THE RELATIONSHIP BETWEEN PRODUCT DIVERSIFICATION AND BUSINESS GROWTH IN THE BANKING INDUSTRY IN KENYA
THE CASE OF CO-OPERATIVE BANK OF KENYA

BY

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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For all the Executive MBA lecturers at Kenyatta University, I take this opportunity to recognize you all.

May God Bless you all.
DEDICATION

To my late grandmother – my anchor and strength, Mrs. Mary Nyambura Numa.

Thank you from the bottom of my heart for your unwavering love, support, foundation and care.

May your spirit continue to soar in my heart like an eagle.

Rest in eternal peace.

To my mother – Annie Numa, my loving husband Ben and daughters Nungari and Tamar, for your encouragement, support, patience and love. May the good Lord shine his face light upon your faces all the days of your lives.
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<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>CIC</td>
<td>Corporate Insurance Company</td>
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<td>CCS</td>
<td>Cooperative Consultancy Services</td>
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<td>COOP</td>
<td>Cooperative Bank</td>
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ABSTRACT

Businesses in the real world are faced by a challenge to either grow their portfolio or shut down due to the state of competition in many industries. The shareholders also demand value for their investments. Managers in these organizations have to craft and implement strategies that will spur growth. The study focused on growth strategy of Product diversification being used by The Co-operative Bank of Kenya to grow its customer numbers especially in the last ten years up to the present to grow and maximize return to their shareholders. The objectives of this study was to determine the relationship between Product diversification, product development and market development to business growth within the Co-operative Bank Group. This was used as an example to other industry players who may not have succeeded in registering as high growth or returns in their businesses. The study adopted a descriptive survey of head of departments working at The Co-operative Bank of Kenya. The population of interest was the customers of the bank. The types of data collected was both primary data and secondary data. The researcher collected primary data by the use of questionnaires, which contained both open-ended and close ended questions. Secondary data was collected from the bank’s financial reports and management reports on performance especially the customer growth strategies in use in the banks. Descriptive analysis which aims at finding out what, where and how of a phenomenon was used mainly to summarize the data collected. The data was presented using statistical measures such as bar graphs, frequency tables and graphical presentations. A regression model was used in predicting the relationship between bank performance and various aspects of product diversification. The descriptive and inferential analysis revealed that bank performance is significantly influenced by product modification/diversification strategies, product development and market penetration strategies.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study
Business growth is defined as the process by which a business increases or expands over time. There are a number of ways to measure business growth. These include profitability, employment, market share, assets, turnovers/sales, number of branches among others. One of the defining factors of a sound business is the potential for growth. A company should grow over time if well managed. Speed of growth may vary from firm to firm and from market to market depending on environmental factors affecting a firm (White, 1984).

Growth in customer base or customer numbers then translates to the growth in market share hence growth in profitability through growth in revenue collected in transaction commissions, ATM transactions, insurance brokerage services, custodial services among the other services offered by the bank.

Product Diversification is a form of corporate strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit level or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry that the business is already in. At the corporate level, it is generally very interesting entering a promising business outside of the scope of the existing business unit. The Co-operative Bank of Kenya has not only diversified bank operations products for example in Credit, and alternative business channels, but also diversified through acquisition of other subsidiaries conducting various services for example custody, consultancy, shares trading among others.
Co-operative Bank has from time to time taken defensive approach with the objective to protect their business, for example, when demand dropped for their products or they are faced with strong competition. Declining market share or revenue has threatened the survival of the business hence leading the bank to work at product modification and repackaging/rebranding of products. This strategy has taken place with products such as the Jumbo Junior account and Asset Finance products. The bank has also on occasion taken an offensive approach where it saw a strong market opportunity that was not taking advantage of its existing products. This led to it applying strategies such as product innovation and development as well as product diversification. Application of this strategy has led to the introduction of new products to the market namely the Chama account, Commodity and Structured Finance and Bancassurance.

1.1.1 Concept of Business Growth

In the context of turbulent business environments today, many firms are focusing on ways to grow their businesses. For a business to be seen to perform it must grow and therefore most business people will want to see growth in their firms. Growth is exciting and fast paced and for most businesses, is an indication of success. According to Barringer and Ireland (2008), the seven primary reasons why firms try to grow include the attainment of economies of scale which are generated when increasing production lowers the average cost of each unit of production, also to capture economies of scope whereby the firm deals with a range of products, to attain market leadership whereby the organizations want to be leaders in their markets. A business may decide to grow in order to execute a scalable business model where they ask how high in terms of growth can the business go. Another reason would be for the business to gain influence, power and survivability. It could also be the need to accommodate growth of key customers while at the same time being able to attract and retain talented employees.

Growing the business can also be taken to mean crafting and implementing strategies that will bring profit to the business, attracting and pleasing customers, competing successfully with other competitors in the industry, conducting operations and improving
the company’s financial and market performance (Thompson and Strickland, 2003). It is about claiming and maintaining a share of the market. Porter (1980) observes that having a growth strategy enables a firm to achieve a profitable and sustainable position in its market of operation. There are many growth strategies that a firm can undertake to grow and expand its operations though it is important to note that not every growth strategy is appropriate for every business. The key to finding the right growth strategy is properly matching it to your company and its specific market place considering that a wrong strategy can devastate the business (Ansoff, 1965). Some of these strategies include product development and diversification, market development and regional expansion.

Growth can be measured using various parameters such as capital adequacy, sales turnovers, profitability assets, dividends payments and a business earnings and liquidity. Growth as discussed by Mintzberg (2003) can be influenced by factors such as political change whereby regime change through either a coup or a democratic election which can influence any future business strategy. Political uncertainty can lead to a fall in investments by a business and influence decisions on expansions and business ventures.

Over the last five years, Co-operative bank has invested heavily in Product development and Diversification as well as acquisition of Subsidiaries which has impacted directly to the Balance Sheet of the Bank. The trend has been as demonstrated herein.

Between 2007 and 2012, the bank introduced new products that include Mortgage, Commodity & Structured Finance, Group Lending, Asset Finance, Insurance Premium Financing, Bancassurance services, Mobile and Electronic Banking, Agency Banking. This has seen a rise in customer numbers from 556,000 to 3,200,000. Through this strategy, there has been an evident increase in the market scope of the customers that are now with the bank. The bank now has a wide spectrum of clients ranging from children – occasioned by the rebranding of the Jumbo Junior account, the youth and women groups through the launch of the Chama account, Employees as well as small- medium business entrepreneurs benefitting from the asset finance and micro-finance to SME lending and
the large corporates who are key supporters of corporate products such as Commodity and Structured Finance, Letters of Credit, Foreign Exchange and warehouse financing.

The bank attributes the drastic increase of the numbers to the cross-selling initiatives supported by the number on new products the bank has to offer in its bouquet.

Growth presents challenges to the business owners, the employees and the organization. It requires change, and successful change is facilitated by developing attitudes, behaviours, and processes focusing on tasks and organizational processes that lead to a successful and mature organization. It may call for addition of finances into the processes. It is a multi-faceted phenomenon that is commonly associated with firm survival, achievement of business goals and success or the scaling up of activities (Storey, 1994). This therefore means that everybody in the organization should be involved in the growth process entirely to achieve overall positive results.

