 2008). The dynamic attempts to illustrate the company's ability to continuously renew its resources to adapt to changes in its dynamic operational environment.

In line with this increased competition in the banking industry, more and more companies are engaging in diversification strategy (Obonyo, 2014). Kenyan companies have not been left behind in terms of embracing corporate social responsibility Diversification guides the organization in moving away from its current markets or product or competitive competencies. The banking industry in Kenya has been strategic in its operations and thus has some players within the industry implement the diversification strategy for various reasons. Despite the adoption of these strategies, a number of companies that have adopted diversification still performed dismally hence the need to establish whether commercial banks in Kenya become more competitive as a result of adopting diversification strategies.

1.1.1 Business Diversification

Firms use diversification for growth, countering competition in the industry or market and risk management process (Mashiri & Sebele, 2014). In management, diversification is a corporate strategy to migrate from its traditional market of operation into the new market, while at the same time coming up with a new product for that new market. Diversification is a form of growth strategy that is generally defined as a process which the organization executes to aid it migrate away from its traditional market (Johnson & Scholes, 2008). Many firms strive in order to achieve one or more types of growth strategies. Banking industry in Kenya has therefore been strategic in its operations and thus has some players within the industry implement the diversification strategy for various reasons.

According to Bruche (2000), There exists two types of corporate diversification majorly, related and unrelated diversification. Related diversification generally refers to the tailoring of the present product and target market to existing core business. Several scholars view diversification as the process by which organizations add similar product lines or services to existing product or service currently offered, this is achievable by acquiring a competitor or the organization may opt to develop internally, which may entail development of the current managerial competencies in the organization (Mashiri & Sebele, 2014). Therefore, diversification can be viewed with respect to how close the activities carried out by the organization are. Product relatedness refers the degree with which a firm's different lines of business are carried out by sharing resources such as human skill, purpose, or resource (Luo, 2002).

Unrelated diversification can be viewed as a process by which an organization decides to exploit products and markets beyond its current product and service offerings (Musembi, 2014). In order to attain success in both related and unrelated diversification, synergy must be the key reason under consideration. Synergy happens potentially, as a result of various products and services combining to function in complementary to each other such that, this effect of adding the two services or products is to produce stronger outcome than the sum of the isolated two parts. Previous studies have shown that unrelated diversification possess as many benefits as related diversification.Infact in certain circumstances, it is considered as the only available option. Sometimes it is used to migrate from the business the organization is currently engaging in, when an organization's performance indicates a declining trend and thereby left with no alternative save for diversification into a new market outside its current offering in the industry and just hope they escape earliest possible (Bruche, 2000). Challenges of diversification include: overextension which may lead to lack of attention and insufficient resources of various departments.

Diversification generally entails the process of developing new products and markets (Lee & Lieberman, 2009). It aims towards ascertainment of the extent to which a firm participates in developing new products and markets. Several scholars view diversification as the process by which organizations add similar product lines or services to existing product or service currently offered, this is achievable by acquiring a competitor or the organization may opt to develop internally, which may entail development of the current managerial competencies in the organization. Therefore, diversification can be viewed with respect to how close the activities carried out by the organization are. Product relatedness refers the degree with which an organization's varying lines of business are carried out through sharing resources such as human skill, purpose, or resource (Luo, 2002).

Johnsons and Scholes (2003) gave a highlight of the different options available for organizations to pursue in their effort to succeed in diversification of their products and services. These include: strategies for entering new industries, related diversification strategies, unrelated diversification strategies, divestiture and liquidation strategies, corporate turnaround, and retrenchment and restricting strategies and lastly multinational diversification strategies. Johnson and Scholes (2003) define diversification as a business strategy executed to aid the organization move away from its current market or products or competences. This is normally executed at the corporate level, which is based on task of developing and implementing strategic plans to aid in the superiority and competitiveness of a company's various product range.

Going by the studies of Ansoff and McDonnell (1990), there are principal motivations that push a firm to pursue diversification of their products. They include among others: Inability to achieve their objectives by maintaining the status quo through operating with the existing products. Secondly, the dynamism business operating environment, which may pose a threat to the future of current strategies and nullifying new opportunities.

Related diversification is where a business adds or expands its product range or markets For example, a bank that adds or expands its banking products and services by purchasing a micro finance institution is engaging in related diversification. This strategy requires similarities in applied technology between the two business ventures (Lee & Lieberman, 2009). Technical knowledge being an advantage when it comes to related diversification strategy cannot be gainsaid. This means that the firms in such industries have similar technology applied in its operations, which means that the firm takes advantage of its technical superiority to achieve competitive advantage. Related diversification has also been ascertained to considerably improve the performance of the business if they allocate their strategic resources efficiently and effectively (Antoncic, 2006). Key studies involved include measures of similarity in order to so as to differentiate between type and level of diversification.

Related diversification is engaging in products and services beyond the present market, but still within the larger premise of the industry which is to mean value chain within which the organization operates (Oyedijo, 2012). Risk involved in executing related diversification is generally less as the move is within the same industry.Utilising Tangible operational and market linkages basis is the most common and widely accepted rationale and foreseeable competitive advantage utilized by an organization pursuing related diversification. These tangible relationships normally arise from opportunities to commonly utilize activities in the value chain among related business units as a result of the presence of common buyers, technologies, channels and other factors. Marangu (2014) concluded that the adoption of concentric diversification positively and significantly affects competitiveness of sugar firms. The regression results further indicated that 54.8 percent of the increments of sugar firm competitiveness was attributed to concentric diversification.

Unrelated diversification strategy involves a company's activities outside their industry. According to (Lichtenhaler, 2005) Achieving successful unrelated diversification entails moving into markets that hold the promise of achieving positive trajectory with regard to financial performance, strategic fit relationships. The corporate strategic intention is to move into any available industry where the firm's management foresees a good chance for profitability. The basis consideration for unrelated diversification is pegged on the fact that any organization that has a healthy financial report portrays healthy financial statements represents a good business to diversify into. Due diligence must be observed while carrying out acquisition for potential candidates.

Equal with related diversification and on some occasions is the only way out. Unrelated diversification has certain benefits. Sometimes it is used to move away from its traditional market, when an organization's performance is in steady decline and is left with no option but to migrate into new markets outside its own industry and just hope they escape soonest possible (Bruche, 2000).

However, managers should be cautious to avoid the errors of the past mistakes through better strategic analysis of diversification decisions. Challenges include: overextension which may lead to lack of attention and insufficient resources of various departments. This form of diversification enhances competitiveness due to customers‟ loyalty in purchasing offered products and services due to good product and service quality and (Lins & Servaes, 2002).

Current studies aim to examine motivations for diversification from available resources employed (Scaravilli & Hien, 2009). The following are the key motivating drivers for diversification: Pursuit towards obtaining market dominance; in order to reduce challenges of stewardship; and the strategic effort of applying available pool of employed resources in order to successfully attain a competitive advantage also referred to as resource-based view. Here, the aim is concentrating on the diversification of company's activities within the industry alongside its primary focus on vertical integration, Diversification is also viewed by economists as another route by which a firm can utilize its available extra resources. Diversified firms can increase their market power across by subsidizing their other areas of operations commonly referred to as cross subsidization, i.e. a successful company in one market may sponsor activities by sustaining low pricing strategies in another market. According to Foss and Christensen (2001), diversified firms can take advantage of positive spillovers by exploiting the value of the employed resources in one industry created by investment so as to positively increase another industry.

