

**AN INVESTIGATION OF THE EFFECTS OF EXPANSION STRATEGIES ON  
PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

**A CASE OF BANKS ON TIER ONE**

**BY**

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## DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university.

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## **DEDICATION**

I wish to dedicate this paper to my dear mother who has been role model and a pillar of my strength. My siblings for their never ending support. My classmates whom we have shared great moments. My colleagues who played a great role in widening my thoughts are equally appreciated.

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## ABSTRACT

Implementation of structural adjustment program and ensuing market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses face stiff rivalry and register low performance in terms of profits growth and sometimes even losses are incurred. This could be credited to lack of proper strategic expansion planning. Some of the forces of change that have greatly influenced the banking industry include intense competition, regulations and technological advancement. Strategic expansion in the banking industry demands that companies should have efficient systems in place to counter unpredictable events that can hinder their set goals, operations and overall performance. The purpose of the study was to investigate the effects of adopted expansion strategies on the performance at Commercial Banks in Kenya. This research problem was studied through the use of a descriptive research design. The target population of this study was the staff working at Commercial Banks in Kenya in Tier One. The study focused more on the section and particularly on the top, middle and lower level management staff who are directly dealing with the day to day management of the banks since they are the ones conversant with the subject matter of the study. A sample of staff drawn from the population of 232 management staff working in Commercial Banks in Kenya of the top, middle and low level management ranks was used. Stratified proportionate random sampling technique was used to select the sample. From each stratum, simple random sampling was used to select 70 respondents. Primary data was collected using a questionnaire while secondary data was obtained from annual reports of the companies. Data collected was purely quantitative and it was analyzed by descriptive analysis. In addition the study used Karl Pearson's product moment correlation analysis to assess the relationship between the variables. From the findings, the study concluded that product development has the highest effect on performance of commercial banks, followed by market penetration, then diversification while market development having the lowest effect on the performance of commercial banks. The study therefore recommends that the management to increase the advertising expenditures and market share of distribution through more intensive distribution. Market share can be increased by changing the variables of the marketing mix which include the product whose attributes can be changed to provide more value to the customer by improving product quality. The study found out that diversification expansion strategies had greatly effect on the performance of Commercial Banks in Kenya. This study recommends that bank management should occasionally review their diversification expansion strategies in order to enhance the performance of their banks.

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## OPERATIONAL DEFINITION OF TERMS

**Concentric diversification** – This is when the new venture is strategically related to the existing lines of business, it is called concentric diversification. The organization adds new products or services which have technological or commercial synergies with current products and which will appeal to new customer groups.

**Conglomerate expansion** - This occurs when there is no common thread of strategic fit or relationship between the new and old lines of business; the new and old businesses are unrelated. The organization markets new products or services that have no technological or commercial synergies with current products, but which may appeal to new groups of customers.

**Differentiation** - This is a strategy in which a product is different from that of one or more competitors in a way that is valued by the customers, or in some way affects the customer's choice. A successful differentiation strategy allows a firm to earn above average returns.

**Diversification** – This is achieved by extending the scope of their operations into multiple markets when firms have opportunities embedded in market structures and technology as well as opportunities for growth in the firm's basic business.

**Expansion strategies** – These are tactics used to expand firms' operations by adding markets, products, services, or stages of production to the existing business.

**Focus Strategy** - In this strategy, the firm concentrates on a select few target markets. It is also called niche strategy. It is hoped that by focusing your marketing efforts on one or two narrow market segments and tailoring your marketing mix to these specialized markets, you can better meet the needs of that target market.

**Horizontal expansion** – This is when the organization adds new products or services that are technologically or commercially unrelated to current products, but which may appeal to current customers.

**Market Development** – This refers to a situation when the business seeks to sell its existing products into new markets. A market development strategy targets non-buying customers in currently targeted segments

**Market Penetration** - This is when firms mainly seek to increase their market share to gain reputation since market leaders have an influence that they can use to their advantage. A firm may use its influence in an industry to increase its bargaining power.

**Organizational performance** – This refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan.

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## **CHAPTER ONE**

### **INTRODUCTION**

This chapter gives a brief introduction of the research study by looking into business expansion strategies and how they will be carried out in organizations. It also looks at the profile of Commercial Banks in Kenya. The chapter explores the objectives of this study as well as research questions. The chapter also states the research objectives of the study and the significance of this study.

#### **1.1 Background of the Study**

Nowadays organizations operate in unpredictable environment which forces them to respond by screening the environment and adopt strategies that position them as viable in the market. In order to be effective while growing, banks must respond to the opportunities, challenges, risks and limitations posed by the external environment (Costa, 2007). To better understand the external forces of change and develop effective responses which secure or improve their position in the future, organizations need to scan their business environment (Auster and Choo, 2004). In this context, environmental scanning may be regarded as the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the banking future course of action (Costa, 2007).

According to Aguilar (2009), this acquisition of external information may be done formally and/or informally depending on the approach taken by the banking. The scanning activity can also be more or less structured as Fahey and King (2010) support. From their perspective, it can be irregular (mainly as a reaction to a crisis), regular (more comprehensive and systematic than the previous being typically decision or issue oriented), and continuous (an ongoing monitoring of various environmental factors such as political, economic, social and technological). In addressing the way in which banking organizations regard their business environment, Slattery and Olsen (2008) point out that they are still some way from evolving accurate perceptions of the environment, and co-coordinating these into an overview of the corporation's environment.

Empirically, some authors have found significant disparities in cost structures among banks of similar size, suggesting that the ways in which banks are run can be more important than their

size or the range of business that they pursue. In other words, management efficiency per se may be a more important factor than the overall economies of scales in bank performance.

### **1.1.1 Business Expansion Strategies**

The issue of expansion strategies has attracted the attention of academia as well as industry. Expansion as a strategic growth option is particularly relevant in developing countries like India because of very low product penetration and consumption levels. The McKinsey Quarterly in its global survey of business executives reports that 84 percent of executives consider growing number of consumers in emerging markets as an important trend (Freeman, Woodwork, and Stephenson 2007). However, traditionally, strategy researchers and practitioners have focused their attention on the problem of dealing with competition and how to get and keep market share (Hamel and Prahalad 2008; Kim and Mauborgne 2005).

Expansion and other similar terms used in the business and corporate strategy literature do not always mean market expansion. For instance, Glueck and Jauch (2008) suggest concentration, integration, diversification, cooperation, and internationalization as different routes to expansion. But these strategies do not necessarily lead to expansion of market for a particular product category. Similarly, Ansoff (2007) in his product-market growth matrix talks about market extension strategy and market penetration strategy. But extension of a market by reaching out to new market segments in present geographic markets is not the same as regional, national, or international geographic expansion of the company's sales.

In respect of expansion in the banking sector stress that although it offers many benefits to the firms operating in this sector, there are also many complex issues associated with global expansion. Some of these issues have been identified by Dymsha (2008), who highlights the following most relevant: firm must deal with multiple political, economic, legal, social and cultural environments as well as various rates of change within each of them. Between national and foreign environments are complex because of national sovereignty issues and widely differing economic and social conditions. Separation, cultural and national differences, and variations in business practices all tend to make communication between headquarters and overseas affiliates difficult. Of present and future competition may be more difficult to undertake in a number of countries because of differences in industrial structure and business

practices. Degree of significant economic, marketing and other information required for planning varies a great deal among countries in availability, depth and reliability.

According to Fish and Rudolf (2006), these complexities are especially important in the banking industry where changing environmental conditions can have a large impact on banks returns. In order to overcome these complexities, they propose a decision criterion for transnational hotel expansion. These from their point of view are usually determined by marketing opportunities in a foreign country by way of a four-step process: of the general environment; market potential; sales; and weighting prospective profitability versus risks. They further emphasize that analysis of the business environment takes on a much more significant dimension in plotting international expansion. Such an analysis includes studying political, economic and social aspects of the target country.

Another angle of expansion has been approached by Dunning and McQueen (2006), who use economic theories to explain the strategies adopted by some large banking organizations when expanding their business. The strategies of business expansion in the banking sector have been looked at occasionally by researchers who did not distinguish processes from strategies. However, organic growth and licensing have been regarded as the main strategies for banks business expansion. This importance of monitoring the environment has been emphasized by Rugman and Hodgetts (2009), who maintain that the information resulting from this process can be used for strategic purposes. It is their view that the increased complexity, the acceleration in the rate of change and the variability in the environment and resulting trends have brought about a need for management to develop methods of monitoring the environment.

Regarding strategic planning for banking organizations, Gerry and Kevan (2008) argue that, apart from the obvious service nature of the industry, applications of strategy will have to take into account the variability of conditions in different locations due to the multi-site nature of hospitality operations. They also stress the need to plan corporate wide issues and the overall distribution of bank portfolios when deciding where new units should be opened and existing ones disposed of. Stevansson (2008) recognize the same need and recommend the linking of environmental scanning activities to the strategic planning process in order to improve the quality of the decision-making process.