1.1.2 Product Diversification and Business Growth

In his most famous work, Igor Ansoff a Russian/American mathematician applied his work to the world of business through the development of the Ansoff Matrix. The purpose of this matrix was to help managers consider how to grow their business through existing or new products or in existing or new markets. In this way he was helping managers to assess the differing degrees of risk associated with moving their organization forward.
Through the adaptation of Ansoff’s matrix the Co-operative Bank has used the four alternative marketing strategies which hinge on whether products are new or existing. They also focus on whether a market is new or existing. Within each strategy there is a differing level of risk.

The output of the Ansoff matrix [product/market] is a series of suggested growth strategies that set the direction for the business strategy. They are described as below:

**Market penetration strategy** which involves increasing market share within existing market segments. This can be achieved by selling more products/services to established customers or by finding new customers within existing markets – this means that the business focuses on a market that it knows and understands very well.

The Market penetration strategy seeks to achieve for main objectives: To maintain the market share of current products through deployment of competitive pricing strategies, advertising, sales promotion and personal selling which requires a lot of resources being dedicated to it, secure dominance of growth markets, restructuring a mature market by driving out competitors through aggressive promotional campaigns supported by pricing strategy designed to make the market unattractive for competitors, increase usage by existing customers that can be achieved through the introduction of loyalty schemes. The
bank has also employed the use of competitive pricing to attract the customers and retain them as part of this strategy.

Market development strategy which entails finding new markets for existing products. Market research and further segmentation of markets helps to identify new groups of customers. A way to approach this strategy would be through the development of new geographical markets for exporting the product, development of new product dimensions or packaging, exploring new distribution channels and different pricing policies to attract different customers or create new market segments.

Product development strategy which involves developing new products for existing markets. Product development involves thinking about how new products can meet customer needs more closely and outperform the products of competitors. It also entails Diversification involves moving new products into new markets at the same time. It is the most risky strategy. The more an organization moves away from what it has done in the past the more uncertainties are created. However, if existing activities are threatened, diversification helps to spread risk. The strategy is adopted through product innovation, acquisition of subsidiaries to deliver new products.

1.1.3 Background of the Co-operative Bank of Kenya
The Co-operative Bank of Kenya Limited ('the Bank') is incorporated in Kenya under the Company's Act and is also licensed to do the business of banking under the Banking Act. The Bank was initially registered under the Co-operative Societies Act at the point of founding in 1965. This status was retained up to and until June 27th 2008 when the Bank's Special General Meeting resolved to incorporate under the Companies Act with a view to complying with the requirements for listing on the Nairobi Stock Exchange (NSE). The Bank went public and was listed on December 22, 2008. The bank's vision is 'To be the leading and dominant Kenyan bank with a strong countrywide presence, playing a central role in the co-operative movement and providing relevant and innovative financial services to our customers for the optimum benefit of all our stakeholders' and the Mission statement is 'To offer value-added financial services to our chosen market
segments with special emphasis on the co-operative movement through a highly effective network of service points, excellent customer service and a highly motivated team of qualified personnel.

Shares previously held by the 3,805 co-operatives societies and unions were ring-fenced under Co-opHoldings Co-operative Society Limited which became the strategic investor in the Bank with a 64.56% stake. The Bank runs four subsidiary companies, namely; Kingdom Securities Limited, Co-opTrustInvestment Services Limited, Co-operative Consultancy Insurance Company Ltd and CIC Insurance Company Ltd.

Kingdom Securities Limited, a stockbroking firm with the bank holding a controlling 60% stake. Kingdom Securities Limited (KSL) is a licensed as a stockbroker at the NSE. The company formally commenced operations in June 2009 succeeding the previous Bob Mathews Stock Brokers Limited. KSL is engaged in the provision of stock trading and advisory services. The Services offered by Kingdom Securities Limited include buying and selling of shares and bonds on behalf of clients, offering advice about investment in Shares and Bonds as well as assisting investors to fulfil the following key needs such as transfers of shares, immobilization and transmissions.

Co-opTrust Investment Services Limited, the fund management subsidiary wholly-owned by the bank. Co-opTrust Investment Services Ltd is licensed by Capital Markets Authority and Retirement Benefits Authority to carry out investments for and on behalf of Trustees of the schemes and in line with RBA investment guidelines. We invest scheme funds in various market instruments such as Government Securities, Shares, Fixed Deposits and Property.

Co-operative Consultancy Services (K) Limited, the corporate finance, financial advisory and capacity-building subsidiary wholly-owned by the bank. The services offered by Co-operative Consultancy Services Ltd include Strategic Planning which is the process that
entails working with the management team of the client societies to identify and define the key priorities and drivers of their business. Subsequently, CCS ensures that societies get full benefit of the process by organizing Strategic Planning Workshop. A critical Swot Analysis is done to help Societies develop a winning tactical plan. Conducting Feasibility Studies is another service offered by Co-op Consultancy which involves data collection, infrastructural analysis, SWOT analysis, PEST analysis, Financial Projections, NPV and Payback period and recommending the best option. Other services include Human Resource Management which includes advising on Human Resource planning, Employee development, employee evaluation and reward systems and best Human resource strategies and policies, Business Operations Review which is the review of the Societies Operations, performing scenario testing, formulation of option and selecting the most appropriate options and FOSA Establishment which assist societies establish Front Office Service Activities (FOSA) for providing banking services to their members.

A fairly new acquisition where the bank's stake is at 25% shareholding is the CIC Insurance Company Ltd and Cooperative Bank Southern Sudan- Juba, South Sudan which is a subsidiary opening as a fully-fledged commercial bank in the South Sudan market offering both deposit taking and credit products.

The Co-operative Bank of Kenya as a group has in the last five years experienced growth in customer number from 556,000 customers in 2007 to 3,200,000 in 2012. This growth has been at the same time with the establishment and growth in the number of subsidiaries that are specialists in an array products that are non-traditional banking products that seem to have served to attract a new breed of customers. The question however is, is it the growth in the subsidiaries and the products that they offer a direct contributor to the immense business growth? This research shall seek to establish the relationship between the growth in customer base and product diversification.
1.2 The Research Problem

Businesses in the real world are faced by a challenge to either grow their portfolio or shut down due to the state of competition in many industries. The shareholders also demand value for their investments. Managers in these organizations have to craft and implement strategies that will spur growth. It is only by adhering to the parameters that determine quality growths will any institution be said to grow (Ansoff, 1965).

The banking industry has over the last decade seen a rise in the margins of profit earned and turnover by a few of the Tier I banks which includes the Co-operative Bank of Kenya. This has the answer to the question—what growth strategies has the bank used to grow at such a rate from a position of loss? Has the introduction of non-traditional banking products to the basket of offering have such an immense effect on the growth of customer numbers? Is it that the products are so over-priced hence the huge returns? This study shall seek to establish the answer these questions. All in all, any business has to grow in order to maximize returns to its shareholders, attract investors and sustain its development amidst tremendous challenges brought about by industry globalization, stiff competition from other banks offering the same and diversified products and an environment of decreasing interest rates. This has pushed this researcher to want to know what The Co-operative Bank of Kenya is doing differently in terms of product development and diversification in order to tremendously grow their business in comparison to all the other forty-seven commercial banks in the market.