Related diversification is engaging in products and services beyond the present market, but still within the larger premise of the industry which is to mean value chain within which the organization operates. The risk involved in related diversification is generally less due to their familiarity with their current industry of operation. And the accumulated knowledge therefore applied. Unrelated diversification strategy is a form of diversification where a new product line in its existing businesses. For example, if a bank engages in the insurance business. This is where the organization moves beyond the confines of its current industry. When two or more products or services in combination function to perform complementary to each other would result into synergy, the two services when brought into combination have an effect that they become stronger than the combination of the isolated two parts.

Similar and in equal proportion to related diversification is unrelated diversification. It majorly aid in escaping from the current declining market or may be the sole available survival alternative, when an organization's performance is declining and is left with no alternative but to diversify into a new market outside its own industry and just hope they escape soonest possible (Bruche, 2000). An unrelated diversification strategy benefits includes mitigating business risk and making the company dependent less on one business line, internal capital or business resources can be utilized in sectors that are considered profitable. Corporate resources are thus employed to maximum advantage.

1.1.2 Industry Competition

Competition arises whenever at least two parties strive to achieve a particular goal which is unsharable or which is can only be achieved on an individual basis without cooperation. Competition occurs naturally between living organisms which co-exist in a given environmental habitat (Keddy, 2001).

Competition refers to the process by which firms strive to outdo each other or to win something. Competition is normally sophisticated and complex (Keddy, 2001).The capability to compete is necessary for the business to gain new and potential customers;i.e the ability to satisfy that part of needs and wants while at the same time making sure that others who are in direct competition are excluded.

Notable for consideration is that competition is strong in a situation where resources are limited (Ling & Lyhorn, 2012). It is seen as competing for scarce, limited and definite resources. This scarcity largely defines the nature and level of competition. Availability of disposable income and the efforts made towards the offerings being desirable, essential, non-essential, marginal, peripheral, and general and luxury therefore affect it. For any firm to gain the most, it needs to create a differential advantage position from its rivals hence the concept of competitive advantage. Previous studies affirm that argued that competition-oriented objectives are not productive to increasing sustainable revenues and achieving profitable growth because they reduce the options of competitive tactics for firms as well as their capacity to be innovative within the market of operation (Ling & Lyhorn, 2012).

. Creating competitive advantage is a simple process, and by implication, that competition was better avoided than sought. On the contrary, the complexities in the business world are increasing everyday making it difficult to apply these strategies (Oder, 2001). This has prompted the use of secondary means e.g. diversification and information difference.

A company will have a competitive advantage if it creates an edge above its competitors in winning over customers customers and guarding itself against forces of competition (Thompson & Strickland, 2002).

Organizations therefore have to consistently scan its business or competitive environment in which they operate and their own strategy. Proper scanning of the competitive environment enables commercial banks to adopt diversification strategies that ensure they perform very well in the industry. Industrial competition is an increasingly important theme in banking industry. Banking industry has been characterized by related and unrelated diversification, stimulating innovation and expanding services.

Once the firm performs environmental scanning the bank should go on to select its diversification strategies. When competitive domain and the growth potential starts to shrink, strategic options are either to attempt a more intensive implementation of the current line of business, or to begin to search for more opportunities in other industries or markets (Thompson & Strickland, 2003).

To achieve competitive advantage in diversification, three ways have been suggested; the use of market power, competence transfer and economies of scope. Diversification results to growth since it entails pursuing entry into new products and new markets concurrently (Pearce & Robinson 2005). In most cases, it entails a complete migration away from core product offering to other forms of related business line. It generally entails pursuit of either familiar or unfamiliar ground. This four items drive industry competition by giving companies a relative competitive advantage over others so each company must work hard to outdo the others in the industry. Such a strategy entails moving new products into new markets concurrently. Existence of substitute intensify competition, within industries which limit profitability by placing a pricing limits that can be charged by firms hence tightening the lid on industry profits (Pearce & Robinson 2005).

Schmutzler (2013) made significant effort in illustrating the process of ascertaining the value of a competitive advantage. Looking at the benefits derived from the good by consumers willing to pay for those benefits not obtainable elsewhere. Sources of competitive advantage include but not limited to technology, resources, superior skills and mergers this to the ability of the organization to either do more of something or do something better than can possibly be done by its competitors. Thus the conception of competitive advantage is achieved when a firm is more competitive than its peers in the market. The firms should ensure that it achieves a strategic fit by matching its capabilities and resources with the opportunities available in the external business environment.

Several organizations are constantly in pursuit of competitiveness, but not to understand what it entails achieving and sustaining the same (Nzau, 2013). Majority of scholars concur that competitiveness can be gained by offering the customers a better value compared to those in competition, through offering lower prices or superiority in terms of quality of products or other benefits that justify premium charged on the product. The key generic strategies normally employed by firms to gain competitive advantage include cost leadership, focus and differentiation (Thompson & Strickland, 2003). In utilizing the strategy of cost leadership, an organization seeks to specialize in producing its products at low cost compared to its competitors. On the same note, a firm pursuing the strategy of differentiation aims to possess a "non-price" attribute that isolates it from the rest due to its superiority.

1.1.3 Commercial Banks in Kenya

It is worth noting that banking sector in Kenya has enjoyed significant and become highly integrated as a result of information Technology and innovation, both at the local and international level as a result of well-developed financial markets infrastructure. There are several acts that govern the Banking industry in Kenya. They include the Banking Act, the Company Act, the Central Bank of Kenya Act and the various applicable prudential guidelines developed by the Central Bank of Kenya (CBK). Liberalization of the said industry was achieved in 1995 and the exchange controls removed. The central bank of Kenya's primary function is Formulation and implementation of monetary policies. Some of its other functions entails among others monitoring the level of liquidity, solvency as well as ensuring sustainable health of the financial system. The banking sector comprised of Non-Bank Financial Institutions, Commercial Banks, Deposit Taking Microfinance Institutions and The Forex Bureaus as the regulated entities (CBK, 2014).

Commercial Banks are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued thereunder. Of the 43 institutions, 39 commercial banks and mortgage financial institution are privately owned while the Government of Kenya holds controlling stakes in the remaining 3 commercial banks (CBK, 2016). Commercial Banks managers have a responsibility to consistently evaluate level of competition in the industry and critically analyses the link between diversification and competition. This would allow them to make strategic decisions on diversification strategies. The role of management is to analyze the organization, in terms of its strengths, weaknesses, opportunities and threats. Strategic management should be concerned with building and sustaining competitive advantage (Porter 1985). Diversification enhances a firm's competitiveness by growing its revenues and expand their market share. This strategy takes the organization away from its current markets, product or competencies (Johnson & Scholes, 2008).

With the liberalization of the economy, players in the banking industry face fierce competition (Mwangi, 2012). The ever dynamic business environment, which characterized by fragmented markets, evolving technological changes and growing dependence on non-price competition, has forced many organizations to be innovative in all areas of their business operations. In order to survive, some of the competitors have opted for diversification strategy.

1.2 Research Problem

Diversification is a form of growth strategy that is generally defined as a process which the organization executes to aid it migrate from its traditional market of operation

(Johnson & Scholes, 2008). Diversification is carried out by various banks to ensure growth and mitigate risk. The most important aspect of corporate strategy is the process of choosing the right portfolio of products or businesses operations to engage in, develop competence in and to compete in. The managerial benefits of this issue has stimulated a lot of studies tailored towards an understanding of corporate diversification in the last four decades.