### **1.1.2 Performance of Banks**

Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. In general, the concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Kumar, 2008). Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist. Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization. How that value is created is the essence of most empirical research in management (Fahey and King, 2010).

Organizational performance can be judged by many different constituencies, resulting in many different interpretations of successful performance. Each of these perspectives of organizational performance can be argued to be unique. Further, each organization has a unique set of circumstances, making performance measurement inherently situational. Performance outcomes result from success or market position achieved (Gitman, 2007). Organizational performance refers to how well an organization achieves its market-oriented goals as well as its financial goals. Organizational performance means attainment of ultimate objectives of the organization as set out in the strategic plan. Performance can be determined in various ways. While there is a range of specific models, major determinants of firm-level profitability include: characteristic of the industry in which the firm competes; the firm's position relative to its competitors; and the quality or quantity of the firm's resources (Collis, 2007).

Dorothy (2009) indicated that numerous measures of corporate performance could be used as dependent variables. However, more important than a specific measure chosen is the use of multiple measures, because different criteria of performance are likely to be differentially affected by the various independent variables. Efficiency relates to how well resources are used

to achieve a goal while effectiveness focuses on the appropriateness of the goals chosen. Since performance is a reflection of an organization's goals and strategic objectives, performance measures have to be tailored to the conditions and needs of the firm. Conceptually therefore, organizational performance has been viewed as the comparison of the value created by a firm, measured through the three general elements (efficiency, effectiveness & relevance) of organizational performance, with the value the owners expect to receive from the firm (Fahey and King, 2010). Performance in this study will be measured by employee turnover rate, enrolment and retention of students, timeliness of client service, customer satisfaction index and success as compared to industry averages.

### **1.1.3 Commercial Banks in Kenya**

Kenya's banking sector has improved tremendously over the past 10 years not just in size and profitability but also in terms of product offerings and service quality. While many of banks collapses in the late 90's were as a result of the poor strategy formulated, the recent bank closure that of Charter House bank- was more of an operational issue. Kenyans now have developed positive altitudes to the banks that have competitive strategies even the smaller ones that have been victims of closures. During the period to February 2010, the banking sector comprised 142 institutions namely 43 commercial banks, 2 mortgage finance companies and 97 foreign exchange bureaus (CBK, 2011).

According to the Banking Supervision Survey Kenya (2010), total assets in the sector have grown tremendously over the past 10 years. From a balance sheet of 328.4 billion in 2007, the sectors total assets stood at Ksh 764.4 billion as at the end of 2006 a growth of 132%. But the story of Kenya's banking sector remains that of a dominant few where 10 players control more than 75% of the market share while the rest 32 share the remaining portion. This scenario is reflected in other measurements across the board, like customer deposits, loans and advances to customers and earnings (CBK, 2012).

The Central Bank of Kenya also released a circular barring bank's from levying any charges on savings accounts. This led to banks creating more products exclusively for saving purposes while some product features had to be changed as they were originally savings products which had charges. This move encouraged more people to save as they did not have to worry about charges

been levied on their savings. The banking Sector continues to grow and expand every day with more banks coming up in an attempt to capture the large population which is still unbanked by adopting different strategic plans (Ibid).

With a stable capital base raised either through IPOs, rights issue, mergers and acquisitions, the banks in Tier One are faced with the task of putting it to work efficiently so as to optimize on performance in terms of profitability. Generally, the bank expansion in the region has resulted in a high performance and growth rate mainly due to the model adopted. The sharp growth is linked to a rise in credit demand mainly from the construction, transport and communication sectors in the region as subsidiaries factors (CBK, 2012). Most of the banks in this category are employing both acquisition and start-up expansion strategies in the East African Region. Financial experts propose that it would be prudent for the banks to consolidate in the local market before going regional.

## **1.2 Statement of the Problem**

According to the Government of Kenya Economic Survey (2010), implementation of structural adjustment program and ensuing market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses face stiff rivalry and register low performance in terms of profits growth and sometimes even losses are incurred. This could probably be credited to lack of proper strategic expansion planning (Dibb, 2007). Making causal connections between investment in expansion, and future management performance and business success is sometimes difficult (Harzing, 2010). Grosse (2005) highlighted the difficulty in establishing a statistical link between the incidence of expansion and company performance.

Locally, Kisaka (2007) researched on expansion strategies adopted by media houses in Kenya. However, there is no study that has been done focusing on the expansion strategies on commercial banking sector in Kenya. Some of the forces of change that have greatly influenced the banking industry include intense competition, regulation and technological advancement (Banking Supervision Survey Kenya, 2010). Strategic expansion in the banking industry demands that companies should have efficient systems in place to counter unpredictable events that can hinder their set goals, operations and overall performance. However, this is not always the case as most of the banks are not really achieving the targeted performance despite their

expansion into the market and continue registering low performance in terms of profits growth (CBK, 2012). Therefore, the effect of expansion strategies in the banking industry is not very clear and hence the research gap. This study therefore seeks to investigate the effects of expansion strategies on performance of Commercial Banks in Kenya.

### **1.3 Research Objectives**

#### **1.3.1 General Objective**

The general objective was to investigate the effects of expansion strategies on the performance of Tier one Commercial Banks in Kenya.

#### **1.3.2 Specific Objectives**

The study was guided by the following specific objectives

- i. To establish the effects of market development expansion strategies on performance of Tier one Commercial Banks in Kenya.
- ii. To assess the effects of diversification expansion strategies on performance of Tier one Commercial Banks in Kenya.
- iii. To determine effects of product development expansion strategies on performance of Tier one Commercial Banks in Kenya.
- iv. To establish how market penetration expansion strategies affect performance of Tier one Commercial Banks in Kenya.

### **1.4 Research Questions**

From the specific objectives the following research questions were answered:

- i. What is the effect of market development expansion strategies on performance of Tier one Commercial Banks in Kenya?
- ii. How does diversification expansion strategies affect performance of Tier one Commercial Banks in Kenya?

- iii. What is the effect of product development expansion strategies on performance of Tier one Commercial Banks in Kenya?
- iv. How does market penetration expansion strategies affect performance of Tier one Commercial Banks in Kenya?

### **1.5 Significance of the Study**

To managers: The study will increase understanding and appreciation by managers of Commercial Banks in Kenya of the expansion strategies that relate to the industry. The study will also assist other financial institutions managers make appropriate decisions following the sample strategies that have been implemented by the Commercial Banks in Kenya to successfully expand their operations. Managers will also be made aware of the challenges that have been experienced in the adoption and implementations of particular strategies which will help them make appropriate adjustments to counter these challenges and achieve optimal performance.

To regulators and policy makers: The study will provide insights on the strategies that can enhance the sector's growth and performance, and hence guide in regulation and policy formulation. This will therefore help policy makers of the banking sector such as Central Bank and Ministry of Finance and Planning among others, with the development and review of existing policies to achieve synergy in the sector.

To the users of banking services: The study will assist users understand the prospects of development in the banking industry and appreciate them. This is important because any cost implications, which may be passed to the customers in exchange for better service delivery, will be accepted. The users will also be able to predict the future of the Commercial Banks and prepare to conform.

To researchers and academicians: The study will avail material for reference by future researchers and academicians on the same topic of expansion strategy. In addition the study will also highlight other topics of future research like the relations between strategies adopted and firms industry competitors.

## **1.6 Scope of the Study**

The study was about the expansion strategies in commercial banks in Kenya. The study focused more on the effects of expansion strategies on performance of commercial banks in Kenya. It covered the commercial banks managers in all the banks in tier 1. These were banks with a total of Customer Deposit Base of over Shs 75 Billion (see appendix III). The banking industry in Kenya is dominated by the top 6 banks that control over 70% of the industry assets and turnover. This provided an adequate population and sample for the study and therefore gave reliable results and findings.

## **1.7 Limitations**

Substantial amount of finance was required to conduct the study in all the commercial banks in Tier one. However the researcher trained and employed assistant researchers as well as draw a representative sample that is acceptable and manageable within the time given and finances available. Although some information about expansion strategies was classified and access to it limited thus making it a limitation for the research, the researcher endeavoured to use formal channels that are in existence to get the kind of information that is useful for the research.

## **1.8 Assumptions of the Study**

This research made the assumption that the respondents would be cooperative enough to give the required information of the study. This was despite the fact that most of them usually had tight schedules that leaves no time for the respondents to answer to the research instruments. But with better arrangements and a timely preparation, this assumption did not hamper the intended exercises. It was also assumed that the selected respondents were conversant with risk management strategies. The research assumes there was availability of the resources intended to facilitate data collection, and that the information collected was a general representation of the whole sector for inference. This research also assumed that external factors like strikes would not arise as this would affect the process of data collection and hence the completion of the project.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical review, the concept of expansion strategies, expansion strategies in banking and the relationship between expansion strategies and organizational performance.