Many researchers have touched on the field of growth in their research works. For example, a study by Kiptugen (2003) identified strategic responses by Kenya Commercial Bank to a changing competitive environment. Mosiria (2012) study focused on the relationship between internal growth strategies and performance in selected banks in Nairobi and was done as a survey which generalised the industry while ignoring the uniqueness of each bank. This study therefore focussed on the uniqueness of The Co-operative Bank of Kenya and how its culture typifies the African Socialization and the growth strategy of product diversification to promote the growth of business at The
Co-operative Bank of Kenya especially in the last five years up to year 2012 to grow and maximize return to their shareholders.

1.3 Research Objectives

1.3.1 General objective
The general objective of the study was to assess the relationship between product diversification and business growth in the banking industry in Kenya.

1.3.2 Specific Objectives
The objectives of this study were:

(i) To determine the relationship between Product development and business growth in the Co-operative Bank of Kenya.

(ii) To determine the relationship between Market Penetration and Business growth in Co-operative Bank of Kenya.

1.4. Research questions
(i) To what extent has Product development contributed to Business growth in Co-operative Bank of Kenya?

(ii) To what extent has Market Penetration influenced Business growth in Co-operative Bank of Kenya?

1.5. Significance of the Study
The study is important to different authorities;

Any industry study should have a learning point for other industry players. Banks today are making billions which is not directly so in many other industries. What strategies are the banks using to do this, strategies that can be adopted by managers and directors in other industries?
The various stakeholders in the banking industry including shareholders, customers and the general management will appreciate the effort applied by the banks in the quest for growth which touches positively on each one of them.

Academicians and researchers shall find the results of this research useful in providing secondary information in the study of commercial banks in Kenya.

1.6 Scope of the Study
The study covered The Cooperative Bank of Kenya Limited group. The target respondents from the population of interest were the heads of department and regional branch managers of the bank.

1.7 Limitations of the study
In the course of the research study, the following challenges were expected. The available time for research was quite limited considering that the researcher was on full time employment and works under stringent conditions therefore not likely to proceed on study leave, however the researcher was committed to working late hours. The researcher intended to get the data from top management of the bank. To get appointments with this cadre of staff might proved very difficult, the researcher however pushed for appointments through patience. Failure of the respondents to respond to the questions in an honest manner, which might mildly, affect the results of the study was countered through assuring the respondents that the study was for academic purposes only and to prove this a letter of introduction and authorization from the university was be attached.
2.1 Introduction
This chapter summarizes the studies from other researchers who have carried out their research in the field of growth strategies in organizations. The specific areas covered in this study are strategies of business growth.

2.2 Theoretical Review
2.2.1. Business Growth Process Models
Research findings will be assimilated and used as a building block for models of growth as shown. In the foregoing discussion, a business growth model describes the rationale of how an organization creates, delivers, and captures value - economic, social, or other forms of value that leads to growth of the firm. The term business model is used for a broad range of informal and formal descriptions to represent core aspects of a business, including purpose, offerings, strategies, infrastructure, organizational structures, trading practices, and operational processes and policies.

2.2.2. S-Curve Growth Model
The S-curve shows the various stages of business growth. This is the most accepted growth model also referred to as the generic growth model by Green (2006). A successful organization jumps to transform their business by either starting a new business or adding on a service as shown on the figure below.
The graph above is the S-curve growth model, it shows how a company grows from the conception of an idea to the starting a business all the way to the decline. The graph superimposed above is a new S-curve showing where a business owner should innovate again and start a new cycle.

Conception Stage

This first stage depicts the area in which a business is not in existence and the owner and the business are the same. The owner is in the conception mode; conception of an idea, planning and preparing to start the business.
Survival Stage

This second stage depicts the survival stage where the owner is starting a business and the major goal is survival. The planning at this stage is limited, staff is limited and the business is a workable entity. At this stage there are few performance indicators and a small team to manage. There are also several informal processes and structures.

Profitability and Stabilization Stage

The third stage is called the profitability and stabilization level where business has grown to a profitable level. The entrepreneur is engaged in business and developing the systems of business. This stage is also referred to as up scaling. The entrepreneur has to invest cash and not expect for the reward to match the cash invested. This is also the stage of brand recognition, developing a market share and finding some key performance indicators.

Profitability and Growth Stage

This forth stage is the profitability and growth stage where growth is the key focus of the organization. The firm recruits more staff to grow and the strategic focus here is clearer for the organization. This is the stage to operate the business and gain momentum. Staffing is to capacity and the key performance indicators include balance and growth cost, return on investment, service and satisfaction. There is also a strong desire to beat competition and gain formal processes for the organization.

Take-off Stage

This fifth stage is the stage for take-off; this is where the entrepreneur must delegate to keep the organization in momentum. At this level, innovation level is low and the organization needs to be managed. Key performance indicators here include cost and control, there is little investment necessary and this is the time to reengineer processes. This reengineering leads to a new S-curve that starts the process again. This is the best time for an entrepreneur to sell the business and start a new one or hire management and
let the company run. The entrepreneur can sit on the board and not be part of management.

**Maturity Stage**

This sixth stage is the maturity stage where management is decentralized, all necessary resources are in place and there is need for entrepreneurship. This is where the entrepreneur should be able to transform into an entrepreneur who works within the confines of an established organization. This is the stage to identify new opportunities and generate innovative strategic ideas to create a wide organizational perspective. At this stage there is also a lot of ambiguity and uncertainty that is not healthy for the organization. The key performance indicators here focus on minimization of costs and there are low investments in skills training.

**2.3. Empirical Review**

**2.3.1. Product Diversification Strategy**

Diversification is a business development strategy allowing a company to enter additional lines of business that are different from the current products, services and markets.

In the current conditions of dynamic markets and strong competition, a successful instrument of risk management is to avoid focusing on a single product, service and/or their distribution to a single limited market. When implemented wisely it contributes to keeping the company stable even in hard times since the economic downturn usually occurs simultaneously in all sectors and all markets.

Diversification of business activities brings competitive advantages allowing companies to reduce business risks. That is why it is a great tool for business development. However, its successful implementation requires profound knowledge and thorough preliminary assessment of the company and its environment. And, although sometimes diversification is difficult for the small companies, it can prove to be inevitable when their original markets become enviable. (Scherrer, 2003)
Diversification is part of the four main growth strategies defined by the Product/Market Ansoff matrix:

![Ansoff Matrix](image)

**Source:** Ansoff, 1965

**Figure 1.2: Ansoff matrix**

### 2.3.2. Types of Diversification

Diversification is a strategic approach adopting different forms. Depending on the applied criteria, there are different classifications.

Depending on the direction of company diversification, the different types are as discussed in this section.