Kenya's banking industry has experienced drastic changes in the last few decades (Waruguru, 2015). Waruguru (2015) adds that the changes have been experienced as a result of economic liberalization and globalization, hence an increase in the number of players fighting for the same customer in the industry. This has led to stiff competition, as the fight for customers seems to be never-ending war.

Commercial banks as a result use diversification to gain competitive advantage. With the liberalization of the economy, players in the banking industry have been facing fierce competition. In order to survive, some of the competitors have opted for diversification strategy.

Global studies include Lim and Wang (2007) studied the effect of financial hedging on the incentives for corporate diversification and established that unrelated diversification may partly decrease systematic risk since it involves different industries that are not correlated. Gitau (2015) did a study on company diversification strategies using the case of BIS group in London, UK. The study findings revealed that BIS group was facing huge problems attributed to the structure of its organization and management, it concluded that that these problems acted as stumbling blocks to the company's goal of attaining a diversification. Regionally, Mohammed and Ransome (2015) did a study focusing on funding, earnings management, and diversification strategies of banks in Africa. The results indicate that the sensitivity of earnings management to revenue diversification across interest income decreases, as bank market shares increases.

Some of the local studies on diversification include Mwangi (2012) who focused on implementation of diversification strategy at the Standard Group (K) Limited and established that the group adopts diversification strategies to maximize profits and compete effectively in the media market. Mwindi (2003) carried out a study of how major oil companies in Kenya apply unrelated diversification strategy. He established that the concept of non-related diversification as it is applied in the retail networks of Kenyan oil companies is applied in order to achieve enhancement of customer satisfaction apart from improving the financial performances of the major oil companies.

Many other studies have provided the discipline with insights into the practice of diversification and competition but none has been done on diversification and competition among commercial banks. The key research question for the study was: What is the relationship between diversification and competition among commercial banks in Kenya?

1.3 Research Objective

The Key objective of this study that is sought by the researcher is to establish the relationship between Diversification and Competition among commercial banks in Kenya.

1.4 Value of Study

The aim of study would be utilized by various interest groups in the field; the empirical evidence obtained from evaluating the diversification and competition will be utilized in application and provide value to researches and academicians. Concentration of the study will be to interrogate and highlight on whether the diversification strategy is relevant or not as with regard to competition. This would provide the literature for future reference and consultation thus providing a ground for development of new theories. This study would also and provides a basis for further research regarding the effects that size has on banks' profitability.

To the management and staff of commercial banks, the study provides a reference point to management and employees of commercial banks to enable them make sound decisions with regard to diversification and competition. This study provides invaluable insight on the advantages or disadvantages of diversification strategy on competition. A positive relationship in the findings indicate that managers should adopt diversification to enhance its competitiveness.

Policy makers are usually informed by research findings that attempt to explain a phenomenon or address an existing knowledge gap. Information on diversification and competition would provide guidance the regulatory authorities while formulating proper policies and legal mechanisms that guide the operations and fostering the growth of this evolving financial industry.

CHAPTER TWO: THE LITERATURE REVIEW

2.1 Introduction

The chapter illustrates the relevant information reviewed. We first review the theories illustrated highlighting on the transactional cost theory and the resource based theory. Secondly, this chapter gives an understanding of the aspects of the business diversification and industry competition and to acknowledge their contribution towards the existing body of knowledge.

2.2 Theoretical Foundation

There are several theories that attempt to explain business diversification and industry competition in the study of strategic management. In particular, these theories include the resource-based theory and transaction cost theory.

2.2.1 Resource-Based Theory

Resource-based theory also known as 'the resource-based view' firms should look at the resources within the company to stand out in terms of competitive advantage. A firm's resources or strategic capabilities should be of value, rarely available, non-imitable as well as Non-Substitutable. The resource-based theory hence illustrates a rationale for diversification. The type of diversification strategy strongly depends on the resource specificity of the company (Chatterjee & Wernerfelt, 2001). The theory blends concepts from organizational economics.

In the resource-based approach, resources or capabilities like specialized human capital, technological knowledge, or managerial expertise have the potential to create value when shared across businesses (Miller, 2006). Economic value of a firm is achieved by bringing to the market products and or services with greater benefits available at the same cost in comparison to competitors or at the same benefits at lower cost relative to what competitors produce.

Sustainable competitive advantage can also be attained by a company by using the same resources under different circumstances which result in economies of scope and quasi rents.

In particular, unique path dependent resources, which are in short supply in the marketplace, can be leveraged across related product lines and provide higher rents. Value is created since these strategic assets are very difficult to imitate or to substitute by other resources (Markides & Williamson, 2006). Besides value creation, a diversified might benefit even more of sharing resources across businesses compared to single focused-firms, since they can use these strategic assets and capabilities among several business units and thereby spreading operating costs among divisions (Markides & Williamson, 2006).

2.2.2 Transaction Cost Theory

This theory is concerned with the cost of doing business operations. Costs are a key consideration in making majority of decisions I a firm and not just in setting the prices of goods and services. It determines if a transaction can be undertaken at a lower cost via the market or within the hierarchy of the firm. The process involves negotiating, monitoring, and enforcements cost which arise when a transaction between two or more parties takes place (Jones & Hill, 2008). This process enables firms to minimize the cost of exchanging resources with the environment. Theoretically, in environments where there are no transaction costs, diversification would be a non-value maximization strategy since the resources could be purchased via the market. However, the presence of inefficient markets causes transaction costs, which forces integration. Therefore, the presence of transaction costs is highly dependent on the general economic environment of a country.

Transaction costs encountered during business operations may lead a business towards a diversification strategy. There are various factors that cause transaction cost difficulty include: bounded .opportunism, rationality, uncertainty, small numbers, information impactedness, and asset specificity (Jones & Hill, 2008). Theoretically, in environments where there are no transaction costs, diversification would be a non-value maximization strategy since the resources could be purchased via the market. However, the presence of inefficient markets causes transaction costs, which forces integration. Therefore, the presence of transaction costs is highly dependent on the general economic environment of a country. Porter's framework explains how an industry is influenced by the five forces: Threat of new entrants, bargaining power of suppliers, rivalry among existing firms, bargaining power of customers and threat of substitutes. The strategic business manager intending to develop an edge over competitor firms can use this model to gain an understanding of the industry context in which the firm operates.

2.3 Business Diversification and Industry Competition

Where consumers have alternatives to choose from, competition between firms emerge. Competition can also be viewed within the premise of striving for limited, scarce and definite resources (Peter, Nocke and White, 2010). This scarcity largely defines the nature and level of competition. Availability of disposable income and the efforts made towards the offerings being non-essential, essential, desirable, general, luxury, marginal and peripheral therefore affect it. For any firm to gain the most, it needs to create a differential advantage position from its rivals hence the concept of competitive advantage. In business, teams face each other in competition for employment, customers, product innovations, and profits among other goals.

The three generic strategies for achieving competitive advantage as outlined by Porter (1985) are cost advantage, differentiation and focus. What Porter gave us was the firm's proper setting: its industry, and a structured way of looking at it. It is true that he raised as many questions as he answered for instance: what constitutes an industry? How does one define an exit barrier? He simply stated that creating competitive advantage is a simple process, and by implication, that competition was better avoided than sought. On the contrary, the complexities in the business world are increasing everyday making it difficult to apply these strategies (Waruguru, 2015). It is difficult to achieve an advantage using these strategies in their raw form.