#### 2.2 Theoretical Review of Expansion Strategies and Performance

##### 2.2.1 Resource Based Theory

Expansion has been approached by Dunning and McQueen (2006) who use economic theories to explain the strategies adopted by some large banking organizations when expanding their business. Some authors have questioned the process and the content of the *classical expansion strategy* theory advanced by Mintzberg (2008). They sought to explain superior performance due to the firms resources and their ability to utilize them. These scholars refer to a modern expansion strategy theory known as the *resource based expansion theory*. They however stress that their approach is at par with the ‘classical theories’ and mainly trace their theory on the work of Penrose (1959) and Schumpeter (1934). The resource based theory draws insights from the economic theory of the firm, focusing on the economic rationale of a firm’s existence (Conner, 2009). They help to understand firms as value creators in contrast to value appropriative focus in traditional approaches.

The resource based theory consists of a number of related but distinct branches; resource-based theory, dynamic capabilities and the core competencies approach (Williamson, 2004). Peteraf (2005) underscores four cornerstones of competitive advantage; heterogeneous competitors; imperfect mobility of strategic resources; *ex ante* limits to competition of these assets; and *ex-post* limits to competition so that economic rents can prevail. Dierickx and Cool (2009) bridge between resource-based theory and organizational learning and they explicitly discuss the strategic value of organizational learning process protected against imitation by causal ambiguity

and time compression diseconomies. As such, this study will be based on the resource based theory since it provides a better understanding of the multifaceted inside of organizations and their complex interaction with their environment as they seek optimal performance.

### **2.2.2 Modern Portfolio Theory**

Modern Portfolio Theory (“MPT”) is also called “portfolio theory” or “portfolio management theory.” MPT is a sophisticated investment approach first developed by Professor Harry Markowitz of the University of Chicago, in 1952. Modern Portfolio Theory allows investors to estimate both the expected risks and returns, as measured statistically, for their investment portfolios. He demonstrated that investors failed to account correctly for the high correlation among security returns. It was his position that a portfolio’s risk could be reduced and the expected rate of return increased, when assets with dissimilar price movements were combined. Holding securities that tend to move in concert with each other does not lower your risk. Diversification, he concluded “reduces risk only when assets are combined whose prices move inversely, or at different times, in relation to each other.” Caumnitz (1970) stated that investment portfolios should be appraised based on their market price of risk, which combines risk and return into one measure, rather than on risk or return alone. The rank of the performance of the mutual funds under consideration was done using the Treynor Index, Sharpe Index and the Jensen Index. Since the three risk-adjusted performance measures are derived from the CAPM and Capital Market Line (CML), they are consistent with the capital market theory as developed in a mean-variance context (Sears and Trennepohl, 2008). Studies undertaken by some scholars indicate that the performance ranking as a result of using the three indexes is not consistent.

Treynor and Jensen (2003) measures may differ in their ranking of portfolios because of the manner in which they incorporate risk. The Jensen measure is not well suited to ranking portfolios of different risk because it measures only deviations from the CAPM in the return dimension; thus portfolios that differ widely in risk may conflict in their Jensen and Treynor measures. Low risk portfolios tend to have positive Jensen index and higher risk portfolios have negative Jensen index (Sears and Trennepohl, 2008). Therefore, the level of risk is a major determinant of the financial performance of the mutual fund.

### 2.2.3 Financial Intermediation Theory

Intermediaries provide services: this is clear because intermediaries issue “secondary” financial assets to buy “primary” financial assets. If an intermediary provided no services, investors who buy the secondary securities issued by the intermediary might as well purchase the primary securities directly and save the intermediary’s costs. To explain the sorts of services that intermediaries offer, it is useful to categorize them in terms of a simplified balance sheet. Asset services are those provided to the issuers of the assets held by an intermediary, e.g., to bank borrowers. An intermediary that provides asset services is distinguished by its atypical asset portfolio. Relative to an intermediary that provides no asset services, it will concentrate its portfolio in assets that it has a comparative advantage in holding (Allen, 2008).

The existence of financial intermediaries needs to be justified in economic terms because in the financial world, the financing of firms (and governments) by households occurs via financial markets in a frictionless manner - there are no transactions costs - which leaves no role for financial intermediaries (Goetzmann and Ibbotson, 2009). There are no transactions costs and there exists a full set of contingent markets in which all can participate. Credit markets also being perfect, individuals do not face credit rationing. The type of mutual fund company therefore has an effect on the financial performance.

Allocation of resources is Pareto optimal and there is no role for intermediaries to add value. In addition, (employing Modigliani-Miller), financial structure is irrelevant as in a world such as that described; households can construct portfolios which offset the actions of an intermediary and intermediation cannot add any value (Fama, 2010). As noted by Allen and Santomero(2008) the traditional theory of financial intermediation is focused on the real-world market features of transactions costs and asymmetric information. These are central to the activity of banks and insurance companies. The idea of transactions costs, first developed in the context of the theory of the firm by Coase(1937), was introduced as a key form of friction in financial markets by Gurley and Shaw (1960). Economies of scale which benefit intermediaries result from indivisibilities and non-convexities in transactions technology which restrict diversification and risk sharing under direct financing. Examples include fixed costs of evaluating assets, and declining average trading costs which mean intermediaries may diversify more cheaply than

individuals. The “liquidity insurance” banks provide to depositors and borrowers whereby deposits can be cashed on demand while banks' assets are mainly long-term and illiquid.

### **2.3 Expansion Strategies**

Expansion strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business. The purpose of expansion is to allow the company to enter lines of business that are different from current operations. When the new venture is strategically related to the existing lines of business, it is called concentric diversification (Gitman, 2007). Conglomerate expansion occurs when there is no common thread of strategic fit or relationship between the new and old lines of business; the new and old businesses are unrelated.

Any company's strategic emphasis is increasing sales volumes, boosting market share and cultivating a loyal clientele. Profits are then re invested to grow the business. Price, quality and promotion are tailored to meet customer needs. It's then that opportunities for geographical market expansion are pursued next. The natural sequence for geographical expansion is local to regional to national to international. The degree of penetration will however differ from area to area depending on the profit potentials (Thompson and Strickland, 2005). There are three theories associated with expansion. These are Concentric, Horizontal and Conglomerate expansion.

In the concentric expansion, the organization adds new products or services which have technological or commercial synergies with current products and which will appeal to new customer groups. The objective is therefore to benefit from synergy effects due to the complementarities of activities, and thus to expand the firm's market by attracting new groups of buyers(Cameron &Whetton, 2009).

In the horizontal expansion the organization adds new products or services that are technologically or commercially unrelated to current products, but which may appeal to current customers. In a competitive environment, this form of expansion is desirable if the present customers are loyal to the current products and if the new products are of good quality and are well promoted and priced. Moreover, the new products are marketed to the same economic

environment as the existing products, which may lead to rigidity and instability. In other words, this strategy tends to increase the firm's dependence on certain market segments (Fish and Rudolf, 2006)

In the conglomerate expansion, the organization markets new products or services that have no technological or commercial synergies with current products, but which may appeal to new groups of customers. The conglomerate expansion has little relationship with the firm's current business. Therefore, the main reasons of adopting such a strategy are first to improve the profitability and the flexibility of the company, and second to get a better reception in capital markets as the company gets bigger. Even if this strategy is very risky, it could also, if successful, provide increased growth and profitability (Kumar, 2008).

The strategies of expansion may seek internal development of new products or markets, acquisition of a firm, alliance with a complementary company, licensing of new technologies, and distributing or importing a products line manufactured by another firm (Collis, 2007). Generally, the final strategy involves a combination of these options. This combination is determined in function of available opportunities and consistency with the objectives and the resources of the company (Kim and Mauborgne, 2005).

Expansion strategies of banks are meant to add value to the firm in terms of customer satisfaction and performance. However, if diseconomies of scale exist, both will be destroyed. In an information and distribution intensive industry with high fixed costs such as financial services, there should be an ample potential for scale and scope economies. Economies of scale exist when the average cost decreases in scale over a relevant range as output expands. If this occurs, then larger institutions may be more efficient. Some businesses benefit from economies of scale while others are negatively affected (Cameron & Whetton, 2009). Examples of potential gains of scale in banking activity include physical branch distribution network, infrastructure software, and electronic distribution systems.

Indeed, some recent studies of bank cost scale efficiency, using data from the 1990s, suggest that there may be substantial scale economies even at large bank size, possibly due to technological progress (Berger, Shanks & Broadbent, 2010). These studies tend to show that the threshold level is increasing compared with previous studies. In this connection, some other recent studies

related to the European experience (Altunbas, 2007) show that, in various European countries, banks can obtain cost savings by increasing the scale of production as well as by reducing managerial inefficiencies. Scale diseconomies may arise due to co-ordination and administrative costs from offering broad range of products.