The first one is Horizontal Diversification which entails acquiring or developing new products or offering new services that could appeal to the company's current customer groups. In this case the company relies on sales and technological relations to the existing product lines. In the bank, we refer to internet banking and mobile banking as products of horizontal diversification. The second one is Vertical Diversification which occurs when the company goes back to previous stages of its production cycle or moves forward to subsequent stages of the same cycle - production of raw materials or distribution of the final product. The third one is Concentric Diversification which means enlarging the production portfolio by adding new products with the aim of fully utilising the potential
of the existing technologies and marketing system. The concentric diversification can be a lot more financially efficient as a strategy, since the business may benefit from some synergies in this diversification model. It may enforce some investments related to modernizing or upgrading the existing processes or systems. This type of diversification is often used by small producers of consumer goods, for example, a bakery starts producing pastries or dough products. The fourth one is Heterogeneous (conglomerate) diversification which is moving to new products or services that have no technological or commercial relation with current products, equipment, distribution channels, but which may appeal to new groups of customers. The major motive behind this kind of diversification is the high return on investments in the new industry. Furthermore, the decision to go for this kind of diversification can lead to additional opportunities indirectly related to further developing the main company business - access to new technologies, opportunities for strategic partnerships etc. The final one is Corporate Diversification which involves production of unrelated but definitely profitable goods. It is often tied to large investments where there may also be high returns. (Thompson et al 2007)

2.3.3. The Concept of Growth

Without growth in an organization, all other aspects of the firm remain without good performance. Growth has been defined in many different ways. One popular way is the ability to increase in size. (Cambridge international dictionary, 1995). When a company has grown in size, it has expanded and it has made profits. It is bigger in terms of its operations than where it began. Business growth has also been defined as the process by which a business expands over time. Expanding over time here means that effort has been put into the business to make it perform better. It is about ensuring that the shareholders of the firm get value for their investment. The creation of value is what calls for critical strategies that will ensure that the business will be said to grow.

To achieve successful growth, a firm has to understand its internal and external environment. Strategic management literature underscores the importance of the
environment to the firm. It is important to understand the internal and external business environment which touches on business stability and profitability. To survive in today's business environments a company's management team must be able to react to changes in the internal and external environment (Scherrer, 2003). The ability of a business to grow can be regarded as the competitiveness of business under the marketing economies. Based on the analysis of the five Porter model, Porter (1980) pointed out that the competitive advantage, especially the differentiation advantage determines the competitive ability of business hence growth.

Business growth strategies are about the long term direction of an organization. It is about the major decisions taken about the future. Determining when to expand depends on two main factors: the condition of the business and economic conditions in the market place in which the business operates (Scherrer, 2003). On the condition of a business, an organization can determine when it is time to grow or expand business through evaluating the following: If the business is recognized by the community and the industry in which it is operating in or if sales are rising as expected. What is the firms' customer base is there pressure to hire more employees and if at all there is need for more growth of the organization. On the economic condition assessment, if the condition of the business shows that it needs expansion, the business should analyse the economic climate that controls the business. The business organization should ask the following questions: How is the national economy performing? What are the economic conditions in the industry or region? Have the demographics of your market changed? Is demand for the company products or services expected to remain strong? Does your business face new competitors? Growth is an important aspect of an organization that must be embraced by all.

2.3.4. Reasons for Growth
It is an immutable law in business that words will always be words, explanations will always be explanations, promises will always be promises but only performance reality and that numbers never lie. All organizations exist in complex commercial, economic, political, cultural and social settings that are always under constant change and hence the
need to come up with strategies that will ensure that the company grows amidst all the environmental challenges (Johnson & Scholes, 2002). Every business should grow in order to create value for all its stakeholders including shareholders, employees and even its customers.

There are many other reasons why firms would want to grow. These include being able to attain economies of scale which are generated when increasing production lowers the average cost of each unit of production. To capture economies of scope is another good reason to grow whereby the company will be dealing with a range of products hence a bigger market. A company should grow in order to attain market leadership whereby the organizations want to be leaders in their markets. A business may decide to grow in order to execute a scalable business model where they ask how high in terms of growth can the business go. Another reason would be for the business to gain influence, power and survivability. It could also be the need to accommodate growth of key customers thereby developing loyal customers. Developing loyal customers is a simple and proven tactic used by top performers to improve business growth in today's challenging economy. The business can also decide to grow so as to attract and retain talented employees (Barringer and Ireland, 2008).

Good business growth aims at increasing profitability and efficiency of organizations and their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and increased benefits to stakeholders. Corporations have to grow in order to promote economic development and social progress. Business growth is necessary so as to attract investors both local and foreign and assure them that their investments will be secure and efficiently managed. Without efficient companies or business enterprises, the country will not create wealth or employment. Without investment, companies will stagnate and collapse. If business enterprises do not prosper, there will be no taxes paid, and invariably, the country will not develop. Businesses can decide to grow in order to attain power and respect status to be
able to influence people. To be able to achieve optimal levels of productivity is another good reason for growth (Mintzberg, 1979).

2.3.5. Growth Strategies

Johnson & Scholes (2002) define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a challenging environment to meet the needs of markets and to fulfil stakeholder expectations. Strategy is about answering the following questions: - Where is the business trying to get to in the long run? (Direction) Which markets should a business compete in and what kinds of activities are involved in such markets? (Market scope) How can the business perform better than the competitors in those markets? (advantage), What resources (skills, assets, financial relationships, technical competence, and facilities) are required in order to be able to compete. (resources), What external environmental factors affect the business ability to compete. (environment), What are the values and expectations of those who have power in and around the business (stakeholders)? With the unrelenting pace of change and competition today, clear strategic thinking is more important than ever. To survive and prosper in a globalized market, corporate strategists will have to not only formulate the correct strategy but also implement it effectively so as to ensure growth. The key to finding the right growth strategy is properly matching it to your company and its specific marketplace. It is important to determine whether you are selling new or existing emerging products in a new or existing market.

Strategy ultimately requires achievement of a fit between the external situation and internal capabilities (Mintzberg et al 2003). The external situation which constitutes threats and opportunities include influences from political, social, economic and technological arena.

Other actions to take when growing the business include maintaining a purposeful and organized search for new opportunities, injecting a relentless growth attitude into the company, building a coaching organization whereby all the staff are on the spot
concerning all the happenings on growth, developing an innovative value chain management system, developing a licensing strategy thereby protecting the businesses trade secrets, exploring opportunities for a joint venture or a merger with a strategic partner to best exploit your short term technologic advantage and realize the full potential of the companies entrepreneurial vision. Transfer technology and establish strategic alliances to stay technologically competitive because winning is not necessarily achieved without partners and parents.
2.3.5. Conceptual Framework

Figure 2.3: Conceptual framework

**Product Development**
- Improvement/ addition of product features
- Repackaging/ Rebranding
- Introduction of New Products into the market

**Business Growth**
- Increase in market share
- Growth in customer loyalty
- Steady growth in profit
- Financial Growth
- Increase in shareholder wealth

**Market Penetration**
- Expansion into regional markets with the existing products.
- Pricing strategies.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction
This chapter outlines the methodology that was used in the collection of data. The chapter specifies the research design, data collection methods, data collection procedures and data analysis.

3.2. Research Design
The research design adopted for the study was a descriptive survey. This design was useful in locating and obtaining secondary data for the study and described issues as they are. Bordens&Abbert (1988) defines a survey as "an attempt to collect data from members of a population in order to determine the current status of the population with respect to one or more variables." He says that a descriptive study determines and reports the way things are and commonly involves assessing attitudes, and opinions towards individuals, organizations and procedures.

3.3. Study Population
The population of the study comprised of all functional departments of the subsidiary companies owned by the Co-operative Bank. The bank has four subsidiaries and thirty five (35) related departments.