The current change in environment has caused firms to adapt to its environment. The framework that links an organization's capability to its environment is referred to as strategy (Schmutzler, 2013). Strategy is composed of three strategies, that is, stability, entrenchment and growth. Growth strategies focus employed resources on taking advantage of opportunities to bring forth profitable growth. One of the growth strategies available to the firms is product diversification. This entails deployment of resources across lines of product either related or unrelated (Schmutzler, 2013).

Firms diversify when their primary intention of consolidating their market power is eminent, hence positive correlation between diversification and profitability (Ling & Lyhorn, 2012). Firms that pursue diversification strategies may end up achieving economies of scope as well as achieving attain market power leadership. By diversifying in a similar fashion coherently in the industry, a group of firms might establish a multimarket contacts where collusion might emerge, good performance outcomes for diversified firms have a positive correlation with market power, to illustrate this, organizations that operate in various markets normally collude hence increasing their bargaining power by setting higher prices, and at the same time achieving efficiency, i.e. Diversification benefits also aids in exploiting positive cost externalities. Diversification therefore is considered key in large firms therefore achieving success in stewardship guarding against managers to pursuing their own objectives ignoring that of the shareholders (Oder, 2001).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

Research methodology used for systematically solving the research problem. It covers the research design and methodology that was utilized in analyzing, presenting and discussing the findings. It consists of research design, Target population, data collection and data analysis.

3.2 Research Design

The study used cross sectional descriptive research survey. The major purpose of descriptive research is to illustrate the state of affairs as it currently exists. The aim of descriptive studies is to find out what is. Therefore observational and survey methods are commonly used to collect descriptive data. According to Mugenda and Mugenda (2003), a survey is utilizable when the population is small and variable hence the researcher was able to cover all the elements of the population. Hence the survey was considered to be more efficient and economical.

3.3 Population of study

All the items under consideration in encompassing all the items under inquiry is referred to as a population (Kothari, 2004).The Population under consideration must constitute the entire group of individuals or objects from which the findings from the sample considered will be inferred (Cooper and Schindler, 2008). In this study,the target population comprised of forty three (43) licensed commercial banks (CBK, 2015) Appendix 2.

3.4 Data Collection

Data was collected mainly through primary and secondary sources. The Primary data was obtained by distributing questionnaires given to Strategic planning managers of all the listed commercial banks.

3.5 Data Analysis

Mugenda and Mugenda (2003) state that decisions about data entail activities which encompass the following processes: scrutinize, edit, convert and modeling data in order to extract meaningful information, suggestions and conclusions that guide towards making relevant decisions. Quantitative data was collected which was analyzed using descriptive statistics and inferential statistics (correlation). Statistical Package for Social Sciences (SPSS) version 21 was used to extract final decisions. With the findings of the study being finally presented in charts, graphs and frequency tables.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 The Introduction

The purpose of this chapter is to offer an illustration of the outcome on the relationship between diversification and competition among commercial banks in Kenya. Questionnaires were used to collect data from the commercial banks in Kenya, analyzed and presented in tables and charts in line with the study objective.

4.2 Response Rate

In this study, questionnaires were given to strategic planning managers of all the listed commercial banks. All were returned duly filled leading to a response rate of 100.0%. This response rate was excellent and satisfactory for making conclusions recommended by Mugenda and Mugenda (2003) who affirmed that in order to achieve effective and reliable reporting and analysis, a response rate of 50% is necessary a rating of 60% is considered to be good and a rating of 70% and over is always considered excellent.

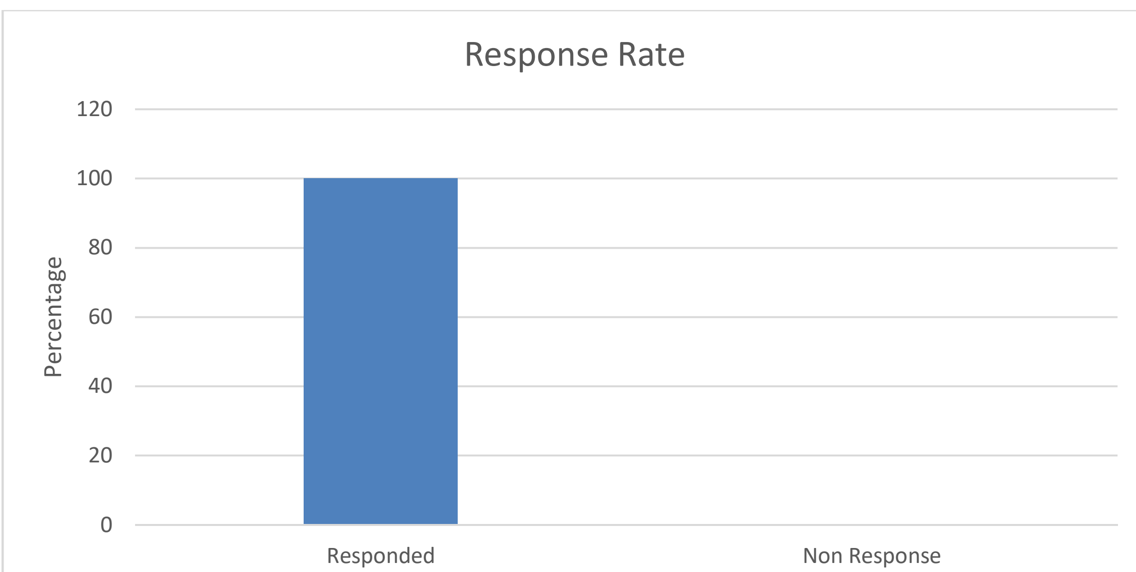

Figure 4.1: Response Rate

4.3 Demographic information

This section presents the demographic information of the respondents and their commercial Banks. The demographics sought included respondents' gender, years they have worked in the banking industry, commercial banks' ownership structure, services offered and existence.

4.3.1 Gender Distribution of the population considered

The study sought to establish the gender of the respondents and the outcome is as illustrated in Figure 4.2 below.

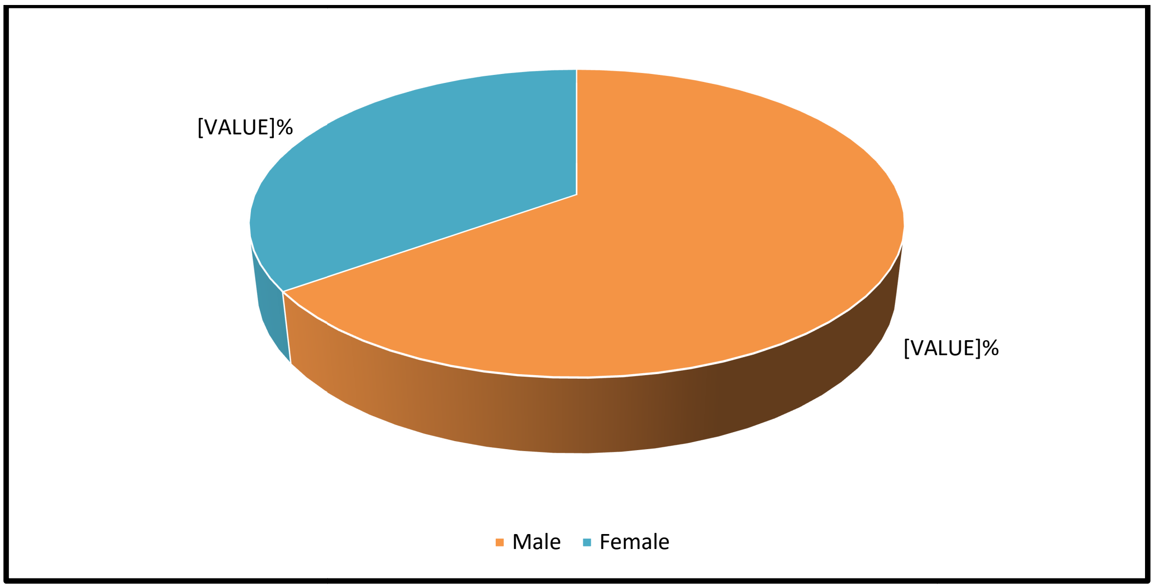

Figure 4.2: Gender distribution of the respondents

The results indicated that more respondents were of male gender as represented by 65.1% compared to their female counterpart as represented by 34.9%. The findings further imply that both genders were well represented in the study.