Berger et al (2010), stress that the real gain of multi-product distribution may not be in production efficiencies but rather in customer service satisfaction in what they denominate “consumption economy”. It derives from the cross selling potential of a financial firm that produces various products and services (Banking, insurance, and asset management). The result will be higher revenue and a better return from any customer segment, if consumers of financial services find it more advantageous to purchase multiple products from the same provider. Consequently, banks can increase their profits and performance without any significant emphasis in their operational efficiency. The literature also refers to the “consumption economy” as a revenue economy that results from an increase in scales associated with consolidation because some customers prefer the services of larger institutions.

Empirically, some authors have found significant disparities in cost structures among banks of similar size, suggesting that the ways in which banks are run can be more important than their size or the range of business that they pursue (Goldman,*et al.*, 2009). In other words, management efficiency is important factor than scale economies especially in bank performance. Large banks have lower shares of small business loans per dollars of assets than smaller banks and that large banks tend to focus on “transactional” small business lending while smaller banks do more relationship-based (and thus more likely branch-based) lending (Berger et al, 2010). The mid-sized networks tend to have lower deposits and about equal small business loans per branch than institutions at the upper end of the branch network size range, and both lower deposits and small business loans per branch than small networks.

Examining branch network operations in isolation from the rest of the banking organization may ignore important cross-effects that could impact branch network performance. According to Sullivan (2004) there could, for instance, be technological scope economies in the design, implementation, and operation of branch network information processing systems with systems in other parts of the banking organization, or revenue generated for other business lines through

cross-selling (e.g., insurance sales or mutual fund sales or asset management accounts). On the other side of the ledger, very large and diverse organizations could suffer managerial inefficiencies that could detract from the operating performance of the branch network.

Roth, Schweigerand Morrison (2008) argue that cost economies are likely to be lost as the organization grows too large and too complex. In this case, the benefit of multi-product distribution may not be enough to outweigh costs. However, if there are doubts about benefits of economies of scale and scope, revenue gains related to multi-product distribution appear to be real. The expanded product array and potential for cross selling suggest that real revenue benefits result from larger size and depth of product offering. Considering the issue of stability, proponents of the stability argument assert that larger universal banks benefit from higher earnings-source diversification, increased operating earnings stability and higher valuations as well as increased overall performance (Porter, 2009).

According to Pearce and Robinson (2003), a bank can in principle, reduce its risk by expanding their activities into product lines whose returns are imperfectly correlated with those for the bank's existing products and services. Benefits from earnings diversification may increase bank value in several ways, since diversification may lower bank risk and reduce the possibility of failure (Thompson, 2005). First, reduced risk directly translates into reduced probability of incurring distress costs. The literature refers to these efficiency gains as improvements in the risk/expected return trade-off.

On the other hand, Martinez and Jarillo (2009) argue that an increased geographical spread of risks associated with cross-border consolidation may improve an institution's risk/expected return trade-off. The literature on commercial banks in the US generally found that larger, more geographically diversified institutions tend to have better risk/expected return trade-offs (Berger et al, 2010). Second, a financial firm may be able to increase the level of some risky, yet profitable, activities such as commercial lending, without additional capital being necessary. This occurs for the largest universal banks, because these activities can have a minority share in the total of their business so that eventual losses in some line of activity could be normally absorbed by the institution (Roth et al, 2008).

The possible benefits of scale and/or scope economies, the revenue enhancements, and the added stability all favor the observed movement toward universal banks. However, the results are neither unequivocal nor asserted, since they depend on several factors (Mark and Spencer, 2008). On the other hand, there will always be some room for specialized banks exploring some specific niche of the financial market, such as the design and sale of derivatives, international issues of securities, some sort of investment funds, etc. (Stanton 2004). This suggests that the institutional feature of the world financial system, resulting from recent changes in the banking industry, will be a mix of specialized banks and universal banks, probably making up a bimodal banking system.

## **2.4 Expansion Strategies and Organizational Performance**

### **2.4.1 Market Penetration**

Harzing (2010), asserts that firms mainly seek to increase their market share to gain reputation since market leaders have an influence that they can use to their advantage. A firm may use its influence in an industry to increase its bargaining power. A larger player has an advantage in negotiations with suppliers and channel members than a smaller player in the industry has. This power enables a firm to be more competitive in the industry which ultimately results to increased performance (Harzing, 2010).

There are various drivers of market share which include share of preference, which can be increased through product, pricing, and promotional changes. Increasing advertising expenditures and lastly share of distribution can increase share of voice; this can be increased through more intensive distribution. According to Jones (2004), market share can be increased by changing the variables of the marketing mix. They include the product whose attributes can be changed to provide more value to the customer by improving product quality.

Setting right market prices as part of the marketing mix also impacts on the market share since a decrease in price will increase sales revenue (Hitt and Ireland, 2005). This tactic may not succeed if competitors are willing and able to meet any price cuts. Distribution can be done through adding new distribution channels or increasing the intensity of distribution in each

channel. Promotion can be changed as increasing advertising expenditures can increase market share, unless competitors respond with similar increases.

#### **2.4.2 Product Development**

An expansion strategy that is related to the product development can be illustrated with a simple Product Life cycle. The success of such a product in the target market determines the success of the organization's marketing strategy and definitely its overall efficiency (Hung, *et al*, 2007). Marketing efficiency in turn indicates organizational performance. A question mark or star as the product being re-launched must be a product that is successful and either in the introduction or growth stage in the product life cycle (Hung, *et al*, 2007).

During the growth stage in the product life cycle, a company expands market share by trying to get new people to try the product and existing customers to buy more. The company should therefore use market expansion. At the decline stage, the company should try to re-launch the product, which would be using product or market expansion (Stanton, 2004)

The model analyzes the strategic direction of a product, and if a product was placed in the market expansion, which has medium risk strategy, and competitors also released a similar product in this section, there will be a higher risk strategy, which will affect the product's performance and position in the product life cycle.

#### **2.4.3 Diversification**

One of the managerial contingencies that are assumed to be contributing positively to the economic performance of organizations is the degree of diversification (Constable and McCormick, 2009). According to Dibb (2007), firms diversify by extending the scope of their operations into multiple markets. A diversification strategy is pursued according to Chandler (2010), when firms have opportunities embedded in market structures and technology as well as opportunities for growth in the firm's basic business. This means that firms diversify into other businesses if after consolidating their positions in their base industry or market they still possess underutilized resources which can be applied in other sectors of low opportunity (Chandler, 1962). The assumption is that diversification may raise economic benefits through a more efficient utilization of organizational resources across multiple markets (Boyd *et al*, 2004).

Some of the specific evidence available from the research on diversification shows that profitability increases with diversity but only up to the limit of complexity (Benito, 2003). Results from other studies suggest that the management of the process of diversification may be a more important influence on performance than the type or mode of diversification itself (Bartlett, and Ghoshal, 2009).

As such, related diversification can lead to higher corporate performance. According to Beddowes (2004), by pursuing a strategy of related diversification, firms can focus on core organizational capabilities and exploit the interrelationships between business lines to achieve economies of scope by sharing physical business resources and economies of scale through increased coordination and the sharing of marketing, information and technological knowhow and capabilities across related industries all of which result in lower production, selling, servicing and distribution costs, better market coverage, stronger brand image and company reputation and lower order processing costs (Collis, 2007).

#### **2.4.4 Market Development**

In this growth strategy the business seeks to sell its existing products into new markets. A market development strategy targets non-buying customers in currently targeted segments. It also targets new customers in new segments. Many possible ways of approaching this strategy, include new geographical markets; for instance exporting the product to a new country; new product dimensions or packaging: for example; new distribution channels and different pricing policies to attract different customers or create new market segments (Dupuis and Prime, 2007).

A company follows a market development strategy for a current brand when it expands the potential market through new users or new uses (Harzing, 2010). New users can be found in new geographic segments, new demographic segments, new institutional segments or new psychographic segments. Another way is to expand sales through new uses for the product. The key difference between this growth strategy and market penetration is that the definition of the target market must change. In other words, the market potential must increase through this strategy, whereas the market size is "fixed" with a market penetration strategy (Hung, *et al*, 2007).

## **2.5 Empirical Review**

According to Jones (2004), expansion is among the most challenging decisions for a company as it reduces the risk of operating in a volatile market. Previous experiences and knowledge of the firm can be a guide for future operations. Before making a strategic decision a manager must do a cost benefit analysis and determine whether it is in line with the company's objectives and mission. The manager must also consider the knowledge acquired to be of use to the company in future expansion and allow them to learn competencies that can be reapplied in their existing business. A forward thinking manager is more worried about winning a war than winning a battle (Thompson, 2005)

A firm's performance is not only indicated by the sales figures, rather, changes in sales may simply reflect changes in the market size or changes in economic conditions. Performance of a firm relative to competitors is measured by the proportion of the market that the firm is able to capture (market share). Sales may be determined on a value basis or on a unit basis and while the firm's sales figures are readily available, total market sales is more difficult to determine (Jim 2003). Many firms seek to increase their sales relative to competitors. A firm may seek to increase its market share to exploit the economies of scale. Operating in higher volumes can be instrumental in developing a cost advantage. Sales growth in a stagnant industry is a reason to increase market share. When the industry is not growing, the firm still can grow its sales by increasing its market share (Hookes, 2010) such growth in market share leads to a growth in revenues which in the long run can be used as a measure of performance.