3.4. Sampling Design
For this research, the stratified sampling method was used whereby respondents were obtained from among the departments and subsidiaries; specifically the heads of departments, their deputies and regional managers who represented the branch network.
Table 3.4: Sampling design

<table>
<thead>
<tr>
<th>STRATUM</th>
<th>TOTAL NUMBER OF DEPARTMENTS</th>
<th>NUMBER OF RESPONDENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sacco</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Corporate &amp; institutional banking</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Retail banking/ branch network</td>
<td>120</td>
<td>40</td>
</tr>
<tr>
<td>[regional heads]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit management</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Kingdom securities</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>South sudannetwork</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Bancassurance</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>135</strong></td>
<td><strong>70</strong></td>
</tr>
</tbody>
</table>

Source: Co-operative Bank, 2013

3.5. Data Collection

The type of data collected was both primary data and secondary data. The researcher collected primary data by the use of questionnaires, which contained both open-ended and close ended questions. The questionnaire was to be administered to staff members who were expected to provide information on products of preference from the bank as well as provide any other necessary information for the study. The researcher used the drop- and -pick method of administering the questionnaires. The use of questionnaires was preferred for this study because it is the typical method through which descriptive data is collected.
Secondary was collected from the respective bank’s financial reports and management reports on performance especially the business growth strategies in use in the bank. The broad areas of focus covered during the study include growth strategies in product diversification in use in the bank, the changing financial position in the company, the future prospects of the company and the factors influencing the choice of the various growth strategies adopted. This involved the following: An introductory letter from the Kenyatta University to the bank introducing the researcher as a student of the same university and outlining the purpose of the research study, a visit to the bank to organize and drop the questionnaires with the various branch managers, and the actual data collection, by picking the questionnaires from the respondents.

3.6. Data analysis Method
Before processing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive analysis which aims at finding out what, where and how phenomenon is used, was carried out mainly to summarize the data collected. It aided in thinking systematically about aspects of the given situations and offering ideas for further probing and research.

The data was edited for accuracy, uniformity, completeness and arranged for coding. Two types of statistical tools were used; Descriptive statistics- Mean and Standard Deviation and Inferential statistics- Regression analysis.

Quantitative data analysis requires the use of a computer spreadsheet, and for this reason the Statistical Package for Social Sciences (SPSS) was used. As Martin and Acuna (2002) observe, SPSS is able to handle large amount of data, and given its wide spectrum of statistical procedures purposefully designed for social sciences, it is also quite efficient.

The research also employed content analysis where a method was used in summarising, quantitative analysis of messages that relies on the scientific method (including attention to objectivity, intersubjectivity, a priori design, reliability, validity, generalisability,
replicability, and hypothesis testing) and was not limited to the types of variables that may be measured or the context in which the messages are created or presented.

The equation below was used to determine the relative importance of each independent variable in product diversification. The model was as follows:

$$ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i $$

Where:
- $Y$ = Business Growth
- $\alpha$ = Constant
- $\beta_1$ = Coefficient of Product Modification Strategies
- $X_1$ = Product Modification Strategies
- $\beta_2$ = Coefficient of Product Development Strategies
- $X_2$ = Product Development
- $\beta_3$ = Coefficient of Market Penetration
- $X_3$ = Market Penetration
- $\epsilon_i$ = Error Term

3.7. Ethical considerations

The following ethical considerations were taken into account during the study;

The need for approval of the research proposal by the school of business, Kenyatta University was essential and mandatory to give validity to the document and to show that the study will be done according to approved research standards and practices.

Informed consent from the participants in the study was obtained so as to gain their trust and confidence in the objectives of the study which was purely academic in nature. Observation and maintenance of confidentiality was vital, especially for participants who wished to remain anonymous for either official or personal reasons, for fear of reprisals or otherwise.
CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction
This chapter presents the analysis of the findings of this study. The analysis was carried out with the guidance of the research objectives. The results are mainly presented in the form of preliminary analysis of the respondents' information, analysis of descriptive statistics and regression results that test the relationship between product diversification and business growth in cooperative bank of Kenya.

A sample size of 70 respondents from various departments was targeted for this study. A total of 55 respondents participated in the study, thus the response rate was 78.6% which was satisfactory to represent the views of the targeted population.

4.2 Reliability Analysis
Reliability analysis allows examination of the properties of measurement scales and the variables making them up. The reliability analysis procedure calculates a number of commonly used measures of scale reliability and provides information on the relationship between individual variables in the scale. This study used Cronbach's Alpha to establish the reliability of the variables in the study. A value of 0.799 on the Cronbach Alpha scale was obtained meaning that all the variables were reliable. The results were as presented in table 4.1 below:

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of cases</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.7987</td>
<td>55</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: Research Data, (2013)
4.3 Preliminary Analysis
This sub-chapter presents an introduction of the respondents and their relationship with cooperative bank. This chapter will therefore present the duration of work and the department the respondent works for.

4.3.1 The duration of working in the bank
The research attempted to obtain prior knowledge of the duration the respondents had worked in the bank. This was presented in the table 4.2 below:

Table 4.2: Duration of work by the respondent

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1 years</td>
<td>3</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>1-3 years</td>
<td>22</td>
<td>40.0</td>
<td>45.5</td>
</tr>
<tr>
<td>4-6 years</td>
<td>19</td>
<td>34.5</td>
<td>80.0</td>
</tr>
<tr>
<td>over 7 years</td>
<td>11</td>
<td>20.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research Data, (2013)
As indicated in table 4.2 majority of the respondents had worked with the bank for a period of between 1-3 years with the average been 2.69 years. This is further clearly illustrated by figure 4.1. Therefore the respondents had adequate knowledge of the bank's operations.

4.3.2 Respondent’s Department
The study had to establish the departments where the respondents worked. The results were presented in the frequency table below:
Table 1.3: Respondent’s Departments

<table>
<thead>
<tr>
<th>Departments</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sacco</td>
<td>5</td>
<td>9.1</td>
</tr>
<tr>
<td>corporate &amp; institutional banking</td>
<td>22</td>
<td>40.0</td>
</tr>
<tr>
<td>Retail banking</td>
<td>9</td>
<td>16.4</td>
</tr>
<tr>
<td>Credit management</td>
<td>9</td>
<td>16.4</td>
</tr>
<tr>
<td>Kingdom securities</td>
<td>4</td>
<td>7.3</td>
</tr>
<tr>
<td>south sudan network</td>
<td>4</td>
<td>7.3</td>
</tr>
<tr>
<td>Bancassurance</td>
<td>2</td>
<td>3.6</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research Data, (2013)
Table 4.3 and figure 4.2 indicates that majority of the respondents (40%) worked for corporate & institutional banking departments followed by those working for retail and credit management who were 16.4% of the total. The table and the pie chart clearly show that there were respondents from all the listed departments and thus the broad range of information was given by the clients.
4.4 Range of Services offered

The researcher also sought to establish the number of services offered by the bank.