4.3.2 Ownership Structure of Commercial Banks

The study brought clearly the ownership structure of commercial banks and the outcomes are presented in figure 4.3.

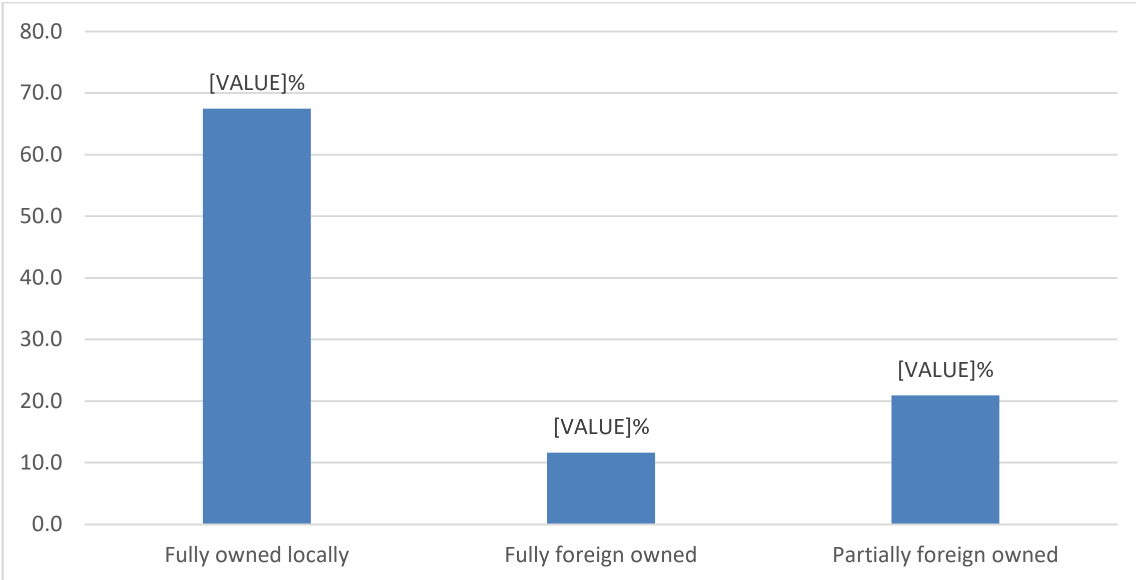

Figure 4.3: Ownership Structure of Commercial Banks

Figure 4.3 above show that majority of commercial banks were fully owned locally, (67.4%) while 20.9% and 11.6% are partially foreign owned and fully foreign owned respectively. Out of the commercial banks fully owned loccaly, it emerged that they were categorized into Institutions with Government participation (n=6) while institutions locally owned (n=23).

4.3.3 Nature of Banking Services Offered

Table 4.1 presents the nature of banking services offered by commercial banks in Kenya as indicated by the respondents.

Table 4.1: Nature of Banking Services Offered

Banking services	Frequency	Percent
Investment banking	36	83.7
Corporate banking	41	95.3
Retail banking	41	95.3
Mobile banking	41	95.3
Insurance services	39	90.7

Internet banking	40	93.0
Valuables secure storage services	31	72.1

The results indicate that corporate, retail and mobile banking are the most dominant services offered by commercial banks in Kenya. This is according to 95.3% in each case. Further, internet banking, insurance services and investment banking were offered by 93.0%, 90.7% and 83.7% of the commercial banks. However, valuables secure storage services was offered by 72.1% of the commercial banks. The findings suggest that majority of banks have ventured into retail, mobile and internet banking which can be attributed to the increased innovations in technology in the past decade and realization of potential in the retail sector. Further, corporate banking still remained dominant given that the initial focus of establishing majority of banks was to offer corporate banking. Worth noting, increasing number of commercial banks confirmed to be offering insurance services which could be attributed to growth increased banc assurance.

4.3.4 The duration of Time Worked at the Banking Industry

During the study, I collected data about the surveyed respondent's duration of work experience in the banking industry. The findings are presented in the below Table 4.2

Table 4.2: Length of Time Worked at the Banking Sector

	Frequency	Percent
11 - 15 Years	8	18.6
16 - 20 Years	15	34.9
21 - 25 Years	18	41.9
Over 25 years	2	4.7
Total	43	100.0

From results it can be seen that majority of those responding apportioned at (41.9%) have experience of working in the banking industry for 21-25 years, 34.9% had worked for 16-20 years, 18.6% had worked for 11-15 years and 4.7% had worked for more than 25 years. This shows that majority of strategic planning managers (81.4%) have worked in the commercial bank for over 15 years which can be construed to imply that they have adequate knowledge regarding the banking industry.

4.3.5 Length of Existence of Commercial Banks

The findings on how long commercial banks had been in operation are presented in Figure 4.4 below.