According to the findings by Johnson and Scholes (2008) in a study on exploring corporate strategy among American firms, the modes of expansions include; franchising, licensing, acquisition and mergers. Further, Johnson (2005) also in an empirical analysis of the integration-responsiveness framework in US construction equipment industry firms in global competition established that the firms have different instruments used in expansions; common stock, preferred stock; bond; call- option. The risk and return for each instrument is different. The instruments are always mixed so that a maximum return is obtained with minimum risk. In investment analysis weighted average cost of capital analysis gives a maximum return. This

analysis can be extended for expansion also as risk and returns from different modes of expansion are not similar. Such analysis will provide an optimal expansion mode.

In the research paper "International expansion strategy of Japanese firms; Capability building through sequential entry" Kumar (2008). has shown that firms with more line of business (LOB), horizontal business group (H.B.G), Vertical business group (VBG) have greater advantage. On an abstract level, one can think of expansion as investment, which inherently has some risk and is supposed to bring a return. Of course, it is much more complex than investment decisions. According to Kotler (2007), expansion decisions do not depend only on the financial status of the firm it is a strategic decision, which is related to firm's objectives and mission. It is very difficult to determine the present value or future value of a firm. The value of a firm is determined by the product and not by the time. Expansion is less liquid than investment. Selling or buying of a set-up takes more time than an investment 'buy or sell' event.

According to Heid and Lawrence (2008) expansion decisions are more complex than investment decisions because they involve many domains. An expansion has substantial intangible implications which may not be the case with investment. It is that an investor's sole purpose is to maximize his wealth, but firms might be having objectives other than just making profit like employment generation, brand imaging, entering new market segments, strategic move, forward integration, and backward integration (CaparandKotabe, 2003). The units of a firm are more interrelated than the assets of an investor.

## **2.6 Conceptual Framework**

As shown in Figure 2.1, the effects of expansion strategies on business performance can be studied using the variables of expansion and performance. Each of these variables cause a notable and explainable change in the dependent variable as explained in other sections of this chapter. Below is the diagrammatic relationship represented by the independent and dependent variables.

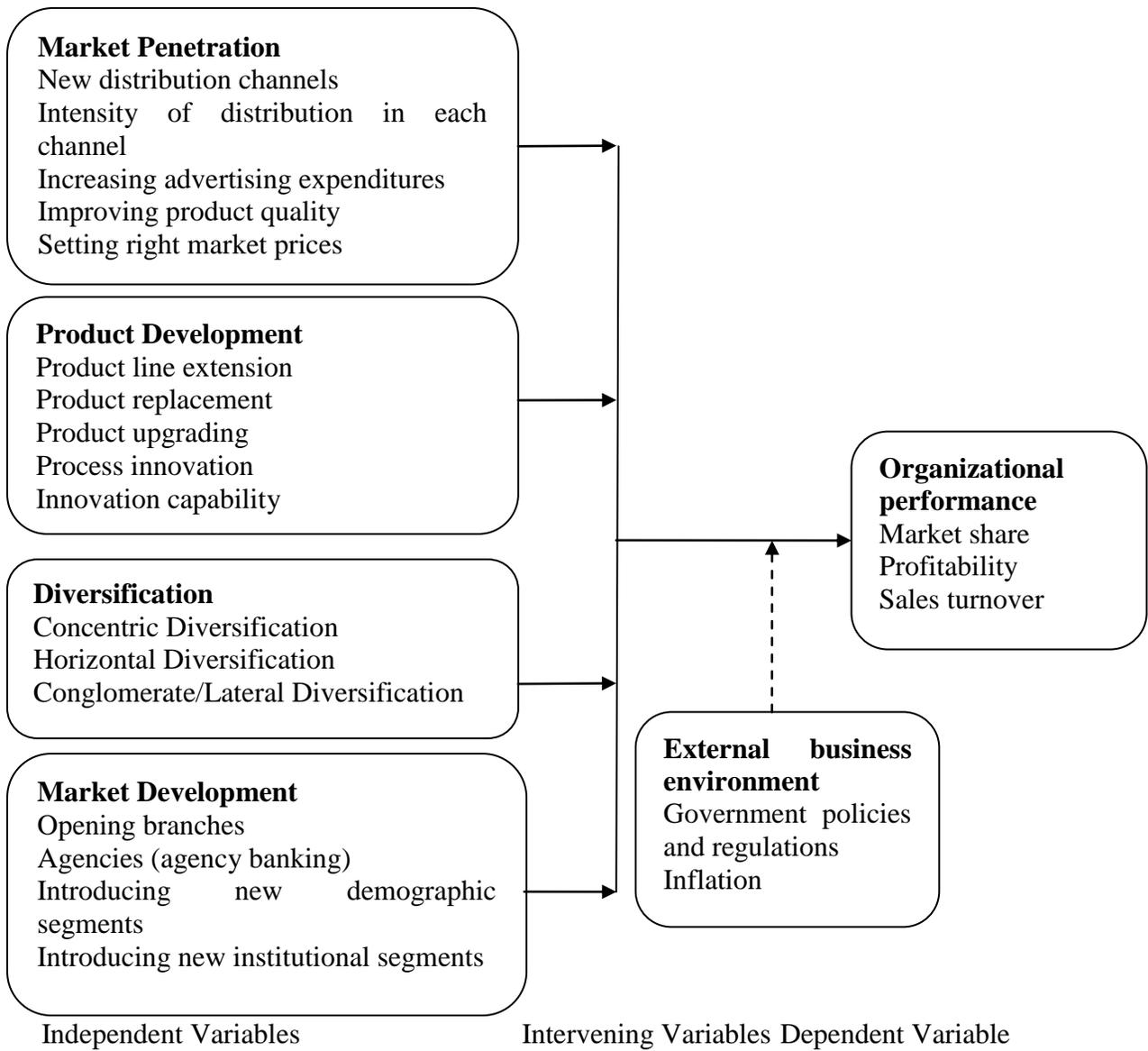


Figure 2.1: Conceptual Framework

Source: Researcher (2013)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter sets out various stages and phases that were followed in completing the study. It involved a blueprint for the collection, measurement and analysis of data. This section is an overall scheme, plan or structure conceived to aid the researcher in answering the raised research question. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identifies the procedures and techniques that was used in the collection, processing and analysis of data. Specifically the following subsections were included; research design, target population, data collection instruments, data collection procedures and finally data analysis.

#### **3.2 Research Design**

Research design refers to the method used to carry out a research. This research problem will be studied through the use of a descriptive research design. According to Cooper and Schindler (2003), a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive research design was chosen because it enables the researcher to generalise the findings to a larger population and it is more precise and accurate since it involves description of events in a carefully planned way. This study therefore was able to generalise the findings to all the departments in the organization. This research design also portrays the characteristics of a population.

#### **3.3 Target Population**

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, events, group of things or households that are being investigated. The target population of this study was the staff working at the six banks in Tier One category in Kenya at the headquarters. The study focused more on the section and particularly on the top, middle and lower level

management staff who are directly dealing with the day to day management of the banks since they are the ones conversant with the subject matter of the study. So this research examined a sample of staff drawn from the population of 232 management staff working in Commercial Banks in Kenya Headquarters of the top, middle and low level management ranks (Commercial Banks in Kenya HR records, 2012). According to Mugenda and Mugenda (2003), the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. The population characteristic was as summarized in the table below.

**Table 3.1: Target Population**

	<b>Frequency</b>	<b>Percentage</b>
Senior managers	21	9
Middle level managers	53	23
Low level managers	158	68
Total	<b>232</b>	<b>100</b>

Source: Commercial Banks in Kenya HR records, (2012)

### **3.4 Sample Design**

The sampling plan describes how the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample was selected (Cooper & Schindler, 2003). Sample of responding staff was drawn from 232 top, middle and lower level managers from the staff working at Commercial Banks in Kenya Headquarters.

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms will be selected in order to make a sample. Stratified proportionate random sampling technique was used to select the sample. According to Deming (1990), stratified proportionate random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. Stratified random sampling technique was used since population of interest was not homogeneous and could be subdivided into groups or strata to obtain a representative sample.

The population was grouped into three strata i.e. senior managers, middle level managers and low level managers. The structure in the bank has put staff in three categories. From each stratum the study used simple random sampling to select 70 respondents. Statistically, in order for generalization to take place, a sample of at least 30 elements (respondents) must exist (Cooper and Schindler, 2003). Kotler (2009) argues that if well chosen, samples of about 10% of a population can often give good reliability and so 30% was even better (Mugenda and Mugenda, 2003). The selection was as follows.