Table 4.4: Range of services offered

<table>
<thead>
<tr>
<th>Service</th>
<th>Yes</th>
<th>%age</th>
<th>No</th>
<th>%age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core banking services</td>
<td>55</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Offering loans</td>
<td>55</td>
<td>100%</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Mortgage sales</td>
<td>53</td>
<td>96.4</td>
<td>2</td>
<td>3.6%</td>
</tr>
<tr>
<td>Stock brokerage</td>
<td>52</td>
<td>94.5</td>
<td>3</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: Research Data, (2013)

Table 4.4 shows that all the respondents agreed that the bank offered core-banking services and loans offering with a few not agreeing to offering of mortgage and stock brokerage services. Other services specified by clients which were credit card services, corporate lending, custodial services, asset finance and forex services.
4.5 Product Modification strategies
The researcher aimed at establishing the extent into which product modification (in terms of product development and diversification strategies) were embraced by the management. Table 4.5 presents the strategies adopted.

<table>
<thead>
<tr>
<th>Table 4.5: Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>modification/rebranding of existing products &amp; relaunching into market</td>
</tr>
<tr>
<td>addition of new products features to existing product</td>
</tr>
<tr>
<td>launch of new products to the market</td>
</tr>
<tr>
<td>use of alternative technology</td>
</tr>
</tbody>
</table>

Valid N (listwise) 55

Scale:

1- None
2- Fairly low
3- Moderate
4- High
5- Very high

Majority of the respondents agreed that modification/rebranding of existing products & relaunching into market, addition of new products features to existing products and launch of new products were **Highly** used; this was clearly shown by an approximate **mean of 4** with a std dev less than one in all those cases. Majority of the respondents also
strongly agreed (very highly) that use of alternative technology was also embraced as a development/diversification strategy.
4.6 Development of Products to Increase Growth

The development of different products was measured to establish the products whose development lead to increased performance.

Table 4.6: Products development

<table>
<thead>
<tr>
<th>Development</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>development of treasury services</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>4.16</td>
<td>.714</td>
</tr>
<tr>
<td>development of mortgage sales</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.73</td>
<td>.781</td>
</tr>
<tr>
<td>development of structured and commodity finance</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.95</td>
<td>.951</td>
</tr>
<tr>
<td>development of wholesale/group lending</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.75</td>
<td>1.058</td>
</tr>
<tr>
<td>development of shares trading</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.69</td>
<td>.742</td>
</tr>
<tr>
<td>development of unsecured overdrafts</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.22</td>
<td>1.212</td>
</tr>
<tr>
<td>development of custodial services</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>3.53</td>
<td>.790</td>
</tr>
<tr>
<td>development of cross-selling</td>
<td>55</td>
<td>3</td>
<td>5</td>
<td>4.84</td>
<td>.462</td>
</tr>
<tr>
<td>development of bancassurance</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.64</td>
<td>.802</td>
</tr>
</tbody>
</table>

Valid N (listwise) 55

Source: Research Data, (2013)

According to table 4.6 the respondents agreed on average that the rate at which development of treasury services, structured and commodity finance, wholesale/group lending, mortgage sales, shares trading and bancassurance was used to increase growth was high. This is shown by approximate mean of 4 and a less than 1 std deviation except for wholesale/group trading (s.d=1.058). Development of cross-selling services was on average very highly used to increase growth this was shown by (mean=4.84, s.d= 0.462). The rate of development of custodial services was on average between moderate and high (mean=3.53, s.d=0.79). Development of unsecured overdrafts was moderately used in

35
attempt of increasing bank growth (mean= 3.22, s.d=1.212). We can therefore agree that development was heavily used on most of bank products to lead to success.

4.7 Market Penetration Strategies
The research aimed to find out how the market penetration strategies were used to boost bank revenues. The research therefore considered pricing strategies, branch expansion strategies, and the customer reception of bank products.

4.7.1 Pricing Strategies
The pricing strategies used by the bank were measured to find out the extent they were used by the bank in a bid to increase revenue collection.

<table>
<thead>
<tr>
<th>The rate</th>
<th>Use of Low margins for high volumes of sales</th>
<th>Use of High margins for low volumes of sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Fairly low</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Moderate</td>
<td>0</td>
<td>25</td>
</tr>
<tr>
<td>High</td>
<td>14</td>
<td>22</td>
</tr>
<tr>
<td>Very high</td>
<td>40</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: Research Data, (2013)

From the above frequency table it is well illustrated that the use of low margins on high volumes of sales was very highly used to increase revenue collection with majority of 72.7% agreeing to that and only 1 person disagreed with the rest very highly and highly agreeing. Use of high margins for low volumes of sales was not as much popular with majority of 45.5% moderately agreeing and 40% highly agreeing and the rest disagreeing and fairly low agreeing in equal proportion.
4.7.2 Branch Expansion Strategies

The extent of use of branch expansion strategies was measured and represented in table 8 below:

Table 4.8: Branch expansion strategies

<table>
<thead>
<tr>
<th>Branch Expansion Strategy</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>opening up new branches in major Kenyan towns</td>
<td>55</td>
<td>3</td>
<td>5</td>
<td>4.38</td>
<td>.527</td>
</tr>
<tr>
<td>concentrating only on the main towns in Kenya</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.36</td>
<td>.802</td>
</tr>
<tr>
<td>use of branchless banking (e-banking &amp; mobile banking)</td>
<td>55</td>
<td>4</td>
<td>5</td>
<td>4.80</td>
<td>.404</td>
</tr>
<tr>
<td>opening new branches in other countries</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>3.40</td>
<td>1.116</td>
</tr>
<tr>
<td>Valid (listwise)</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to table 4.8 the use of branchless banking (e-banking and mobile banking) was very highly rated in increasing income streams (mean=4.80, s.d=0.404) followed by opening up new branches in major Kenyan towns which was highly rated (mean= 4.38, s.d= 0.527). Concentrating only on main towns in Kenya and opening new branches in other countries was moderately rated as an expansion strategy (approx mean = 3) however there was a bigger deviation in opening new branches in other countries therefore the responses varied significantly from the average.

4.7.3 Customer Reception of Bank Products

The rate of customer reception of bank developed and new products were taken into consideration and the results illustrated in table 4.9.
Table 4.9: Bank products reception

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The rate of uptake of new products by customers since its inception</td>
<td>55</td>
<td>3</td>
<td>5</td>
<td>4.24</td>
<td>.693</td>
</tr>
<tr>
<td>The rate of existing customers taking up new products developed by respondents</td>
<td>55</td>
<td>1</td>
<td>5</td>
<td>3.84</td>
<td>.958</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The rate of uptake of new products by customers since its inception was impressively high with responses ranging from moderate to very high and an average of 4.24 with less than one std deviation of 0.693. The rate of existing customers taking up developed products was also approximately high (mean=3.84, s.d=0.958) however there was a greater standard deviation with responses ranging from none to very high.
4.8 Bank Performance
Growth in different bank specifications was measured to establish the performance of the bank in relationship with product development, diversification and market penetration. The results were as shown by table 4.10.