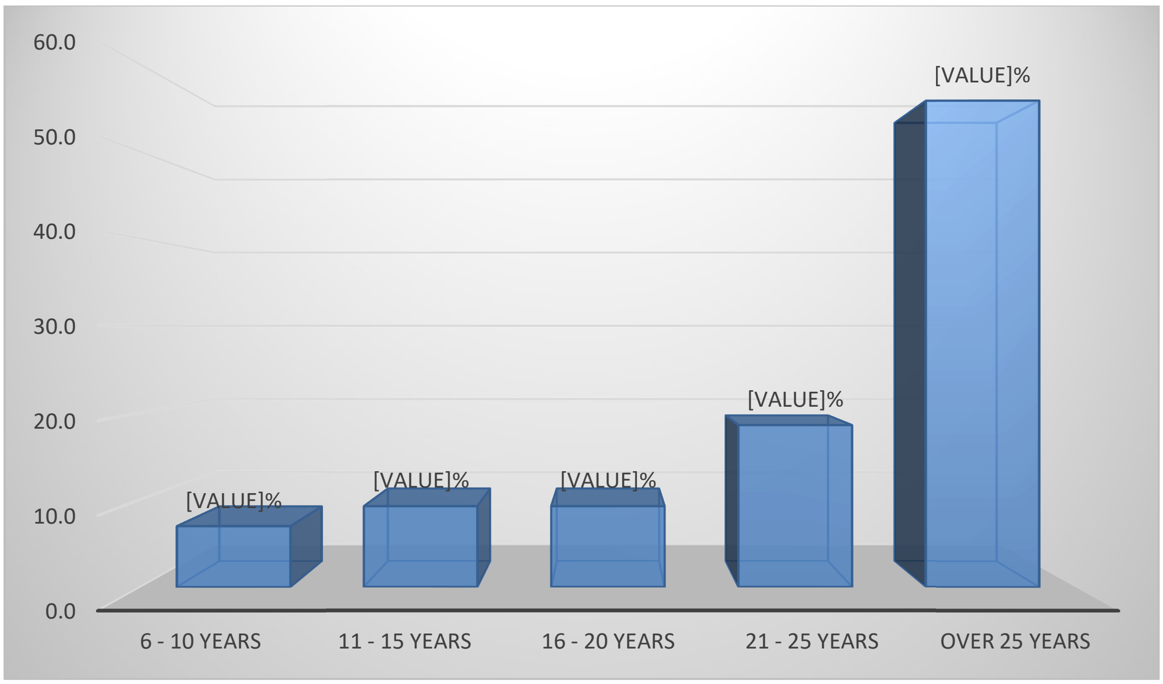

Figure 4.4: Length of Existence of Commercial Banks

The results of this finding indicate that, 55.8% of the commercial banks had been in operation for more than 25 years. Further, 18.6% of the commercial banks had been in operation for a period of between 21 and 25 years, 18.6% for a period between 11 and 20 years while 7.0% had been in operation for a period of between 6-10 years.

4.3 Relationship between Competition and Diversification

The objective of this study being sought by the researcher is to establish how diversification and competition among commercial banks in Kenya relate. So as to successfully achieve this objective, the study went ahead to ascertain the extent to which commercial banks engaged in each different diversification strategies. A Likert scale was provided where 1= Not at all, 2= little extent, 3= Moderate extent, 4= Great extent and 5= very great extent. The findings are presented in Table 4.3.

Table 4.3: Extent of diversification in different areas

Extent of diversification in different Areas	Mean	Std. Deviation
Services diversified into mobile and internet banking	3.93	1.22
Services diversified into provision of forex exchange services	3.60	1.28
Services diversified into provision of investment banking services	3.40	1.24
Services diversified into provision of insurance products services	3.26	1.26
Services diversified into provision of premier alliance services	2.86	1.30
Services diversified into provision of selection lending services	3.44	1.26
Services diversified into provision of agency banking	3.47	1.22
Services diversified into provision of treasury and trade finance	3.84	1.25
Services diversified into provision of custody services	3.51	1.32
The banks investment portfolio is fully diversified	3.65	1.33
Mean of weighted Means	3.50	1.27

As shown in table 4.3, we obtained a mean of weighted mean of 3.50 which implies that the unanimously concurred that commercial banks had diversified in different areas to a great extent. The results that services diversified into mobile and internet banking was rated at 3.93 hence the weighted mean was to a greater extent. Further, services diversified into provision of treasury and trade finance was rated at 3.84 hence the weighted average was to a greater extent. This is a clear indication that commercial banks had focused more diversifying into mobile and internet banking. This could be as a result of increasing potential and innovations that have emerged over the last decade of delivering services through mobile phones.

The findings further showed that banks investment portfolio was fully diversified as shown by weighted mean of 3.65 while services diversified into provision of forex exchange services was rated at 3.60 hence the weighted mean was to a greater extent. As reported, diversification into provision of custody services and agency banking was rated at 3.51 and 3.47 in that order hence the weighted mean was to a great extent. The findings give implication that commercial banks are focusing on agency banking as an area of diversification as well as custody services provision.

In addition, the results revealed that services diversified into provision of selection lending services and provision of investment banking services was rated at 3.44 and 3.40 in that order hence the weighted mean is to a great extent. However, it emerged that services diversified into provision of insurance products services and premier alliance services was rated at 3.26 and 2.86 in that order hence the weighted mean is to a moderate extent. This could be attributed to the bancassurance which is still a new concept in the market which has not been embraced to a large extent bay commercial banks.

Having established the extent of diversification, the study sought to establish how those different areas of diversification affected competition of commercial banks with the results being illustrated in table 4.4.

Table 4.4: Effect of areas of diversification on competition

Effect of areas of diversification on competition	Mean	Std. Deviation
Services diversification into mobile and internet banking	3.77	1.15
Services diversification into provision of forex exchange services	3.49	1.18
Services diversification into provision of investment banking services	3.40	1.28
Services diversification into provision of insurance products services	3.14	1.19
Services diversification into provision of premier alliance services	2.91	1.32
Services diversification into provision of selection lending services	3.35	1.27
Services diversification into provision of agency banking	3.53	1.24
Services diversification into provision of treasury and trade finance	3.70	1.21
Services diversification into provision of custody services	3.33	1.25
Diversification of banks investment portfolio	3.53	1.30
Mean of weighted Means	**3.41**	**1.24**

Looking at table 4.4, a mean of weighted mean rating at 3.41 implied that the respondents were of the position that to a great extent, different areas of diversification affected affect competition of commercial banks. The major point to consider is that, the results revealed that services diversification into mobile and internet banking affected competition among the commercial banks with a rating of 3.77 hence the weighted mean was to a great extent. This was followed by services diversification into provision of treasury and trade finance as shown by weighted mean of 3.70. These findings support diversification into mobile and internet banking, provision of treasury and trade finance as key to effecting the competition among commercial banks.

In addition, services diversification into provision of agency banking, banks investment portfolio, forex exchange services and provision of investment banking services affected competition in the banking industry was rated at 3.53, 3.53, 3.49 and 3.40 in that order hence the weighted mean was to a greater extent. However, services diversification into provision of selection lending services and provision of custody services affected competition in the banking industry to moderate extent as indicated by weighted mean of 3.35 and 3.33 in that order. Further to that, services diversification into provision of insurance products services and premier alliance services affected competition in the banking industry to a moderate level as indicated by by weighted means of 3.14 and 2.91 in that order.

Finally, the research sought to establish the extent to which commercial banks had been affected to in the areas of competition as a result of diversification. The findings are illustrated in table 4.5.

Table 4.5: Competition among Commercial Banks

Service charge price wars	Mean	Std. Deviation
Interest rate price wars	3.86	0.97
competition for enhanced customer value	4.30	0.91
competition for customer deposits	4.42	0.76
competition for customer goodwill	4.21	0.89
competition for good reputation	4.19	1.05
competition for market share	4.23	1.00
Competition for talent	3.86	1.13
competition for customer services	4.23	0.95
competition for reduced operational costs	3.91	0.97

competition for higher profit margins	4.35	0.92
competition for higher shareholder returns	4.14	1.04
Mean of weighted Means	**4.15**	**0.96**

Looking at table 4.5, a mean of weighted mean rating at 4.15 was arrived at which implied that the respondents unanimously agreed that commercial banks had been affected to a very great extent in the areas of competition as a result of diversification. Of specific, the results revealed that competition for customer deposits, higher profit margins and enhanced customer value had been to a very high extent as shown by weighted means of 4.42, 4.35 and 4.30 respectively. Further, the results showed that competition for market share, customer services and customer goodwill were rated at 4.23, 4.23 and 4.21 in that order hence to a great extent.

Going by the findings, competition for good reputation, higher shareholder returns and reduced operational costs was rated at 4.19, 4.14 and 3.91 in that order hence to a greater extent. Finally, the results revealed that competition for talent and Interest rate price wars was to a great extent as shown by weighted means of 3.86 in each case.