**Table 3.2: Sample Size**

	<b>Frequency</b>	<b>Ratio</b>	<b>Sample size</b>
Senior managers	21	30%	6
Middle level managers	53	30%	16
Low level managers	158	30%	47
<b>Total</b>	<b>232</b>		<b>70</b>

Source: Researcher(2013)

### **3.5 Data Collection**

Both primary and secondary data were collected for the purpose of analyzing the effects of expansion strategies on performance. Primary data was collected using a questionnaire from the bank managers while secondary data was obtained from annual reports of the company. The questionnaire designed in this study comprised of two sections. The first part included the demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the respondent while the second one looked at the study variables. This researcher collected quantitative data using a self-administered questionnaire. The research was administered using a drop and pick later method.

The structured questions were used in an effort to conserve time and money as well as to facilitate easier analysis as they are in immediate usable form. The unstructured questions were used so as to encourage the respondent to give an in-depth information. Each questionnaire was coded for the purpose of matching returned, completed questionnaires with those delivered to the different levels of management.

#### **3.5.1 Data Validity and Reliability**

A pilot study was conducted to pretest the validity and reliability of data collected using the questionnaire. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept (Cooper and Schindler, 2003). Expert opinion was requested to comment on the representativeness and suitability of questions and give suggestions of corrections to be made to the structure of the research tools. To establish the validity of the research instrument, expert's opinion in the field of study was sought. This helped to improve the content validity of the data that was collected. It facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

Reliability was increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures (Mugenda and Mugenda, 2003). A pilot group of 15 managers from the target population was selected to test the reliability of the research instruments. In order to test the reliability of the instruments, internal consistency techniques were applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with

reliability increasing with the increase in value. Coefficient of 0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability (Mugenda, 2003). The pilot data was not included in the actual study.

### **3.6 Data Analysis and Presentation**

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Data collected was purely quantitative and it was analyzed by descriptive analysis such as frequencies, percentages, means and standard deviations. The descriptive statistical tools such as SPSS and MS Excel helped to describe the data and determine to what extent it has been used. The findings were presented using tables and charts. Tables were used to summarize responses for further analysis and facilitate comparison. In addition the study used Karl Pearson's product moment correlation analysis to assess the relationship between the variables. This is because correlation analysis illustrates both the direction and strength of the relationship between two variables (Malhotra and Peterson, 2006).

### **3.7 Ethical Issues**

Due to sensitivity of some information collected, the researcher held a moral obligation to treat the information with utmost propriety. Since the respondents were reluctant to disclose some information, the researcher reassured them of confidentiality of the information given.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATIONS

#### 4.1 Introduction

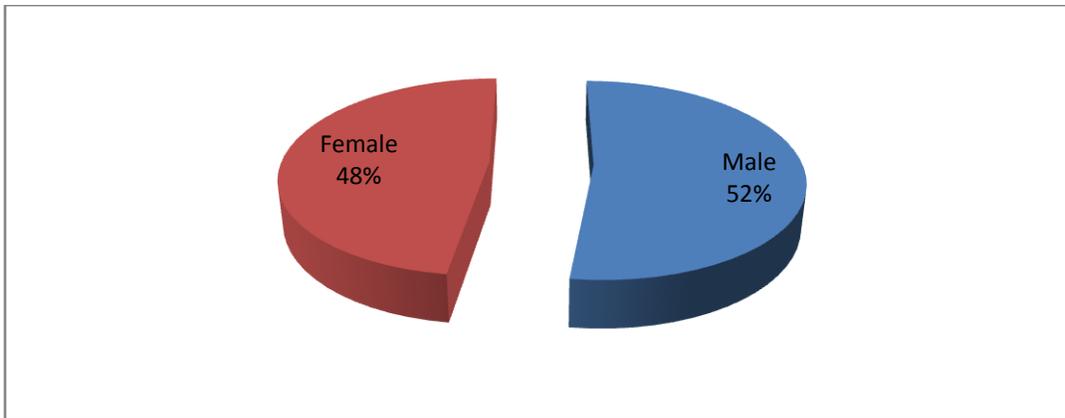
This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the analysis on the effects of expansion strategies on performance of commercial banks in Kenya with reference to commercial banks on tier one. The chapter also provides the major findings and results of the case study and discusses those findings and results against the literature review chapter.

#### 4.1.2 Response Rate

The researcher distributed 70 questionnaires to the employees of Commercial banks. One type of questionnaire was used for all the respondents. The response rate was as follows: out of the 70 questionnaires distributed only 57 of the same were returned duly completed. This is 81.43% of the total distribution while 18.57% of the respondents did not respond. The results of the analysis above indicate that there was a high response rate.

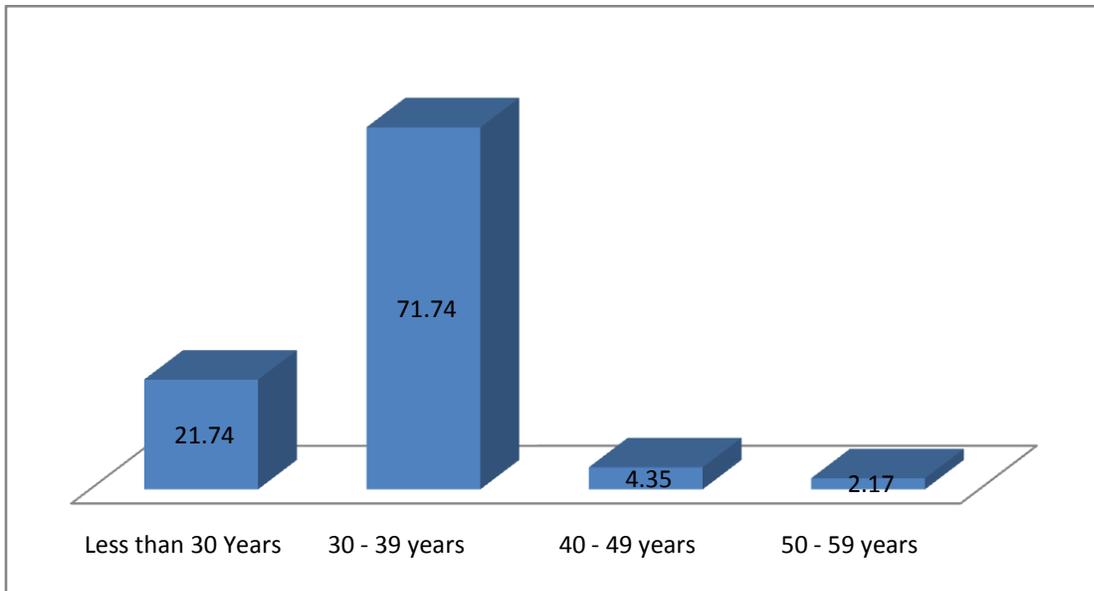
#### 4.2 General Information

**Figure 4.1: Gender of the Respondents**



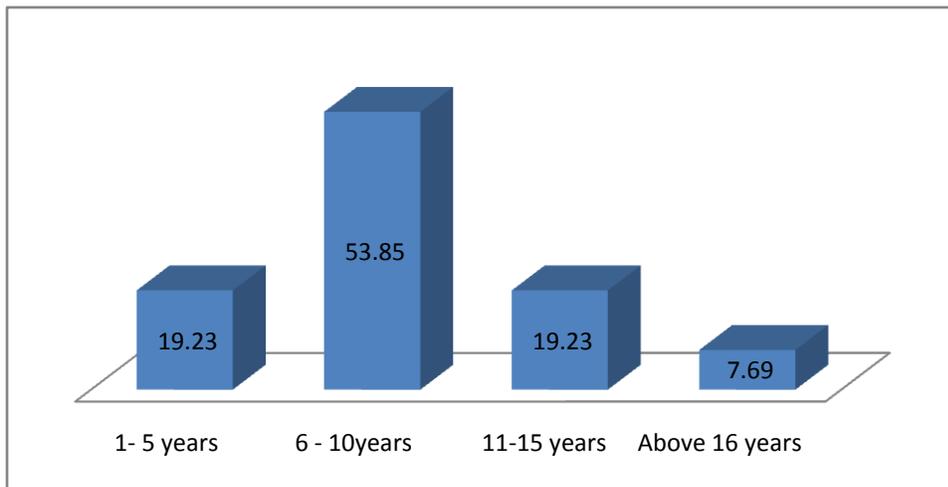
**Source: Researcher, (2013)**

The findings in figure 4.1 show the gender of the respondents. From the findings, the study established that the majority of respondents were male as shown by 52% while females were 48% of the respondents. This shows that there was gender equality at the Commercial banks.