Table 4.10: Extent of bank growth

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extent of growth in product range</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>4.18</td>
<td>.722</td>
</tr>
<tr>
<td>Extent of growth in product mix</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>4.24</td>
<td>.719</td>
</tr>
<tr>
<td>Extent of growth in alternate business channels</td>
<td>55</td>
<td>3</td>
<td>5</td>
<td>4.55</td>
<td>.603</td>
</tr>
<tr>
<td>Extent of growth in branch networking</td>
<td>55</td>
<td>3</td>
<td>5</td>
<td>4.67</td>
<td>.511</td>
</tr>
<tr>
<td>Extent of growth in customer loyalty</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>4.35</td>
<td>.673</td>
</tr>
<tr>
<td>Extent of growth in market share</td>
<td>55</td>
<td>3</td>
<td>5</td>
<td>4.33</td>
<td>.511</td>
</tr>
<tr>
<td>Extent of growth in sales revenue</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>4.36</td>
<td>.620</td>
</tr>
<tr>
<td>Extent of growth in agency banking</td>
<td>55</td>
<td>3</td>
<td>5</td>
<td>4.25</td>
<td>.645</td>
</tr>
<tr>
<td>Growth in corporate social responsibility</td>
<td>55</td>
<td>2</td>
<td>5</td>
<td>3.27</td>
<td>.971</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>55</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.10 illustrates that the extent of growth in product range, product mix, agency banking, market share, customer loyalty, and sales revenue was on average high with an approximate mean of 4.00 and a std deviation less 1 in all cases. The extent of growth in alternate business channels was between high and very high (mean= 4.55, s.d=0.603) while the extent of growth in branch networking was rated very high (mean= 4.67, s.d= 0.511). Growth in corporate social responsibility was moderately rated (mean=3.27,
s.d=0.971) there was a great standard deviation from the mean of 0.971 and the responses ranged from fairly low to very high.

4.9 Inferential Analysis

Inferential statistics is used to make inferences about a population from information taken from a small sample of that population. Inferential statistics is important in social sciences research where it allows generalization of results to a larger population. The researcher conducted a multiple regression analysis so as to test relationship among variables. The research applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. Table 4.11 provides the summary of the regression model applied in this study.

The $R^2$ explains the extent to which changes in dependent variable can be explained by the change in the independent variables or the percentage of the variation in the dependent variable (Bank performance) that is explained by all the three independent variables (product modification strategies, Product Development, Market Penetration).

Table 4.11: Model summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.389(a)</td>
<td>.151</td>
<td>.102</td>
<td>.638</td>
</tr>
</tbody>
</table>

Predictors: (Constant), development of structured and commodity finance, modification/rebranding of existing products & relaunching into market, opening up new branches strategy.

According to regression model carried adjusted $R^2$ was 0.102 implying changes in independent variables examined led to 10.2% change on the dependent variable. Even though this value is not too high bank performance is multidimensional factor and in this
case we studied growth in customer loyalty as a measure of bank performance. There are therefore other independent variables which affect bank performance which were not taken into consideration which in this case were presumed to contribute 89.8% of the variability in performance of the banks.

The ANOVA report assesses the overall significance of a regression model. The ANOVA results of the regression analysis carried out in this study indicates that, p<0.05 (Sig. =0.00) and therefore the model is statistically significant (Table 4.12).

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>3.701</td>
<td>3</td>
<td>1.234</td>
<td>3.034</td>
<td>.037(a)</td>
</tr>
<tr>
<td>Residual</td>
<td>20.736</td>
<td>51</td>
<td>.407</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>24.436</td>
<td>54</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Predictors: (Constant), development of structured and commodity finance, modification/rebranding of existing products & relaunching into market, opening up new branches strategy

b Dependent Variable: extent of growth in customer loyalty

The relationship between the dependent variable and each of the independent variables through a measure of the standardized coefficients is illustrated by table 4.12. The table also indicates the significance of each relationship between an independent variable and the dependent.
Table 4.13: Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.647</td>
<td>.971</td>
<td>1.697</td>
<td>.096</td>
</tr>
<tr>
<td>Modification/rebranding of Existing products &amp; relaunching into market</td>
<td>.224</td>
<td>.119</td>
<td>.248</td>
<td>1.889</td>
</tr>
<tr>
<td>Opening up new branches strategy</td>
<td>.268</td>
<td>.173</td>
<td>.210</td>
<td>1.546</td>
</tr>
<tr>
<td>Development of structured and commodity finance</td>
<td>.162</td>
<td>.094</td>
<td>.229</td>
<td>1.712</td>
</tr>
</tbody>
</table>

Dependent Variable: extent of growth in customer loyalty

According to table 4.13 the constant of the regression equation ($\alpha = 1.647$, $p = 0.96$) is statistically significant at the 99% confidence level. The coefficient of product modification strategies ($\beta_1 = 0.248$, $p = 0.065$) is statistically significant at 90% confidence level. The coefficient of development of structured and commodity finance as a product development strategy ($\beta_2 = 0.229$, $p = 0.093$) is also statistically significant at 90% confidence level. The coefficient of opening of new branches market penetration strategy ($\beta_3 = 0.210$, $p = 0.128$) was also statistically significant at 90% confidence level. The Linear regression model used to determine the relative importance of each independent variable in the model is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i$$

Where: $Y =$ Business Growth

$\alpha$ = Constant

$\beta_1 =$ Coefficient of Product Modification Strategies

$X_1 =$ Product Modification Strategies

$\beta_2 =$ Coefficient of Product Development Strategies
$X_2 = \text{Product Development strategy}$

$B_3 = \text{Coefficient of Market Penetration}$

$X_3 = \text{Market Penetration strategy}$

$\varepsilon_i = \text{Error Term}$

As per the SPSS results generated, the equation translates to:

$Y = 1.647 + 0.248 \times X_1 + 0.229 \times X_2 + 0.21 \times X_3 + \varepsilon_i$
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter discusses overall findings with the aim of answering the research questions. The chapter also presents the conclusions and recommendations based on the relationship between product diversification and banks performance in cooperative bank of Kenya.

5.2 Summary of findings
The research was carried to establish the relationship between various aspects of product diversification and bank performance, a descriptive survey was carried and responses obtained from 55 respondents by use of questionnaires. A reliability test was further carried on variables and it was established that the variables obtained from the research were highly reliable with the value of cronbach alpha been 0.799. After carrying of preliminary analysis it was established that the respondents had average working experience in the bank of 2.7 years and therefore had adequate knowledge of the bank’s operations. Respondents were also found to be from all the departments of the bank with majority coming from corporate and institutional banking department. The main services offered by the bank were found to be core-banking services, loan services, mortgage and stock brokerage services and other subsidiary services which were credit card services, corporate lending, custodial services, asset finance and forex services.

The research established that product modification strategies such as modification/rebranding of existing products & relaunching into market, addition of new products features to existing products and launch of new products were highly used. Technology was also found to be highly used in product modification/diversification. Development of products was also highly embraced in attempt to increase growth with development of cross selling services been strongly applied strategy followed by
development of treasury services, structured and commodity finance, whole sale/group lending, mortgage sales, shares trading and bancassurance.

In attempt to find out the effect of market penetration strategies the researcher established that pricing strategies such as using low margins on high volumes of sales was very highly used to increase revenue collection base with the use of high margins for low volumes of sales been moderately used in raising revenue collection. Branch expansion strategies were significantly adopted in enlarging the market base with use of branchless banking been the highly rated strategy followed by opening up of new branches in major Kenyan towns. Customer reception of bank products was also evaluated and it was established that the reception of new products and developed products was high and therefore it was logical to carry out product development and innovation/invention.