Correlation analysis aimed at establishing the correlations between diversification as well as the financial performance of commercial banks in Kenya. It is worth nothing that the coefficients of correlation (r) derived from the analysis was used to obtain the strength of relationships on a scale of -1 and 1 where the value 0 implied there's no existing relationship, 1 implied a perfect positive relationship and -1 means a perfect negative relationship. It worth noting that an absolute value of r between 0.5 and less than 1 implies there exists a strong relationship between the variables, 0.3 to 0.5 imply that the correlation is moderately strong while less than 0.3 imply weak correlation.

Table 4.6: Correlation Matrix

		Competition among commercial banks in Kenya	Diversification
Competition among commercial banks in Kenya	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	43	
Diversification	Pearson Correlation	.921**	1
	Sig. (2-tailed)	.000	
	N	43	43

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

The table 4.6 indicates positive correlations between diversification and the competition among commercial banks in Kenya as indicated by Pearson's rho of 0.921. The correlation was significant at the 0.01 level (2-tailed). Interestingly, this correlation was strong.

4.4 Discussion

The findings of correlation analysis revealed a positive and significant correlations between diversification and the competition among commercial banks in Kenya as indicated by Pearson's rho of 0.921. This is an implication that indeed there is a strong relationship between diversification and competition among commercial banks in Kenya. These findings are in agreement with Ling and Lyhorn (2012) who argue that diversification objectives persued by growth-oriented firms may aid in achieving scope economies and at the same time aid in propelling the firm in attaining the desired market power position. Ling and Lyhorn (2012) further argue that by crafting and executing diversification in a similar fashion coherently, firms in the industry might create and consolidate a situation which may result in collusive practices. The findings are further affirmed by Schmutzler (2013) who acknowledges deployment of resources across lines of product, either related or unrelated, focus resources on taking advantage of opportunities to attain profitability.

The study findings revealed that increased diversification results to increased competition among commercial banks in Kenya. The findings are in agreement with Marangu (2014) who concluded that the adoption of concentric diversification positively and significantly affects competitiveness of sugar firms.

According to the findings of the study by Marangu (2014), the regression results indicated that 54.8 percent of the increments of firm competitiveness was attributed to concentric diversification.

The study established that commercial banks had to a great extent diversified their services including mobile and internet banking, provision of treasury and trade finance, investment portfolio, provision of forex exchange, custody services, agency banking, provision of selection lending services and investment banking. These findings confirm the efforts of commercial banks to diversify their goods and services. The findings affirms Thompson and Strickland (2002) argument that banking industry has been characterized by related and unrelated diversification, stimulating innovation and expanding services. The findings further conform to the argument advanced by Pearce and Robinson (2005) that diversification results to growth since it involves moving into new products and new markets concurrently. The findings also conform to the argument by Obonyo (2014) that more and more companies are engaging in diversification strategy as a result of increased competition in the banking industry.

The study established that competition among commercial banks has been heightened to a very great extent as a result of diversification especially on customer deposits, profit margins and customer value. These findings are as well consistent with the study done by Johnson and Scholes (2008) that diversification enhances a firm's competitiveness by growing its revenues and expand their market share. The findings are further in agreement with Mwangi (2012) who acknowledge that in order to survive, some of the competitors have opted for diversification strategy. Mwangi (2012) adds that with the liberalization of the economy, players in the banking industry face fierce competition and the ever increasingly changing business environment, which is also affected by fragmented markets, rapidly evolving technological changes and an increasing reliance on non-price competition that has overtime forced many companies to be innovative in all areas of their business operations. This argument is in agreement with the findings of this study that that there is increased competition among commercial banks in Kenya. The findings obtained from this study are perfectly coherent with the resource-based theory which provides a rationale for corporate diversification.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter illustrates the study summary, conclusions and recommendations the researcher obtained from the study. The main purpose of this study was to establish how diversification and competition among commercial banks in Kenya relate.

5.2 Summary

These findings revealed that commercial banks had diversified in different areas to a great extent based on weighted mean of 3.50. The results indicate that services diversified into mobile and internet banking was rated at 3.93 hence the weighted mean is to a greater extent. Further, services diversified into provision of treasury and trade finance was rated at 3.84 hence the weighted mean is to a greater extent. In addition, from the study, it’s clear that banks investment portfolio was fully diversified as well as services diversified into provision of forex exchange, provision of custody services, agency banking, provision of selection lending services and services diversified into provision of investment banking. The study revealed that services diversified into provision of insurance products services and Services diversified into provision of premier alliance services were to a moderate extent.

Regarding how different areas of diversification affected competition among commercial banks the study findings revealed that indeed it affected competition of commercial banks to a great extent. Services diversification into mobile, internet banking affected competition to a great extent based on weighted mean of 3.77. Further deductions were that services diversification into provision of treasury, trade, agency banking, investment portfolio, forex exchange services and investment banking services affected competition in the banking industry to a great extent. It can also be deduced from the study that services diversification into provision of selection lending services, custody services, insurance products services and premier alliance services affected competition in the banking industry to a moderate extent.

On competition, the study deduced that competition aspects had been affected by competition as indicated by a rating of 4.15 hence the weighted mean is to a greater extent. This included competition for customer deposits, higher profit margins and customer value which had been to a very high extent as shown by weighted means of 4.42, 4.35 and 4.30 respectively. Further, competition for market share, customer services and customer goodwill were to a very great extent as shown by weighted means of 4.23, 4.23 and 4.21 respectively. Additionally, the study findings established that competition for good reputation, higher shareholder returns and reduced operational costs were to a great extent as shown by weighted means of 4.19, 4.14 and 3.91 respectively. Correlation analysis indicate a positive strong correlation between diversification and the competition among commercial banks in Kenya as indicated by Pearson's rho of 0.921. The correlation was significant at the 0.01 level (2-tailed).

5.3 Conclusion

Commercial banks have to a great extent diversified their services. Among the key areas that diversification has focused on include; mobile and internet banking, provision of treasury and trade finance, investment portfolio, provision of forex exchange, custody services, agency banking, provision of selection lending services and investment banking.

However, diversification on provision of insurance products and premier alliance services remains moderate extent.

Different areas of diversification affect competition amongst commercial banks to a great of specific, services diversification into mobile and internet banking have the greatest impact on competition among commercial banks. Same competition amongst commercial banks is brought about by diversification in other areas including provision of treasury, trade, agency banking, investment portfolio, forex exchange services and investment banking services. The study concludes that services diversification into provision of selection lending services, custody services, insurance products services and premier alliance services affected to a moderate extent, competition among commercial banks.

As a result of diversification, competition among commercial banks has been heightened to a very great extent especially on customer deposits, profit margins and customer value. Other areas of competition affected to a great extent include market share, customer services and customer goodwill. Finally, the study concludes that competition among commercial banks for good reputation, higher shareholder returns and reduced operational costs is to great extent as a result of diversification.

5.4 Recommendations

The study established that diversification resulted to increased competition among commercial banks. As a result, banks now face greater competition from each other and from other financial companies. In this light, and as a recommendation for policy, the researcher recommends to the policy makers and enforcement authorities including

Central Bank of Kenya, to promote an environment which foster healthy competition financial industry. Further, policy makers need to ensure that there are promote an open, competitive, banking environment without unjustified restrictions on entry, there is a proper separation between the enforcement of prudential regulation and of the general competition rules in the banking sector.