**Figure 4.2: Age Bracket of the Respondents**

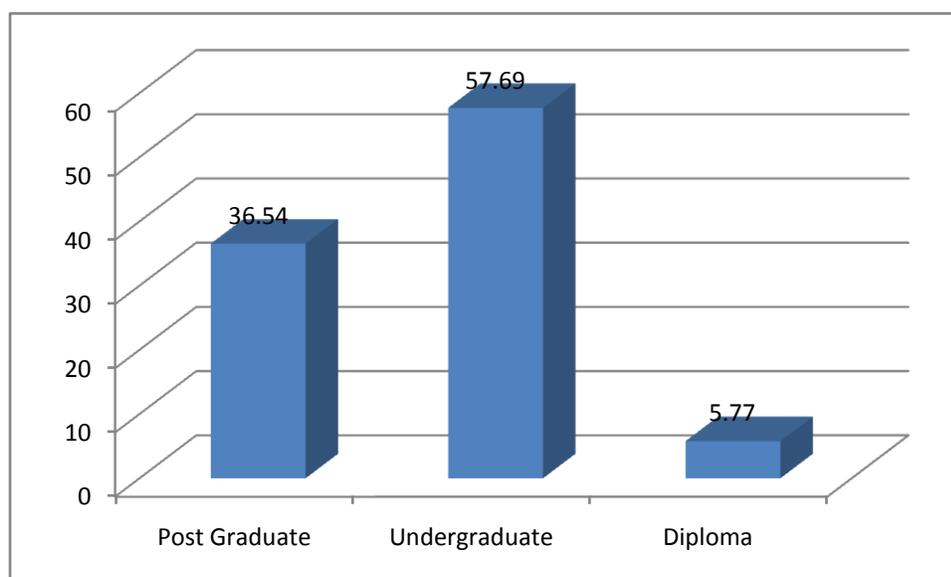
The study sought to find out the age of the respondents. The study found that the majority of the respondents were between 30 - 39 years (71.74%), 21.74% were aged less than 30 years, 4.35% were aged 40 - 49 years and 2.17% were aged between 50-59 years. This shows that majority of the employees are middle aged.



**Figure 4.3: Period the respondents had worked in the organization**

The study also sought to establish the number of years the respondents had worked in the bank. According to the findings, 53.85% the respondents had worked in the organization for a duration

of 6-10 years, 19.23% had worked in the organization for a duration of 1-5 years and 11-15 years and 7.69% had worked in the organization for a duration of above 16 years.



**Figure 4.4: Highest level of education of the respondents**

The study also sought to establish the highest level of education of the respondents. According to the findings, 57.69% of the respondents were undergraduates, 36.54% of the respondents had a post graduate while 5.77% of the respondents had a diploma.

### 4.3 Organizational Performance

**Table 4.1: Trend of various aspects of bank performance for the last five years**

	Mean	Stdev
Number of new customers	3.9643	.85204
Customer turnover	2.9107	1.19509
Return on Investment (ROI)	4.3571	.69879
Return on Assets (ROA)	3.4464	1.02549
Return on Equity (ROE)	4.4464	.60059
Gross Profit Margin	4.2500	.63960

Quantity	4.1536	.60059
Quality	3.9821	1.10357
Timeliness	2.8393	1.23254

The respondents indicated that over the last five years, the banks have registered improved Return on Equity (ROE) as shown by a mean of 4.4464, Return on Investment (ROI) as shown by a mean of 4.3571, gross profit margin as shown by a mean of 4.2500, quantity as shown by a mean of 4.1536, quality as shown by a mean of 3.9821 and number of new customers as shown by a mean of 3.9643. However, it recorded constant Return On Assets (ROA) as shown by a mean of 3.4464, customer turnover as shown by a mean of 2.9107 and timeliness as shown by a mean of 2.8393.

#### 4.4 Market Penetration

**Table 4.2: Extent that market penetration affects the performance of the bank**

	Mean	Stdev
Setting right market prices	4.815	0.134
Adding new distribution channels	4.014	0.217
Increasing the intensity of distribution in each channel	3.419	0.127
Increasing advertising expenditures	4.094	0.424
Changing product attributes to provide more value to the customer by improving product quality	3.423	0.524

The study sought to find out the extent to which market penetration affected the performance of the bank. According to the findings, setting right market prices affected the performance of the bank to a very great extent as shown by a mean of 4.815. Asked whether adding new distribution channels affect the performance of the bank the respondents agreed to a great extent as indicated by a mean of 4.014. On whether increasing the intensity of distribution in each channel affected the performance of the bank respondents agreed to a moderate extent as indicated by a mean of 3.419. In addition, investigating how increasing advertising expenditures affected the

performance of the bank the respondents indicated to a great extent as shown by a mean of 4.094 and finally the findings indicated that changing product attributes to provide more value to the customer by improving product quality affected the performance of the bank to a moderate extent as shown by a mean of 3.423. Harzing (2010) asserts that firms mainly seek to increase their market share to gain reputation since market leaders have an influence that they can use to their advantage. A firm may use its influence in an industry to increase its bargaining power. A larger player has an advantage in negotiations with suppliers and channel members than a smaller player in the industry has. This power enables a firm to be more competitive in the industry which ultimately results to increased performance (Harzing, 2010).

#### 4.5 Product Development

**Table 4.3: Extent that product development affects the performance of the bank**

	<b>Mean</b>	<b>Stdev</b>
Innovation capability	3.816	0.341
Product replacement	3.901	0.801
Product line extension	3.419	0.127
The company is involved in product upgrading	4.281	0.103
Process innovation is adopted to a very great extent in the company	3.216	0.610
The company has intensive technological innovations	4.115	0.251
The company continually upgrades all nonperforming products	3.419	0.716
The company has strategies to increase usage rate of its current products	4.281	0.103
The company has introduced a lower-priced line	4.216	0.610
The company has entered to the high end of the market	4.115	0.251
The company has introduced brands with added advantages	3.643	0.3545

The study sought to find out the extent that product development affected the performance of the bank. According to the findings, Innovation capability affected the performance of the bank to a great extent as shown by a mean of 3.816. In addition, Product replacement, product upgrading and the company has intensive technological innovations affected the performance of the bank to a great extent as shown by a mean of 3.901, 4.281 and 4.115 respectively. Moreover, product line extension and process innovation is adopted affected the performance of the bank to a moderate extent as shown by a mean of 3.419 and 3.216 respectively. Further on whether the company continually upgrades all nonperforming products the respondents agreed to a moderate extent as indicated by a mean of 3.419. The findings indicated that the company has strategies to increase usage rate of its current products, it has introduced a lower-priced line, it has entered to the high end of the market and that the company has introduced brands with added advantages to a great extent as shown by means of 4.281, 4.216, 4.115 and 3.643 respectively. During the growth stage in the product life cycle, a company expands market share by trying to get new people to try the product and existing customers to buy more. The company should therefore use market expansion. At the decline stage, the company should try to re-launch the product, which would be using product or market expansion (Stanton, 2004).

#### 4.6 Diversification

**Table 4.4: Extent to which different diversifications affected the performance of the bank**

	Mean	Stdev
Concentric Diversification (the technology used in the industry remains the same, while the marketing plan changes to a significant extent)	4.317	0.314
Horizontal Diversification (firm enters a new business (either related or unrelated))	3.816	0.216
Conglomerate/Lateral Diversification (company targets a new segment of customers, instead of catering to its existing loyal customers)	4.621	0.801

The study sought to find out the extent that Diversification affects the performance of the bank. According to the findings, Conglomerate/Lateral Diversification i.e. company targeting a new segment of customers, instead of catering to its existing loyal customers affected performance of

the bank to a very great extent as shown by a mean of 4.621. Concentric Diversification (the technology used in the industry remains the same, while the marketing plan changes to a significant extent) affected performance of the bank to a very great extent as shown by a mean of 4.317 while Horizontal Diversification (firm enters a new business (either related or unrelated) affected performance of the bank to a great extent as shown by a mean of 3.816. these finding are in accordance to Benito, (2003) argument that profitability increases with diversity but only up to the limit of complexity.

#### 4.7 Market Development

**Table 4.5: Extent that market development affects the performance of the bank**

Opening branches in other countries	Mean	Stdev
The bank has opened branches an various major towns	4.621	0.815
The company has recruited agencies to help in marketing and selling (including agency banking)	4.317	0.152
Introducing new product dimensions for example different pricing policies to attract different customers or create new market segments	4.016	0.610
Introducing new demographic segments,	4.115	0.610
Introducing new institutional segments	3.914	0.134
Introducing new psychographic segments	3.516	0.401

The study sought to find out the extent to which market development factors affected performance of the bank. According to the findings, Opening branches in other countries, recruitment of agencies to help in marketing and selling (including agency banking), Introducing new demographic segments, Introducing new product dimensions for example different pricing policies to attract different customers or create new market segments and Introducing new institutional segments affected the performance of the bank to a very great extent as shown by a means of 4.621, 4.317, 4.115, 4.016 and 3.914 respectively. in addition Introducing new

psychographic segments affected the performance of the bank to a great extent as shown by a means of 3.516.