The bank performance was later measured using the ratings of growth in different bank operations. It was reported that growth in branch networking was very high followed by growth in alternate business channels (which is diversification of bank products) then by growth in product range, product mix, agency banking, market share, customer loyalty, and sales revenue. However growth in corporate social responsibility was the least rated with respondents moderately agreeing to its growth. Inferential analysis was lastly carried out and a regression model \( Y=1.647 + 0.248 X_1 + 0.229 X_2 + 0.21 X_3 \) was established. The relationship shown by the equation was found to be statistically significant after carrying the anova test and all coefficients were found to be statistically significant at confidence level of 90%.

5.3 Conclusions
The study concludes that bank performance is significantly influenced by product modification/diversification strategies, product development and market penetration strategies. Various aspects of these strategies were all rated to be highly used in achieving growth. The relationship was further stipulated by the regression equation which was
The equation shows that a unit change in product modification strategies will induce 0.248 change in bank performance while a change development strategy (development of structured and commodity finance) will lead to 0.229 change in bank performance and finally a unit change in branch expansion market penetration strategy will lead to 0.21 increase in bank performance. Holding all the three factors constant the bank performance is at constant level of 1.647.

According to Johnson & Scholes (2002) a strategy is the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a challenging environment to meet the needs of markets and to fulfill stakeholder expectations. Therefore product development, product modification and market penetration all lead to increased performance and are therefore worthwhile strategies which should be adopted. This is in accordance with Ansoff matrix [product/market] which is a series of suggested growth strategies that set the direction for the business strategy. Growth in branch networking and alternate business channels (diversification) was found out to be very high in cooperative bank an indication that the bank was carrying out market penetration and diversification procedures as well.

5.4 Recommendations
Following the findings from the analysis the study recommends that modification of products should be intensified through the use of alternative technology, rebranding and relaunching of existing products since it leads to significant increase in bank performance. Product development should also be emphasized with more effort applied on development of custodial services which slightly lagged behind as well as developing uniquely all other existing products since the uptake of developed products was high.

The study further recommends that the most practical pricing strategy is the use of low margins on high volume sales since it increases the revenue collection. Opening of new branches in major towns and use of branchless banking is also recommended. However
adoption of branchless banking should be followed by heavy marketing and promotion in order to ensure effective take off.

The research finally recommends that the bank should increase its corporate social responsibility activities, which do not directly influence the performance but they popularize the bank and also increase its acceptance by the society and community groups.

5.5 Limitations and Areas for Further Research

The same study should be carried out in other firms in different industries to find out if the same results would be obtained. This study focused primarily on the cooperative bank further study should be carried on entire banking industry in Kenya. There are many others aspects influencing bank performance and thus a study can be carried out to address them. Further this study sampled the staff members only hence a study should be carried to obtain the responses of bank customers in assessing the rate of bank performance and the effect of product diversification and development on customers.
REFERENCES


APPENDICES

Appendix I: Introduction Letter

Dear Respondent,

RE: THE RELATIONSHIP BETWEEN PRODUCT DIVERSIFICATION AND BUSINESS GROWTH IN THE BANKING INDUSTRY IN KENYA.

This questionnaire is designed to evaluate the relationship between the product diversification, market penetration and business growth in The Co-operative Bank of Kenya. The information will be used for academic purposes only. Thank you very much for your time and cooperation. We greatly appreciate your help in furthering this research endeavour.

Cordially,

Joan Angela Numa

[DT133/PT/25732/2011]

Kenyatta University,
Appendix II: Questionnaire

Duration of work in the bank:

A. 0-1 Years
B. 1-3 Years
C. 4-6 Years
D. Over 7 Years

Department

☐ Sacco
☐ Corporate and Institutional Banking
☐ Retail Banking
☐ Credit Management
☐ Kingdom Securities
☐ South Sudan Network
☐ Bancassurance

What is the range of services offered by your Bank? (Please tick appropriate)

a) Core banking services
b) Offering loans
c) Mortgage sales
d) Stock brokerage

Any other specify

PART B: SPECIFIC QUESTIONS TO RESEARCH.

PRODUCT DEVELOPMENT/DIVERSIFICATION
1. To what extent have the following product development/Diversification strategies been used to improve income streams in your bank?

<table>
<thead>
<tr>
<th>Product Development Strategy</th>
<th>None</th>
<th>Fairly Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modification/Rebranding of existing products and re-launching them into the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Addition of new product features to the existing product</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Launch of new products to the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of new/ alternative Technology</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**PRODUCT DEVELOPMENT**

2. Indicate the extent that the bank has used the development of the following products to increase growth:

<table>
<thead>
<tr>
<th>Product Development Strategy</th>
<th>None</th>
<th>Fairly Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mortgage sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Structured and Commodity Finance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wholesale/ Group Lending</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

51
<table>
<thead>
<tr>
<th>Shares trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Un secured overdrafts</td>
</tr>
<tr>
<td>Custodial services</td>
</tr>
<tr>
<td>Cross-selling</td>
</tr>
<tr>
<td>Bancassurance</td>
</tr>
<tr>
<td>Any others (please specify)</td>
</tr>
</tbody>
</table>
MARKET PENETRATION

3. What is the extent that this bank has used each of the following branch expansion strategies to increase its income streams?

<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>Fairly Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening up of new branches in major towns in Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concentrating only on the main cities in Kenya</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use of branch-less banking like e-banking &amp; mobile banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening up of new branches in other countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. How would you rate the following?

<table>
<thead>
<tr>
<th></th>
<th>None</th>
<th>Fairly Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>The rate of uptake by customers of the new products since it's inception</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The percentage of the existing bank customers who have taken up the new products developed by your department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
PRICING

5. What is the extent that the bank has used the following pricing strategies to boost income revenues from its operations?

<table>
<thead>
<tr>
<th>Pricing Strategy</th>
<th>None</th>
<th>Fairly Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low margins for high volumes of sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High margins for low volumes of sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any other strategies? Please specify</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

BANK PERFORMANCE

6. To what extent has the bank experienced growth in the following areas:

<table>
<thead>
<tr>
<th>Performance Area</th>
<th>None</th>
<th>Fairly Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Range</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product mix</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Branch Network</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Share</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agency Banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for your cooperation!
### Appendix III: Research Budget Proposal

<table>
<thead>
<tr>
<th>NO.</th>
<th>ITEM/ACTIVITY</th>
<th>COST PER UNIT</th>
<th>NO. OF UNITS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Stationary</td>
<td>-</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>2</td>
<td>Typing &amp; Printing</td>
<td>50</td>
<td>400</td>
<td>20,000</td>
</tr>
<tr>
<td>3</td>
<td>Photo copying</td>
<td>3</td>
<td>500</td>
<td>1,500</td>
</tr>
<tr>
<td>4</td>
<td>Transport</td>
<td>400</td>
<td>10</td>
<td>4,000</td>
</tr>
<tr>
<td>5</td>
<td>Telephone</td>
<td>100</td>
<td>10</td>
<td>1,000</td>
</tr>
<tr>
<td>6</td>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td>3,500</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>40,000</strong></td>
</tr>
</tbody>
</table>