The study revealed that indeed there is increased competition in the banking sector as a brought about by diversification. However, majority of banks have focused their diversification efforts on internet and mobile banking and agency banking. Diversification into provision of insurance products and premier alliance services remains moderate extent. In view of this, it is recommended to the management and staff of commercial banks, to focus their diversification efforts to these areas which seem to have received less attention from other banks. This could emerge as potential areas that strengthens their market power. Given that this study established a positive relationship between diversification strategies on competition, it’s further recommended to the management of commercial banks to explore other Areas of diversification which could present opportunities of achieving competitive advantage.

For the researches and academicians, this study presents rich knowledge on how evaluating the diversification and competition, the nature of the relationship and the strength of the correlation between the two. In view of this, it is recommended that researches and academicians should use this research work as references while investigating aspects that closely relate to diversification and completion. Further, they need to use the findings of this study as basis for future researches in the banking industry and developing knew theories new theories and empirical frameworks related to diversification and competition.

5.5 Limitations of the Study

The study targeted strategic planning managers as the respondents for this study. However, due to their tight schedules, they could not respond to the questionnaires immediately hence the researcher had to extent the data collection period to allow for them to create time and respond to the inquiries made.

The study also faced limitation whereby banks ventured into diversification into different area at different times hence their impacts on the completion among commercial bank may also vary.

5.6 Recommendations to be considered in Further Research

For further studies, investigation into how the policies and regulations enacted affect the diversification and competition relationship in the banking industry in Kenya is recommended by the researcher. This will lead to insight understanding of the impact of policies and regulations as intervening variable into this relationship. Further, such studies will provide reliable information on whether the current policies positively or negatively affect the diversification hence providing areas of those policies that need review. .

Having established that banks diversification on provision of insurance products and premier alliance services remains moderate extent, the researcher recommends for investigation into the factors that may be resulting to such trend. This should include risks associated with such diversifications. The findings of such study would shed light to management and staff of commercial banks on diversification and hence enabling them to make sound decisions with regard to diversification. Further, such study would be of great value during formulation and review of diversification strategies by individual commercial banks.

Given that different commercial banks ventured into diversification into different area at different times, the researcher recommends for further investigation into how this affects competition among commercial banks in Kenya. Also other factors like size of the bank need to be factored in. The findings of such study will be valuable to the researches and academicians as it will enable them to understand further the reasons for variance in diversification, the factors contributing to such variance and how such factors relate to diversification and performance. In so doing, substantial information regarding diversification and completion will be obtained.

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APPENDICES

Appendix I: Questionnaire

SECTION A: BACKGROUND INFORMATION

1. What is your Gender? Male [ ] Female [ ]

2. What is ownership structure of your organization?

   Fully owned locally [ ] Fully foreign owned [ ]

   Partially foreign owned [ ]

3. Nature of banking services offered (tick more than one where applicable)

   Investment banking [ ] Corporate banking [ ] Retail banking [ ]

   Mobile/ banking [ ] Insurance services [ ] Mobile/ banking [ ]

   Internet banking [ ] Valuables secure storage services [ ]

4. How long have you worked in the banking industry?

   Less than 1 year……………………………………………………………[ ]
   1 - 2 Years…………………………………………….…….……………….[ ]
   3 - 5 Years…………………………………………….…………….……….[ ]
   6 - 10 Years…………………………………….………………….…………[ ]
   11 - 15 Years…………………………………….……………….………….[ ]
   16 - 20 Years…………………………………….……………….………….[ ]
   21 - 25 Years…………………………………….……………….………….[ ]
   Over 25 years…………………………………….……………….…….….[ ]

5.How long has your organization been in existence?

   Less than 1 year……………………………………………………………[ ]
   1 - 2 Years…………………………………………….…….……………….[ ]
   3 - 5 Years…………………………………………….…………….……….[ ]
   6 - 10 Years…………………………………….………………….…………[ ]
   11 - 15 Years…………………………………….……………….………….[ ]
   16 - 20 Years…………………………………….……………….………….[ ]

21 - 25 Years…………………………………………….………….……..[ ]

Over 25 years……………………………………..……………..…….[ ]

Section B: RELATIONSHIP BETWEENCOMPETITION AND DIVERSIFICATION

1. To what extent are you engaged in each of the following diversification strategies in your organization?

1= Not at all

2= little extent

3= Moderate extent

4= Great extent

5= very great extent

Areas of diversification	1	2	3	4	5
Services diversified into mobile and internet banking					
Services diversified into provision of forex exchange services					
Services diversified into provision of investment banking services					
Services diversified into provision of insurance products services					
Services diversified into provision of premier alliance services					
Services diversified into provision of selection lending services					
Services diversified into provision of agency banking					
Services diversified into provision of treasury and trade finance					
Services diversified into provision of custody services					
The banks investment portfolio is fully diversified					

To what extent does each of the following diversification strategies affect competition of your company? Use a scale of 1 to 5 were;

1= Not at all

2= little extent

3= Moderate extent

4= Great extent

5= very great extent

Areas of diversification	1	2	3	4	5
Services diversification into mobile and internet banking					
Services diversification into provision of forex exchange services					
Services diversification into provision of investment banking services					
Services diversification into provision of insurance products services					
Services diversification into provision of premier alliance services					
Services diversification into provision of selection lending services					
Services diversification into provision of agency banking					
Services diversification into provision of treasury and trade finance					
Services diversification into provision of custody services					
Diversification of banks investment portfolio					

3. To what extent are your organization affected in the following areas of competition as a result of diversification

1= Not at all

2= little extent

3= Moderate extent

4= Great extent

5= very great extent

Service charge price wars	**1**	**2**	**3**	**4**	**5**
Interest rate price wars					
competition for enhanced customer value					

competition for customer deposits					
competition for customer goodwill					
competition for good reputation					
competition for market share					
Competition for talent					
competition for customer services					
competition for reduced operational costs					
competition for higher profit margins					
competition for higher shareholder returns					

Thank-you

Appendix 2: List of commercial Banks in Kenya as at 31st December 2015

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda (K) Ltd.
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Chase Bank (K) Ltd.
8. Commercial Bank of Africa Ltd.
9. Consolidated Bank of Kenya Ltd.
10. Co-operative Bank of Kenya Ltd.
11. Credit Bank Ltd
12. Citibank N.A.
13. Development Bank of Kenya Ltd.
14. Diamond Trust Bank Kenya Ltd.
15. Dubai Bank Kenya Ltd.
16. Ecobank Kenya Ltd
17. Equatorial Commercial Bank Ltd.
18. Equity Bank Ltd
19. Family Bank Limited
20. Fidelity Commercial Bank Ltd
21. Fina Bank Ltd
22. First community Bank Limited
23. Giro Commercial Bank Ltd.
24. Guardian Bank Ltd
25. Gulf African Bank Limited
26. Habib Bank A.G Zurich
27. Habib Bank Ltd.
28. Imperial Bank Ltd
29. I & M Bank Ltd
30. Jamii Bora Bank Limited.

31. Kenya Commercial Bank Ltd
32. K-Rep Bank Ltd
33. Middle East Bank (K) Ltd
34. National Bank of Kenya Ltd
35. NIC Bank Ltd
36. Oriental Commercial Bank Ltd
37. Paramount Universal Bank Ltd
38. Prime Bank Ltd
39. Standard Chartered Bank Kenya Ltd
40. Trans-National Bank Ltd
41. UBA Kenya Bank Limited
42. Victoria Commercial Bank Ltd
43. Housing Finance Ltd

Source: CBK, 2016.