#### 4.8 Correlation Analysis

**Table 4.6: Correlation Matrix**

		Performance of commercial banks	Market Penetration	Product Development	Diversification	Market Development
Performance of commercial banks	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Market Penetration	Pearson Correlation	.638	1			
	Sig. (2-tailed)	.029	.			
Product Development	Pearson Correlation	.764	.523	1		
	Sig. (2-tailed)	.017	.016	.		
Diversification	Pearson Correlation	.622	.743	.597	1	

	Sig. (2-tailed)	.031	.012	.028	.	
Market Development	Pearson Correlation	.529	.533	.720	.531	1
	Sig. (2-tailed)	.047	.009	.002	.014	.

The data presented before on market penetration, product development, diversification and market development were computed into single variables per factor by obtaining the averages of each factor. Pearson's correlations analysis was then conducted at 95% confidence interval and 5% confidence level 2-tailed. The table above indicates the correlation matrix between the factors (market penetration, product development, diversification and market development) and performance of commercial banks. According to the table, there is a positive relationship between performance of commercial banks and market penetration, product development, diversification and market development of magnitude 0.638, 0.764, 0.622 and 0.529 respectively. The positive relationship indicates that there is a correlation between the factors and the performance of commercial banks. This infers that product development has the highest effect on performance of commercial banks, followed by market penetration, then diversification while market development having the lowest effect on the performance of commercial banks. All the variables were significant (P value < 0.05).

## CHAPTER FIVE

### 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 objectives of this study were to establish the effects of expansion strategies on performance of commercial banks in Kenya with reference to banks on tier one.

#### 5.2 Summary of the Findings

The study found out that adding new distribution channels affect the performance of the bank the respondents agreed to a great extent. On whether increasing the intensity of distribution in each channel affected the performance of the bank respondents agreed to a moderate extent. In addition, investigating how increasing advertising expenditures affected the performance of the bank the respondents indicated to a great extent and finally the findings indicated that changing product attributes to provide more value to the customer by improving product quality affected the performance of the bank to a moderate extent.

The study found out that innovation capability affected the performance of the bank to a great extent. In addition, Product replacement, product upgrading and the company has intensive technological innovations affected the performance of the bank to a great extent. Moreover, product line extension and process innovation is adopted affected the performance of the bank to a moderate extent.

The study found out that Conglomerate/Lateral Diversification i.e. company targeting a new segment of customers, instead of catering to its existing loyal, Concentric Diversification (the technology used in the industry remains the same, while the marketing plan changes to a significant extent) affect performance of the bank to a very great extent. In addition Horizontal Diversification (firm enters a new business (either related or unrelated) affected performance of the bank to a great extent.

The study revealed that Opening branches in other countries, recruitment of agencies to help in marketing and selling (including agency banking), Introducing new demographic segments, Introducing new product dimensions for example different pricing policies to attract different customers or create new market segments and Introducing new institutional segments affected the performance of the bank to a very great extent. Further, Introducing new psychographic segments affected the performance of the bank to a great extent.

### **5.3 Conclusion**

The study concludes that product line extension and process innovation is adapted to a very great extent in the company affects the performance of the bank. In addition factors, adding new distribution channels and increasing the intensity of distribution in each channel also affects the performance of the bank.

The study further concludes that the bank is involved product replacement, product upgrading and the company has intensive technological innovations which all affected the performance of the bank Moreover, product line extension and process innovations adopted affected the performance.

The study concludes that diversification expansion strategies have a great effect on the performance of Tier one Commercial Banks in Kenya. Conglomerate/Lateral Diversification, Concentric Diversification affect performance of the bank to a very great extent with Horizontal Diversification affecting performance of the bank to a great extent.

The study concludes that market penetration expansion strategies affects performance of Tier one Commercial Banks in Kenya to a great extent. Opening branches in other countries, recruitment of agencies to help in marketing and selling introducing new demographic segments as well as new product dimensions for example different pricing policies to attract different customers or create new market segments and introducing new institutional segments affects the performance of the bank to a very great extent. The study finally concludes that introducing new psychographic segments affect the performance of the bank to a great extent.

## **5.4 Recommendations**

The study recommends the management to increase the advertising expenditures and market share of distribution through more intensive distribution. Market share can be increased by changing the variables of the marketing mix which include the product whose attributes can be changed to provide more value to the customer by improving product quality.

The study further recommends the management should come up with an expansion strategy that is related to the product development, the success of such a strategy in the target market determines the success of the organization's and definitely its overall efficiency.

The study found out that diversification expansion strategies had greatly effect on the performance of Commercial Banks in Kenya. This study recommends that bank management should occasionally review their diversification expansion strategies in order to enhance the performance of their banks. The study further recommends that microfinance institutions should as well adopt diversification expansion strategies so as to enhance their performance.

The study also established that market penetration expansion strategies affects performance of Commercial Banks in Kenya to a great extent. The study therefore recommends that banks should implement their market penetration expansion strategies so as to promote their level of competitiveness as well as performance in the market.

## **5.5 Suggestions for Further Research**

The researcher recommends a similar study to be conducted in all the commercial banks in Kenya to allow for generalization of results. A similar study could be carried out in other organizations to find out whether the same results will be obtained. The study focused on Commercial Banks thus the same study should be carried out in other industries such as insurance and MFIs.



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## APPENDICES

### Appendix I: Questionnaire

This questionnaire is to gather information on the effects of expansion strategies on performance of commercial banks in Kenya. Please tick on the box corresponding to your response.

#### SECTION A: DEMOGRAPHIC INFORMATION

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

1) Gender

Male:  Female:

2) Age?

Below 24 Years  25 - 30 Years   
31 - 34 years  35 - 40 years   
41 - 44 years  45 - 50 years   
Over- 51 years

3) Highest Level of education

Certificate/Diploma  Degree   
Postgraduate  Others

4) Number of years worked in this organization?

1- 5 years  6 - 10years   
11 - 15  Above 16 years

**SECTION B: EFFECTS OF EXPANSION STRATEGIES ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

**Organizational Performance**

5) What is the trend of the following in your bank for the last five years?

	Greatly Improved	Improved	Constant	Decreasing	Greatly decreased
<b>a) Market share</b>					
Number of new customers					
Customer turnover					
<b>b) Profitability</b>					
Return on Investment (ROI)					
Return on Assets (ROA)					
Return on Equity (ROE)					
Gross Profit Margin					
<b>c) Sales turnover</b>					
Quantity					
Quality					
Timeliness					

6) To what extent do the following affect the performance of the bank?

	Very great extent	Great extent	Moderate extent	Low extent	Not at all
<b>a) Market Penetration</b>					
Setting right market prices					
Adding new distribution channels					
Increasing the intensity of distribution in each channel					

Increasing advertising expenditures					
Changing product attributes to provide more value to the customer by improving product quality					
<b>b) Product Development</b>					
Innovation capability					
Product replacement					
Product line extension					
The company is involved in product upgrading					
Process innovation is adopted to a very great extent in the company					
The company has intensive technological innovations					
The company continually upgrades all nonperforming products					
The company has strategies to increase usage rate of its current products					
The company has introduced a lower-priced line					
The company has entered to the high end of the market					
The company has introduced brands with added advantages					
<b>c) Diversification</b>					
Concentric Diversification (the technology used in the industry remains the same, while the marketing plan changes to a significant extent)					
Horizontal Diversification (firm enters a new					

business (either related or unrelated)					
Conglomerate/Lateral Diversification (company targets a new segment of customers, instead of catering to its existing loyal customers)					
<b>d) Market Development</b>					
Opening branches in other countries					
The bank has opened branches an various major towns					
The company has recruited agencies to help in marketing and selling (including agency banking)					
Introducing new product dimensions for example different pricing policies to attract different customers or create new market segments					
Introducing new demographic segments,					
Introducing new institutional segments					
Introducing new psychographic segments					

**THANK YOU**

**Appendix II: Letter of Introduction**

September 2013

Dear respondent,

I am a student at Kenyatta University pursuing a Masters of Business Administration program (strategic Option).

Pursuant to the pre-requisite course work, I would like to conduct a research project to assess the  
AN INVESTIGATION OF THE EFFECTS OF EXPANSION STRATEGIES ON  
PERFORMANCE OF COMMERCIAL BANKS IN KENYA.

Kindly therefore, complete the attached questionnaire with accurate information that will be used entirely for this research while observing utmost confidentiality.

Your assistance is highly valued. Thank you in advance.

Yours faithfully,

**PENINAH MUTUMA**

### Appendix III: List of Commercial Banks In Tier 1

Bank	Number of managers in the Headquarters
Kenya Commercial Bank Ltd	39
Barclays Bank of Kenya Ltd	41
Standard Chartered Bank Ltd	32
Cooperative Bank of Kenya Ltd	43
Equity bank Ltd	51
CFC Stanbic bank Ltd	26
<b>Total</b>	<b>232</b>

Source: Banking Survey Data (2012)